The Port Authority of Jamaica

A Beacon of
Maritime Excellence

# ANNUAL REPORT

# 2011 - 2012

www.portjam.com

# OUR VISION

The Western Hemisphere's

Beacon of

Maritime Excellence.

The Port Authority of Jamaica

Lighthouses are used as part of the system of aids to navigation in coastal areas. They serve as important landmarks to vessels which are able to place reliance on them by using their published physical features as well as their light characteristics.

Folly Point Lighthouse - Portland

# MISSION STATEMENT

Developers and regulators of world class facilities and services that ensure the sustainable growth of Jamaica's Maritime Industry and maximum satisfaction of all stakeholders.

# VALUES

We are committed to our values of Performance, Integrity, Leadership & Expertise and Accountabilty.

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# WHAT'S INSIDE

# OUR ORGANIZATION OVERVIEW

## WHO WE ARE

The Port Authority of Jamaica (PAJ) is a statutory corporation established by the Port Authority Act of 1972 and falls within the purview of the Ministry of Transport, Works & Housing. It is the principal maritime agency responsible for the regulation and development of Jamaica's port and shipping industry.

As the maritime agency with responsibilities for the ports and coastal states, the PAJ is required to ensure that its operations are executed in accordance with the International Maritime Organization (IMO) Conventions.

The Authority is mandated to ensure that security systems standards and procedures at Jamaica's maritime and port facilities comply with the International Maritime Organization/International Ship and Port Facility Security (IMO/ISPS) Code.

We are also responsible for ensuring Jamaica's security objective to protect and control Jamaica's territory, being cognizant that the country's seaports are valuable national strategic assets that must be kept infinitely functional.

### Our Business in Brief

**The PAJ is accountable for the safety of all vessels navigating the ports of entry and regulation of the tariffs charged on goods passing through the public wharves. The operations of the Port Authority of Jamaica are primarily driven by two business lines, Containerized Cargo and Cruise Shipping.**

Containerized Cargo activities are undertaken at the Port of Kingston, through the Kingston Container Terminal (KCT) which is a wholly owned subsidiary of the Port Authority of Jamaica and at the Port of Montego Bay.

Cruise Shipping activities are undertaken at four ports namely: Port of Montego Bay, the Historic Falmouth Port, Port of Ocho Rios and the Ken Wright Pier. All marketing initiatives for the Cruise Shipping line of business are executed under the 'Cruise Jamaica' brand.



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## SUBSIDIARIES, JOINT VENTURE & ASSOCIATED COMPANIES

| SUBSIDIARY/RELATED COMPANY | ROLE/BUSINESS UNIT MANAGED |
|---|---|
| KCT SERVICES LTD | A wholly owned subsidiary of the Port Authority, whose primary activity is managing the operations of the Kingston Container Terminal. |
| MONTEGO BAY FREE ZONE LTD. | A subsidiary of the Port Authority which was established to manage and operate the Montego Bay Free Zone. |
| KINGSTON FREE ZONE CO. LTD. | A subsidiary of Port Authority, established to manage and operate the Kingston Free Zone and Portmore Informatics Park. |
| PORTS MANAGEMENT & SECURITY LTD. | Established to manage the maintenance of international security standards at the Ports of Kingston and Montego Bay as well as the cruise ship ports (The company is owned by PAJ, Kingston Wharves and Shipping Association of Jamaica, with PAJ being the majority shareholder with 51% ownership) |
| JAMAICA INTERNATIONAL FREE ZONE DEVELOPMENT LTD. | A joint venture company set up to acquire, develop and lease property for logistics/distribution and related activities. (PAJ owns 75% of the shares and ZIM Integrated Shipping Services 25%) |
| PORT AUTHORITY MANAGEMENT SERVICES LTD. | A wholly owned subsidiary of the Port Authority, this company was established to offer management services to agents of Government entities involved in transportation. |
| BOUNDBROOK WHARVES DEVELOPMENT CO. LTD. | This is a joint venture company established between the Port Authority and Banana Export Company (BECO) to refurbish and subsequently lease Boundbrook Wharf. The Port Authority has 51% ownership in this company and BECO 49%. |
| SECURITY ADMINISTRATORS LTD. | A 33% associate company whose primary activity is the provision of security and other related services. |
| MONTEGO BAY COLD STORAGE LTD. | A 33% associate company whose primary activity is the rental of refrigerated warehouses. |

# PERFORMANCE

"Grow with experience, act with determination and cement all your knowledge for future victory and success."

-Kimberley Sweeney



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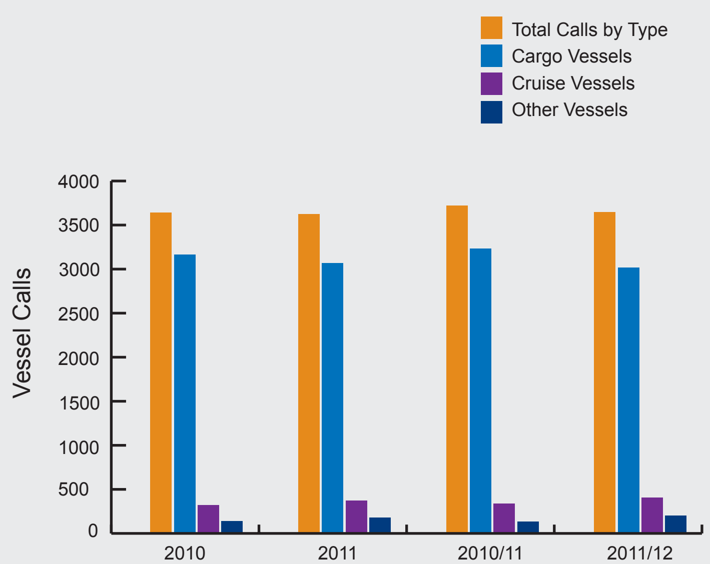
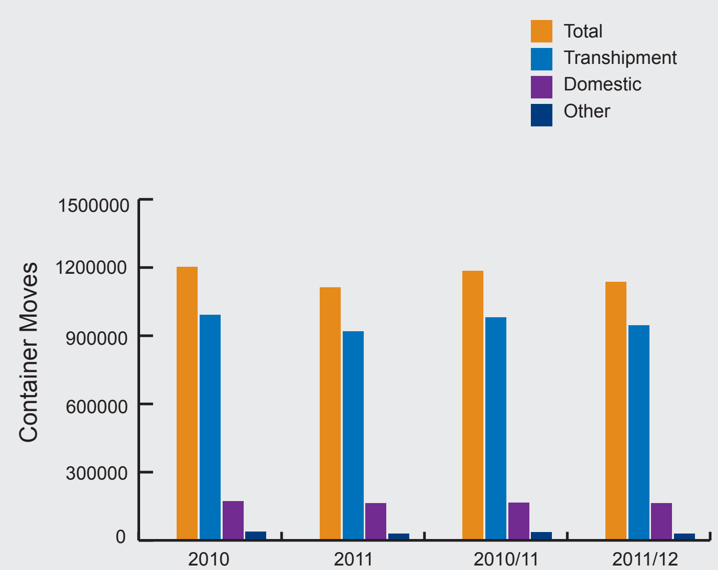
# PERFORMANCE OVERVIEW

# PERFORMANCE AT A GLANCE

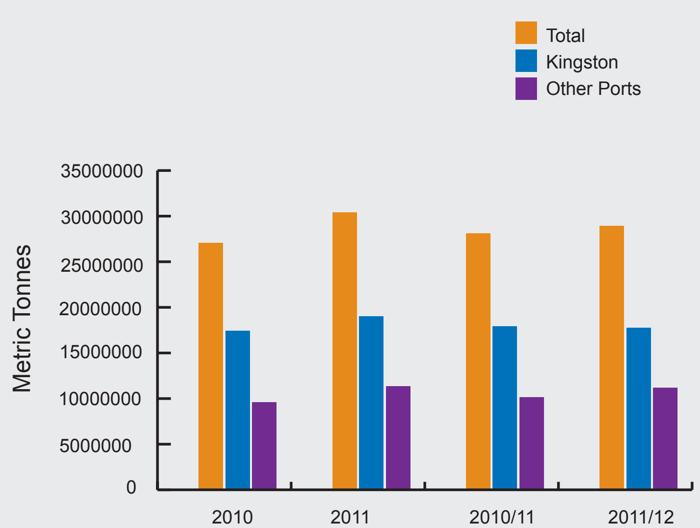
## Vessel Calls



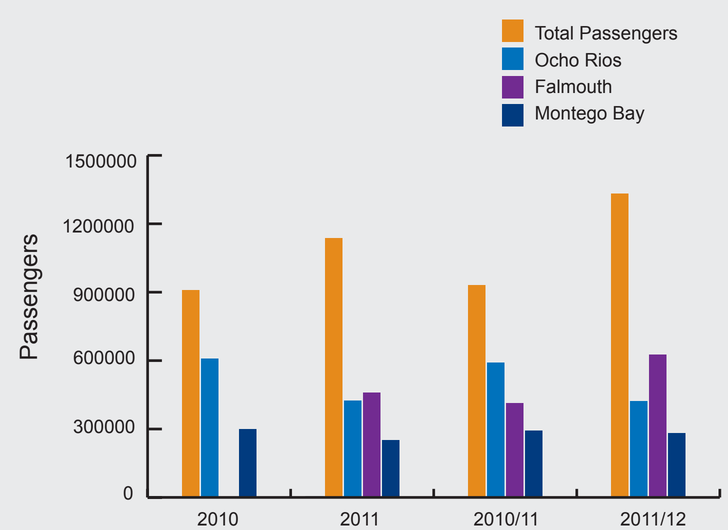

## Container Traffic




## Cargo Volumes




## Cruise Passengers








# BUSINESS HIGHLIGHTS

Our Minister: Dr. The Honourable Omar Davies, M.P., Minister of Transport, Works and Housing. Dr. Davies has portfolio responsibility for the Port Authority of Jamaica.

'Sister Ports:' (L-R) Rosalie Donaldson, SVP International Marketing, William Tatham, VP Cruise Shipping & Marina Operations, Queen Impersonator and Mike Reynolds A&P Falmouth Cornwall's Port Operations Director, participate in the signing of the Sister Port Agreement between PAJ and Port of Falmouth, Cornwall in the United Kingdom. The agreement establishes a mutually beneficial relationship with both ports which will enhance their profiles as cruise destinations.

'KCT Tour': L-R Gary Peart and Maureen Vernon, Directors of the newly appointed PAJ Board, exchange pleasantries with Rosalie Donaldson, SVP International Marketing during a port tour of the Terminal.

Liberty of the Seas': Kimberley Stiff, AVP Marketing Communications and William Tatham, VP Cruise Shipping & Marina Operations in discourse during a plaque exchange ceremony held on the Liberty of the Seas Cruise Vessel.

# OUR BOARD OF DIRECTORS

Our Board of Directors ensures the Authority's sustained growth and development by collectively directing the organization's affairs and maintaining the highest standards of governance whilst meeting the appropriate interests of its stakeholders. In its advisory and supervisory roles it provides strategic guidance and oversight of management.

**From Standing Clockwise:**
Dennis Morrison, Peter Melhado, Ambassador Stewart Stephenson, Maureen Vernon, Anthony Pickersgill, Gary Peart, Dr. Janine Dawkins, Dr. Carrol Pickersgill, Horace Reid, Hon. Noel Hylton.

# OUR BOARD OF DIRECTORS' REPORT

The Port Authority of Jamaica (PAJ) realized positive developments in its operations during the 2011/2012 financial year. Notwithstanding, a number of challenges were experienced in particular areas of its business as a result of a soft global economic climate and a downturn in international trade.

## CONTAINERIZED CARGO

Our operating environment was negatively impacted by a slow down in global output which grew at 3.9% in 2011, a stark contrast to 5.3% in 2010. Our business was also adversely impacted by a slower rate in international growth of 7.7% in 2011 in comparison to 9.2% in 2010.

This recoil in trade and the global economy is attributed primarily to the slow pace of recovery in the US market and the debt and financial market crisis in the Euro-Zone.

Despite a moderate growth in containerized cargo, all shipping lines incurred losses during the year. In addition to the generally harsh business conditions, they grappled with other factors specific to the containerized cargo industry.

One such factor was overcapacity, which generally characterized the international market, as global containership capacity continued to outpace the growth of containerized cargo volumes. The excess capacity prompted shipping lines to drastically reduce freight rates in order to ensure sustainability. The severe operational environment was worsened by the increase in bunker prices which rose by 33% during 2011.

As a result of the difficult business environment, shipping lines experienced severe financial losses. Indications are that 22 of the world's premier container lines experienced combined operating losses of approximately US $5.6 billion in 2011. This reflects a significant dissimilarity to US$12.1 million in earnings in 2010. Only a minute number of shipping lines managed to generate a profit, during the year. This includes CMA CGM, one of the Authority's main clients.

### Kingston Container Terminal

In light of the turbulent global business environment, the PAJ buoyed its business by a strategic focus that mitigated any debilitating impact on its operations. Essentially, it continued to implement innovative programmes and re-engineered cost intensive processes in order to strengthen the competitive position of and curtail expenses at the Kingston Container Terminal (KCT).

A chief objective was to improve productivity and enhance operational efficiency, which was guided by the PAJ's constant reliance on cost management mechanisms to guide its operational strategies. Singular attention was placed on boosting the reliability and ensuring availability of the Terminal's equipment and relief stock. This strategic initiative ensured that any equipment failure which may arise would have nominal impact on productivity. This was supported by efforts of the Authority to engage a competent work force that would provide efficient and quality services at the Terminal.



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These initiatives supported the implementation of keen marketing programmes ideally directed at promoting the port's competitive advantages and publicizing its position as the port of choice, firmly committed to facilitating growth of the shipping lines in the region. The Kingston Container Terminal handled a total of 977,144 moves in the 2011/2012 fiscal year compared to 1,176,377 which was projected in the corresponding budget. This was lower than 1,011,367 moves handled in the previous financial year.

### Panama Canal Expansion

While the Authority wrestled with the decline in business during the year, opportunities to be derived from the impending Panama Canal Expansion were brought into sharp focus. The Expansion is of seminal importance as it stands to change the characteristics of the regional containerized cargo trade. It will result in realignment of trade routes serving key markets in the western hemisphere, as shipping lines consolidate operations to seize the benefits from economies of scale and shift operating capacity to all-water services as a means of serving the North American markets.

The widening of the Panama Canal will have a transformative effect on the regional port and shipping industry and will result in the introduction of ultra large ships and the emergence of a regional mega hub. The increase in capacity of the Canal will enable large vessels of up to 12,000 TEUs to access the Central America and Caribbean Region from the Far East via the Panama Canal. Therefore an increase in the average size of vessels operating in the region will materialize. Thus, shipping lines will limit calls to only one or two ports within the region in order to maximize on the cost advantages from the enlarged ships. The lines have already begun to undertake steps to rationalize their operations into a single hub.

Given the Port of Kingston's strategic geographical position, there is an immense opportunity for the port to become a mega hub. In order to maximize on the potential benefits associated with a regional mega hub port status, all regional hub ports are feverishly preparing to improve capacities ahead of the Expansion, which are predicted to double by 2014.

**The Port of Kingston has several strategic advantages:**

- It is the only port in the Central American and Caribbean region that has experience in handling 10,000 TEU ships, having done so on a few occasions since 2010.
- KCT is now ahead of its regional competitors in important parameters:
    - I. Larger terminal area
    - II. Ship-to-shore gantry cranes
    - III. Berthing capacity. This level of capacity has been achieved through consistent development over the years at considerable costs.
- Kingston offers less deviation as it is ideally located on major shipping routes, specifically the North-South course from Panama to US East Coast.
- The Caribbean Transshipment Triangle – from Freeport in the North to Kingston in the West and Port of Spain in the East, indicates our strategic position for cargo exiting the Canal.

## CRUISE SHIPPING

Similar to the global containerized cargo market, the international cruise market was hindered by weakened global economic conditions and the striking increase in fuel costs. However, unlike the containerized cargo business, the cruise market achieved more success in the difficult environment and generated profits during the review period.

The number of cruise passengers worldwide increased by 6.6% to 19.2 million in the period being examined. A growth of 9% and 1.2% in the European and North American cruise markets respectively were contributing factors.

Caribbean cruise ports welcomed 7.6 million cruise passengers during 2011 which reflects a 3% growth. In comparison to other leading regional cruise destinations, Jamaica registered the highest growth rate of 25.1% for 2011.

### Jamaican Cruise Industry

The opening of the Historic Falmouth Port in February 2011 has increased the industry's capacity, elevated Jamaica's profile as a cruise destination and served as a catalyst for growth in the industry.

The Port Authority of Jamaica utilized traditional and unconventional marketing tools to attract additional cruise lines to Jamaica, and its marketing team toiled assiduously to ensure vacant slots were filled.

One such mechanism undertaken was Familiarization Trips through which key executives from cruise lines were engaged in local cruise settings in order to showcase and promote the Jamaican cruise experience. These efforts resulted in the resumption of calls by Norwegian Cruise Lines (NCL) to the Ocho Rios Port, which began in October 2011 after a four year interval.

The new contract saw an average of five NCL ships call at the Ocho Rios facility on a monthly basis during the winter tourist season of 2011/2012. The number of calls is projected to increase in the 2012/2013 season.

Cruise passenger arrivals to Jamaica's ports totalled 1.332 million passengers which was in line with the budget and represented an increase of 42.9%. Falmouth accounted for 42.9% while Ocho Rios and Montego Bay reported 32% and 21% respectively.

### Historic Falmouth Port

During its initial year of operations, the Falmouth Pier quickly developed the reputation and enviable status as the benchmark for global cruise port development.

It has become a highly recognized themed port and a favourite among industry players earning four coveted awards in its inaugural year of operations, namely:

**1. World Travel Awards 2011 Caribbean's Leading Tourism Development Project**
**2. World Travel Awards 2011 World's Leading Tourism Development Project**
**3. Seatrade Insider 2011 Port of the Year**
**4. Cruise Insight Magazine's 2011 Best Local Initiative.**

## REGULATORY FRAMEWORK

Throughout the year under review, the PAJ fulfilled its regulatory responsibilities through a number of activities and ensured the safety of all the vessels navigating the ports of entry.

It is noteworthy that the Authority participated in the Voluntary International Maritime Organization Member State Audit Scheme (VIMSAS) during September 2011. The International Maritime Organization's (IMO) objective was an examination of the Authority's role as the maritime agency with responsibilities for the ports and coastal state and an assessment of the execution of its obligations under the various IMO Conventions.





The Audit focused principally on the arrangements for the establishment and maintenance of Aids to Navigation (AtoNs). The IMO's interim report stated "the Port Authority of Jamaica has very good standards for monitoring and providing means of safety for the coastal areas." It also concluded that the PAJ has an effective oversight programme for the maintenance of its AtoNs.

During the review period, the PAJ signed a Memorandum of Co-operation relating to the implementation of Jamaica's International Maritime obligations with relevant agencies such as the Maritime Authority of Jamaica, the Coast Guard of the Jamaica Defence Force and the National Environment and Planning Agency of Jamaica.

### Security

In the year under review the Authority successfully pursued its mandate of ensuring security systems, standards and procedures at Jamaica's maritime and port facilities complied with the International Maritime Organization/International Ship and Port Facility Security (IMO/ISPS) Code.

The initiatives that were implemented also supported the Government of Jamaica's security objective to protect and control Jamaica's territory, being cognizant that the country's seaports are valuable national strategic assets that must be kept infinitely functional.

Some of the initiatives undertaken in the review period included:

- Completion of the IMO/ISPS Code Certification of the Falmouth Cruise Ship Pier
- Provision of support to the newly appointed United States Coast Guard Liaison Officer of the International Port Security Programme on a familiarization tour in preparation for the official country visit in late 2012.
- Development of the scope and design of an Integrated Port Security System intended to facilitate the upgrade of technical security capabilities at public ports island wide.

## OUTLOOK

In spite of widespread losses in the international shipping industry, the containerized cargo business was able to avert a state of bankruptcy. Although it is anticipated that profitability will continue to be gravely impacted by high fuel prices during 2012, global containerized cargo volumes are forecasted to grow by 6.5% in 2012 and 7.5% in 2013.

Vessel capacity is projected to increase in 2012 and 2013. Containership deliveries are expected to reach 1.47 million TEUs in 2012 and 1.86 million TEUs in 2013. This translates into increases of 8.3% and 11.0% respectively in containership capacity. The faster growth of capacity in relation to volumes implies that there may be further reductions in freight rates.

The global cruise market is expected to grow by 5.6% in 2012 to a total of 20.3 million passengers and rise to 22.3 million in 2015. Regardless of the complexities of the shipping industry and difficulties faced by the organization, the Authority fostered national development and continues to make a valuable contribution to the economic viability of Jamaica. It is a vital foreign exchange earner and played an integral role in the trade, investment and commerce fabric of the country.

The PAJ projects that in 2012/2013, container moves and cruise passenger arrivals are likely to grow by 7.4% and 5.3% respectively. Therefore, it is anticipated that the Authority's efforts will yield an approximate growth of 6% in revenues relative to 2012/2013. Net profit is also expected to increase in 2012/2013 by $961M compared to net profit of $551M achieved in 2011/2012.

Looking ahead, as a strategic necessity, the Authority will direct its aim at optimizing its core business. In this regard it will further its infrastructural upgrades, development programmes and container handling capacity of KCT to position the port as a regional mega hub in preparation for the Panamax era.

Under the Cruise Jamaica brand, it will strengthen its marketing thrust and explore new channels to enhance Jamaica's stature as a premier global cruise destination.

Through these pursuits and other strategic objectives the Port Authority of Jamaica will continue to play a pivotal role in supporting and stimulating Jamaica's economic prowess while fulfilling its mantra as the Western Hemishpere's Beacon of Maritime Excellence.

THE HON. NOEL A. HYLTON OJ, CD, LLD (Hon.), JP
**Chairman**




Kingston Container Terminal,
Port of Kingston

# CHAIRMAN's STATEMENT

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Our organization has demonstrated resilience and a capacity to adjust in adverse circumstances in order to sustain itself during a challenging fiscal year. In a period during which we continued to experience harsh economic challenges, our collective efforts enabled us to continue to deliver value and record successes even though times were difficult.

During the period, the Port Authority of Jamaica (PAJ) was fortunate to have benefitted from oversight and direction from two sets of Board of Directors. I wish to express my sincere gratitude to both Boards whose contribution enabled the Authority to accomplish its objectives.

Our achievements were not inadvertent and could not have been realized without the commitment, diligence and unwavering support of our employees. They were relentless in pursuit of innovative and technologically advanced techniques to ensure the PAJ attained its goals. The executive teams were exemplary leaders and demonstrated expertise and prudent management for which I am thankful.

Special commendation to the International Marketing and Client Services, Engineering and Port Development and Business Management and Special Projects teams whose tremendous input resulted in the Historic Falmouth Port developing the prestige as a leading global cruise facility. The success of the Falmouth Pier, which won four awards in 2011 including the World Travel Awards (WTA) World's Leading Tourism Development Project, stands testament to the benefits to be derived from Public Private Partnerships.

Our accomplishments were augmented by our supportive private sector partners including representatives from the shipping industry which enabled the entity to remain viable.

We continue to enjoy the unwavering support of the Government of Jamaica and the Minister of Transport, Works and Housing Dr. Omar Davies, who is vested with portfolio responsibility for the Authority. This assisted us to effectively manage the challenging operational environment and fulfill our mandate.

As Jamaica celebrates its milestone achievement of its 50th anniversary, the Authority is humbled by its immeasurable contribution to the country and is pleased to have been a pivotal player in its economic and infrastructural development.

As we look ahead, the PAJ is on the eve of exciting times as we prepare for the impending Panama Canal Expansion and positioning the Port of Kingston as a regional mega hub port in order to seize the opportunities the expansion offers.

In light of this and other strategic imperatives the PAJ remains committed to its mission of developers and regulators of world class facilities and continues to ensure the sustainable growth of Jamaica's maritime industry.

THE HON. NOEL A. HYLTON - OJ, CD, LLD (Hon.), JP
Chairman

# INTEGRITY

"The reputation of a thousand years may be determined by the conduct of one hour."

-Japanese Proverb





## INTEGRITY

# OUR BOARD OF DIRECTORS PROFILES

A **honest**, well **balanced**, inclusive **approach**, fused with **high** standards and **ideals**, is **essential** for good governance.

HON. NOEL A. HYLTON OJ, CD, LLD (Hon.), JP
Chairman

**Chief Position:** Chairman, President and Chief Executive Officer of the Port Authority of Jamaica.

The Hon. Noel Hylton an Accountant by profession, has a distinguished career in the Port and Shipping Industry which spans over 40 years.

Mr. Hylton is the recipient of the following national awards for service in the growth and development of the shipping industry: Commander of the Order of distinction (C.D.) and the Order of Jamaica (O.J.). He is also the recipient of several other awards, including the Designation of 'Caribbean Luminary' by the American Foundation of the University of the West Indies for outstanding contribution to the Caribbean.

DENNIS MORRISON
Deputy Chairman

**Chief Position:** Senior Director – Special Projects Jamaica Bauxite Institute.

Mr. Dennis Morrison is a Caribbean economist with vast experience in public policy, the aluminum industry, tourism, infrastructure and airport development. His academic training and background are in Applied Economics, Project Analysis and Industrial Engineering.

He is the Chairman of the following Boards: Jamaica Tourist Board and Airports Authority of Jamaica.

DR. JANINE DAWKINS

**Chief Position:** Chief Technical Director, Ministry of Transport, Works and Housing.

Dr. Janine Dawkins is a registered transportation professional who previously held the following positions at the Ministry of Transport, Works and Housing: Traffic Engineer, Chief Traffic Engineer and Director of Technical Services.

PETER MELHADO

**Chief Position:** President & CEO, ICD Group.

Mr. Peter Melhado's extensive professional experience spans the areas of Engineering, Manufacturing, Banking, Finance, Property Management, Construction and General Insurance.

He is the Chairman of the following Boards: Pan Caribbean Merchant Bank Limited, Caribbean Risk Managers Limited, West Indies Home Contractors Limited and the American International School of Kingston.

He is a member of the following Boards: British Caribbean Insurance Company, CGM Gallagher Group, Couples Resorts, Red Stripe, Isango.



GARY PEART

**Chief Position:** CEO, Mayberry Investment Limited.

Mr. Gary Peart has over 20 years of experience in Corporate Finance which includes roles in treasury and investments at Capital and Credit Merchant Bank and First Global Financial Services.

Mr. Peart is a member of the Board of Directors for the following Organizations: Lasco Financial Services and Access Financial Services.

A career financial services expert, he is currently the President of the Jamaica Securities Dealers Association and the Chairman of the Betting, Gaming and Lotteries Commission.

ANTHONY PICKERSGILL

**Chief Position:** Executive Chairman, West Indies Paper Products Packaging Limited.

Mr. Anthony Pickersgill has extensive knowledge of and experience in the Manufacturing and Farming sectors.

He has served as Chairman of the following Boards: National Property and General Insurance Company Limited, Island Dairies Limited Group of Companies, Llandovery Investments Company Limited and Clarendon College Board of Governors.

HORACE REID

**Chief Position:** President, Carilinks Trading Network Ltd.

A past Insurance Executive and Branch Manager, Mr. Reid presently leads a manufacturing and importation business.

A former member of the Air Jamaica Board, he currently serves on the Board of the Jamaica Fire Brigade and is the Chairman of the Port Authority Management Services Board.

DEVON ROWE

**Chief Position:** Director General, Ministry of Finance and Planning.

Mr. Devon Rowe has a breadth of experience in the public sector serving in many capacities including Tax Analyst, Fiscal Economist, Deputy Financial Secretary of Economic Management in the Ministry of Finance and Planning and Commissioner of Customs.

Mr. Rowe has served as Board member of several public sectors entities in the areas of Investment and Development Finance, Infrastructure and Health.

AMBASSADOR A.B. STEWART STEVENSON

**Chief Position:** Attorney- at- Law.

Ambassador Stephenson formerly held the following positions: Jamaica's Consul to Toronto, Canada; Jamaica's Ambassador to the Republic of Cuba; Executive Director of Jamaica's Securities Commission (now Financial Services Commission); Executive Director of the Fair Trading Commission; Managing Director of Factories Corporation of Jamaica; Commissioner of the CARICOM Competition Commission.

MAUREEN VERNON

**Chief Position:** Advisor – CARICOM: Office of the Special Representative on Haiti.

Ms. Maureen Vernon has a wealth of experience in the Public and Private sectors as well as in Jamaica's Foreign Service. She has served in key leadership roles in areas including, Research and Development, Foreign Policy and Economic Development.

She is the past Chairman of the National Foundation for Science and Technology. She served on the following Boards: Jamaica Promotions Limited, Development Bank of Jamaica, Urban Development Corporation and National Investment Bank of Jamaica.

# CORPORATE GOVERNANCE

The Board of Directors of the Port Authority of Jamaica has responsibility for corporate governance matters and is the prime policy decision-maker of the Authority.

## Role of the Board of Directors

The Authority executes a range of functions that include the development and marketing of ports and port facilities, regulation of ports, security and operations. The Board of Directors in this regard, provides guidance and oversight on policy direction, strategy and all business operations to ensure that the Authority acts in accordance with the Port Authority Act and in compliance with the International Maritime Organization (IMO) Conventions.

**Specifically the Board of Directors fulfills the following functions:**
- Ensures the presentation of the Corporate Plan to the relevant publics
- Ensures the efficient and effective management of the Authority and ensures the accountability of all persons who manage the resources of the Authority
- Advises the Minister of Transport, Works and Housing on matters of general policy relating to the management of the Authority

### Composition of the Board

During the period under review, the Authority benefitted from the stewardship of two sets of Board of Directors. The present Board has served since February 13, 2012 and is comprised of 10 members. The Board of Directors Profiles section of the 2011/2012 Annual Report provides the names of these directors and outlines their experience.

**Prior to this the following persons served as directors from April 1, 2011 until January 31, 2012:**
- Hon. Noel Hylton, OJ - Chairman
- Hon. Danville Walker, OJ **
- Dr. Janine Dawkins
- Mr. Gregory Shirley
- Mr. Charles Johnston
- Mr. Ian Moore
- Mr. Paul East
- Mrs. Kerry-Ann McKoy -Tulloch
- Mrs. Corah-Ann Sylvester
- Mr. Zachary Harding ***

**Hon. Danville Walker resigned on November 4, 2011.
***Zachary Harding was appointed on June 27, 2011.

### Board Committees

In order to effectively manage the work of the Board, provide emphasis on specific strategic initiatives and strengthen its governance role the Board assigned specific responsibilities to Board Committees.



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The role of the Committees is foremost to review and monitor policies, with the guidance and ratification of the Board of Directors. The Board acts on the recommendation of the Committees following their review and advice on proposals submitted by PAJ's Management.

Each Committee has its own Terms of Reference that defines the roles and duties of the respective Committee.

The Committees enhance the decision-making process of the Authority and facilitate the efficient flow of information and implementation of policies between the Board and Management.

## Projects Committee

**The members of the Projects Committee are:**
*April 1 2011 – January 31, 2012*
Mrs. Kerry-Ann Tulloch – Chairman
Mr. Ian Moore
Mrs. Corah-Ann Sylvester

*Since February 13, 2012*
Mr. Horace Reid – Chairman
Ms. Maureen Vernon
Mr. Anthony Pickersgill

The Projects Committee oversees all development projects of the PAJ and its subsidiaries and its specific roles are outlined below:
- Oversees the implementation of projects.
- Examines the development of project proposals and makes recommendations to the Board on the implementation of such proposals.
- Monitors in-house procedural framework related to the implementation of contracts and make recommendations on adjustment mechanisms to facilitate speedier and more efficient implementation of projects.
- Reviews development projects which are of a commercial nature, as part of the Authority's efforts to diversify its revenue base.
- Makes recommendations with a view to enhance the operations and performance of the Engineering and Operations Departments, in particular, and the Port Authority, in general.

## Finance Committee

The members of the Finance Committee are:
*April 1, 2011 – January 31, 2012*
Mr. Gregory Shirley – Chairman
Mr. Charles Johnston
Mrs. Kerry-Ann McKoy-Tulloch

*Since February 13, 2012*
Mr. Gary Peart – Chairman
Mr. Peter Melhado
Mr. Devon Rowe

The Finance Committee functions as follows:
- Performs an advisory role in the Authority's financial operations. Makes recommendations to the Board on matters of Finance and Accounting in general.
- Highlights any perceived weaknesses in the accounting and financial system, with suitable recommendations to strengthen the system.
- Reviews and makes recommendations to the Board on the following:
  - Financial Management Policies and Strategies
  - Cost Management
  - Cash Flow Management
  - Capital Investment
  - Budget Administration
  - Financial Plans

## Pilotage Committee

The Pilotage Committee was chaired by Mr. Paul East for the period of April 1, 2011 – January 31, 2012. Since February 13, 2012 it has been chaired by Dr. Janine Dawkins.

The Terms of Reference for the Pilotage Committee are as follows:
- Examines the disciplinary procedures as established in the Pilotage Act and makes recommendations on changes, if any, that are required to harmonize with conventional industrial relations practices.
- Evaluates the administration of the pilotage service in relation to recruitment, training, certification, system of remuneration, dispatching procedures with a view to making recommendations on improvements which may enhance operations.
- Reviews any other area relating to the provision of pilotage services which are considered critical to the provision of an efficient service.
- Examines reports of incidents/accidents involving ships under the pilotage charge and advises if an enquiry should be scheduled in accordance with the Pilotage Act.

## Audit Committee

The members of the Audit Committee are:
*April 1, 2011 – January 31, 2012*
Mr. Gregory Shirley – Chairman
Mr. Charles Johnston
Mrs. Kerry-Ann McKoy-Tulloch

*Since February 13, 2012*
Ambassador Stewart Stephenson - Chairman
Ms. Maureen Vernon
Mr. Anthony Pickersgill

The Audit Committee maintains detailed records of its meetings and which are made available to the external auditor and any examiner of the Authority during any external audit or examination. The role of the Audit Committee includes advising the Board on:
- Practices and procedures which will promote productivity and the quality and volume of service.
- The extent to which the objectives of the public body are being achieved.
- The adequacy, efficiency and effectiveness of the accounting and internal control structure and systems of the Authority.





- Reviews and advises the Board on the financial statements that are to be included in the annual report of the Authority.
- Oversees internal audits of the Authority.
- Reviews and advises the Board on the annual auditor's report.

### Board and Committee Meetings

There were eight (8) scheduled meetings and four (4) special meetings of the Board, totalling twelve (12) meetings for the 2011/2012 financial year. The Board Committees met on a monthly basis, responded to matters within their remit and advised the Board accordingly.

# LEADERSHIP & EXPERTISE

"Leadership is ultimately about creating a way for people to contribute to making something extraordinary happen."

– Alan Keith





## LEADERSHIP & EXPERTISE

# OUR SENIOR EXECUTIVE TEAM

## The HON. NOEL A. HYLTON OJ, CD, HON. LLD, JP

President & CEO

The Honourable Noel Arthur Anthony Hylton, an Accountant by profession, has had considerable experience in both public and private sectors and has had more than 40 years' experience in the Jamaican Shipping Industry.

After serving in various capacities in the Federal Government and Eastern Regional Government of Nigeria, he joined the Government of Jamaica as Chairman and Chief Executive of The Port Authority of Jamaica. During his tenure, he was decisively influential in the development of the modern Container Terminal at the Port of Kingston, as well as the development of Jamaica's first export free zone, the Kingston Free Zone.

In 1979, Mr. Hylton was awarded the national honour of Commander of the Order of Distinction (C.D.) by the Government of Jamaica for services to shipping in Jamaica. In 1996, he was appointed a Member of the Order of Jamaica (O.J.) by the Government of Jamaica in recognition of unstinting service and dedication to the development and growth of Jamaica's Port and Shipping Industry.

In addition to Mr. Hylton's major contributions to the port and shipping industry, he has served with distinction in many other areas which include: Director, Air Jamaica; Chairman of Jamaica Urban Transit Company; Chairman of the Police Service Commission; Director, Jamaica Tourist Board and Director, Jamaica National Export Corporation.

Mr. Hylton presently serves in the following capacities: Director of National Commercial Bank Jamaica Limited, Director of Medical Associates Hospital and Medical Centre and Chairman, Air Policy Committee, Ministry of Transport, Works & Housing.

## MR. WINSTON BOOTHE

Senior Vice President, Finance, Corporate Planning & Information Services

Mr. Winston Boothe has been a Senior Vice President of the Port Authority of Jamaica since joining the organization in January 1994, during which time his responsibilities have spanned a number of areas including Corporate Planning, Finance, Operations, and Information Services. He is currently a member of the Board of Directors for Jamaica International Free Zone Development Limited (JIFZDL), Ports Management & Security Limited (PMS), Port Authority Management Services Limited (PAMS), Boundbrook Wharves Development Limited (BWDL) and the Water Resources Authority.

Mr. Boothe has over 30 years' experience as a corporate executive combined with a training course in General Management facilitated by Cornell University Graduate School of Business. He also obtained membership from the American Management Association after successfully completing its development programme in Management & Administration. Mr. Boothe has held the positions of Group Vice President of Jamaica Broilers Group Limited, Chief Executive Officer of Master Blend Feeds Limited and Chairman of Hi Pro Farm Stores Limited prior to taking up his appointment with the Port Authority.

He holds a Bachelor of Science in Economics with majors in Business Administration and Accounting from the University of the West Indies and gained his accounting background through his experience at Peat Marwick Mitchell & Company, now KPMG.





## MS. ROSALIE DONALDSON

Senior Vice President, International Marketing & Client Services

Ms. Rosalie Donaldson provides leadership in the areas of strategic marketing, communications and client services at the Port Authority of Jamaica. She has specific oversight of the effective positioning of the organization's main business lines: containerized cargo and cruise shipping.

In her capacity, she leads the evaluation of market trends and client needs in order to effectively provide innovative solutions and services to the Authority's clients which drives the performance of its business lines.

Ms. Donaldson is charged with promoting the organization's brand and sub-brands, products and services and maintaining the organization's corporate image as a global maritime beacon of excellence.

She holds a Bachelor of Science in Management Studies from the University of the West Indies and a Diploma in Marketing from the Chartered Institute of Marketing in London.

She is a Director of the Jamaica Maritime Institute Trust Fund, the Caribbean Maritime Institute and the Security Administrators Limited.

## MR. MERVIS EDGHILL

Senior Vice President, Engineering & Port Development

Mr. Mervis Edghill is responsible for the planning and development strategies required to fulfilling the organisation's objective in the implementation of all maritime and engineering projects undertaken by the Port Authority of Jamaica. In addition, he has direct responsibility for the administration of Engineering Department and oversight of the Harbours Department.

Mr. Edghill is a graduate of the University of Manchester Institute of Science & Technology in the United Kingdom and the University of the West Indies with Master of Science and Bachelor of Science Degrees in Engineering respectively. He also holds a Certificate in Port Management from the UNESCO-IHE Institute of Water Education in Delft, Netherland.

He is the Chairman of the Port Authority of Jamaica's Sector Committee and a Director of the Port Authority Management Services Limited. He is also a member of the Jamaica Institute of Engineers.

# OUR SENIOR EXECUTIVE TEAM continued

## DR. CARROL PICKERSGILL

Senior Vice President, Legal, Regulatory & Corporate Affairs

Dr. Carrol Pickersgill is responsible for providing the Authority and its Subsidiaries with general advice and direction on all legal, regulatory and corporate secretarial matters. She is responsible for ensuring that the Company's business is conducted in accordance with regulations and contractual obligations.

Dr. Pickersgill provides leadership in legal strategy, construction and development of contracts and guidance in matters relating to the drafting and interpretation of legislation dealing with maritime affairs of the Port Authority. Her role also encompasses participation in negotiations in relation to financing contracts with international shipping lines.

She is a graduate of the University of the West Indies with a Bachelor of Law. She holds a Master of Science Degree in Maritime Administration from the World Maritime University in Sweden and a Doctor of Business Administration in International Management from Nova Southern University.

## MRS. BEVERLEY WILLIAMSON

Senior Vice President, Business Management & Special Projects

Mrs. Beverley Williamson obtained a Master of Science in Accounting and a Bachelor of Science in Management Studies from the University of the West Indies in 1979 and 1978 respectively. She was designated FCA from the Institute of Chartered Accountants of Jamaica (ICAJ) in 1993. In 2003 she successfully pursued an Executive MBA from Florida International University.

Mrs. Williamson is responsible for managing and maintaining all the Authority's diverse commercial investments located throughout the island except for the Kingston Container Terminal. The Port Authority Free Zones, the Kingston & Montego Bay Free Zones and the Jamaica International Free Zone are also under her purview.

Her professional experience includes working as Senior Accountant at KPMG Peat Marwick; Manager Finance & Accounts at the National Export-Import Bank of Jamaica Limited. She joined the Port Authority in 1995 as Vice President, Finance & Accounting where she served in that capacity until April 2006 after which she was appointed Senior Vice President, Finance & Information Services.

In September 2008, she was re-assigned to Senior Vice President Business Management & Special Projects, which currently pertains. She is a member of the Institute of Chartered Accountants of Jamaica and also serves on the Boards of Jamaica International Free Zone Ltd; Ports Management & Security Ltd; Boundbrook Wharves Development Ltd and Port Authority Management Services Ltd.



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# OUR EXECUTIVE TEAM

Front Row (L-R) Richard Roberts, VP Legal, Regulatory & Corporate Affairs; Belinda Ward, VP Human Resource & Administration; Edmond March, VP Business Development; Elva Richards, VP Finance; Captain Hopeton DeLisser, VP Harbour & Port Services/Harbour Master

Middle Row (L-R) Paul Rousseau, VP Project Engineer; Wilburn Pottinger, VP Information Systems; William Tatham, VP Cruise Shipping & Marina Operations; DCP Linval Bailey, VP Security

Back Row (L-R) David Powell, Chief Group Internal Auditor; Ishmael Leon, VP Accounting & Projects; Gary Lawrence, VP Engineering & Port Development.

# ACCOUNTABILITY

"We are responsible for what we do."

– Unknown





## MANAGEMENT DISCUSSION & ANALYSIS

# MANAGEMENT DISCUSSION & ANALYSIS

Our business environment continued to be impacted by various operational challenges during the year as a result of the ripple effects of the sluggish global economic market and downturn in trade. In light of this, the management of the Authority, which is responsible for the integrity of the information presented in the Management Discussion and Analysis (MD&A), remains committed and dedicated to fulfilling the Authority's mantra of 'A Beacon of Maritime Excellence.'

The MD&A details the Authority's operations throughout the year and highlights results, changes, developments and achievements which are benchmarked against previous years.

## OUR CORE BUSINESS

### Regulatory Framework

During the year under review, the PAJ fulfilled its regulatory responsibilities through a number of activities and ensured the safety of all the vessels navigating the ports of entry.

The Authority participated in the Voluntary International Maritime Organization Member State Audit Scheme (VIMSAS) during September 2011. The International Maritime Organization's (IMO) objective was an examination of the Authority's role as the maritime agency with responsibilities for the ports and coastal state and an assessment of the execution of its obligations under the various IMO Conventions.

The Audit focused principally on the arrangements for the establishment and maintenance of Aids to Navigation (AtoNs). The IMO's interim report stated "the Port Authority of Jamaica has very good standards for monitoring and providing means of safety for the coastal areas." It also concluded that the PAJ has an effective oversight programme for the maintenance of its AtoNs.

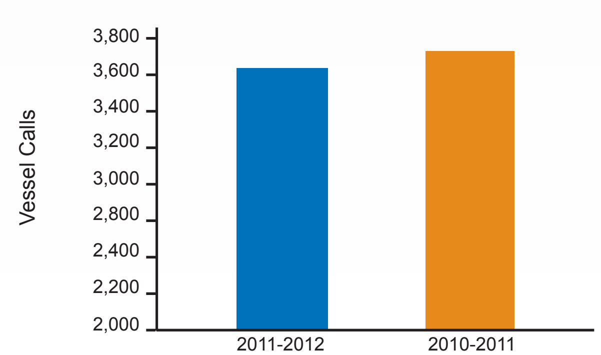
The PAJ signed a Memorandum of Co-operation relating to the implementation of Jamaica's international maritime obligations with relevant agencies such as the Maritime Authority of Jamaica, the Coast Guard of the Jamaica Defense Force and the National Environment and Planning Agency of Jamaica.

### Ship & Cargo Traffic

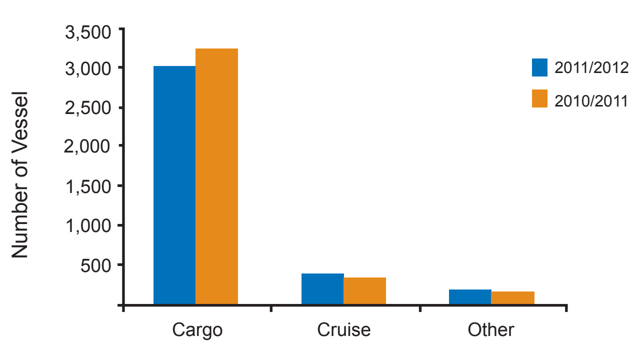
Vessel calls to Jamaica during fiscal year 2011/2012 totalled 3,639, which was below the 3,714 calls recorded during the previous financial year.

The Port of Kingston remained the main port of call. There were 2,317 calls at the Port of Kingston during the year under review, which was 200 less than the calls made to the Port in 2010/2011. The Port of Montego Bay received 290 calls, while 165 vessels called at the Port of Ocho Rios. Cumulatively, 867 vessels called at the other ports.

Total Vessel Calls at Jamaica's Ports




Ship Calls by Type








**Cargo Volumes**

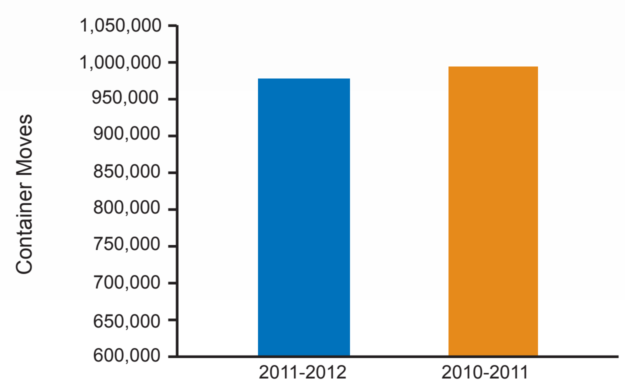
During the calendar year 2011, a total of 30,413,713 metric tonnes of cargo was handled at the ports. This reflects a 12.4% increase relative to 2010. This was primarily a reflection of increased exports and imports which rose by 13% and 11.6% respectively.

Jamaica's ports handled 28,967,558 metric tonnes of cargo during the 2011/2012 fiscal year, a 3% increase compared to the 28,118,111 metric tonnes of cargo handled in 2010/2011.

### Kingston Container Terminal

Arising from adverse conditions in the global economy, particularly in markets served by Kingston Container Terminal (KCT), container volumes at the Terminal declined during the review period. For the fiscal year 2011/12, container moves totalled 977,144 which represents a 3.4% decline in relation to 2010/2011.

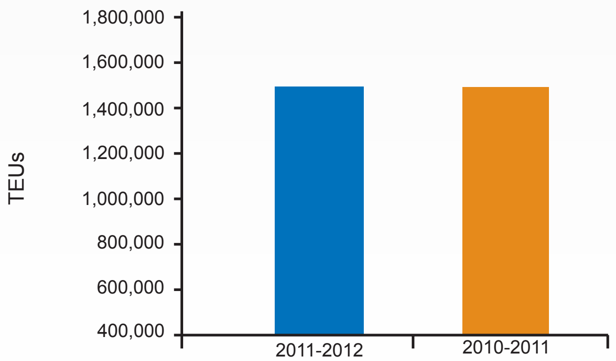
Container Traffic in Moves



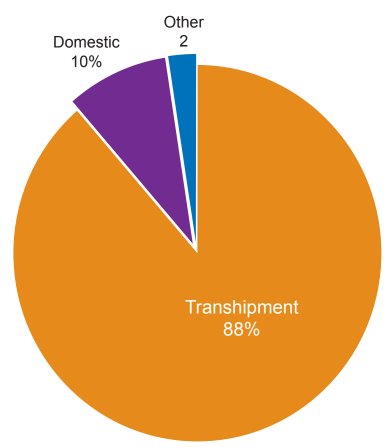

Throughput at KCT totalled 1,609,763 TEUs in 2011/2012 compared to 1,640,269 TEUs in 2010/11, which reflects a 1.9% decrease. The decline in container volumes was reflected in the transshipment activity as domestic movement remained flat relative to 2010/2011.

A view of the Super Post-Panamax Gantry Cranes at KCT.

Container Traffic in TUEs

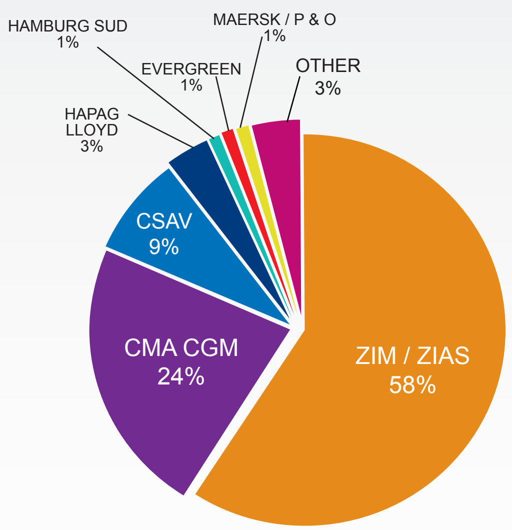



Container TEU's Handled at Kingston Container Terminal 2011/2012



Container volumes at KCT during the year were dominated by two major lines, namely ZIM Integrated Shipping Services Limited and CMA CGM, which accounted for 58% and 24% respectively. CSAV accounted for a further 9% of the volumes handled at the Terminal.

Distribution of Container Moves by Shipping Line 2011/2012




**Operational Performance**
During the period being examined, the PAJ continued to centre efforts on cost containment as well as improving the productivity and overall competitive position of KCT.

The Authority also continued to target improvements in equipment availability and reliability as a key element of the strategic programme to increase productivity and efficiency. Accordingly, the PAJ engaged the services of consultants to guide aspects of the equipment maintenance and upgrading programme.

Additionally, initiatives were undertaken to establish optimal gang levels with the requisite skills which would support efficient and productive operations and minimize costs.

Strategic initiatives were also pursued to achieve continued improvement in the Terminal's safety record and reduce costs associated with

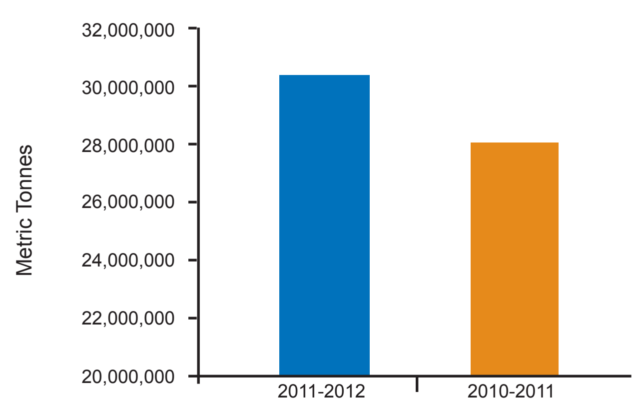
**'What a View'**: Gary Peart (left), Director PAJ and Captain Michael Belcher, Managing Director, KCT view the activities of the Terminal from the Boom of a super post-Panamax gantry crane

accidents. These included employee training and sensitisation activities for all stakeholders of the Port.

**Panama Canal Expansion**
The Port Authority continued to refine developmental plans in preparation for the expansion of the Panama Canal which is scheduled to be completed in 2015.
The development plans for the Port of Kingston will include the following:

- The dredging and widening of the ships' channel and turning basin.
- The development of additional berthing facilities
- The acquisition of the most modern cargo handling equipment and supporting technology
- The development of Fort Augusta as a container terminal

Total Cargo Volumes: All Ports



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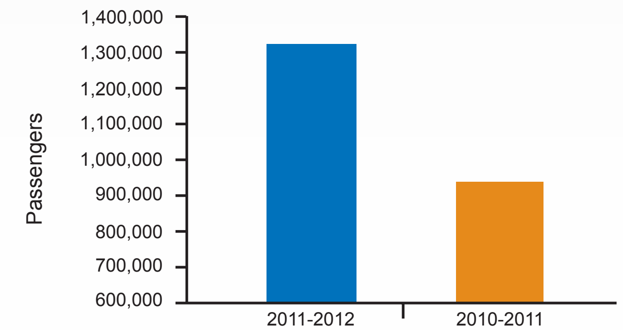
## Cruise Shipping

Like the containerized cargo market, the cruise market was negatively affected by the weak global economic conditions and the dramatic increase in fuel prices. The cruise market remained resilient in light of these unfavourable conditions through the pursuit of aggressive marketing initiatives and incentives such as discounts which were offered to cruise passengers. As a result the cruise lines overcame the challenging economic climate and remained profitable during the review period.

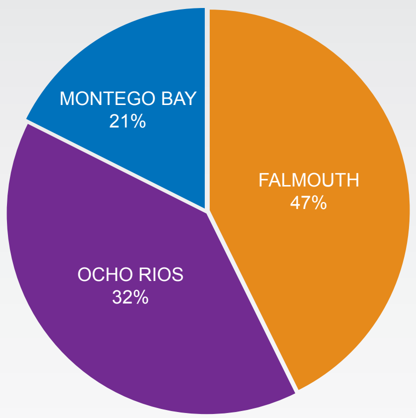
Jamaica's cruise shipping industry witnessed a phenomenal increase in passenger arrivals during 2011/2012. Passenger arrivals totalled 1,331,539 in 2011/2012, which was 43% higher than the 931,619 passengers who visited the island during the 2010/2011 fiscal year.

Cruise Visitor Arrivals




The significant increase in passenger arrivals is largely attributed to the launch of the Historic Falmouth Cruise Port which began operations in February 2011. In its first full year of operations, the Historic Falmouth Port welcomed 626,556 passengers, which represents 47% of the total number of cruise passengers in that year. Ocho Rios received 421,879 passengers or 31.7%, while the Port of Montego Bay received 282,698 passengers or 21.2%.

Passenger Arrivals by Port 2011/2012




Cruise ships under the Royal Caribbean Cruise Lines brand, which were previously scheduled to call the Ocho Rios Pier, were shifted to the Falmouth Port when it opened. This change created opportunities for the Port Authority to seek additional business for the available winter tourist dates in Ocho Rios.

Arising from its marketing efforts, the PAJ successfully renegotiated with Norwegian Cruise Lines (NCL) to resume calls to Ocho Rios, effective October 2011, after a four year hiatus. This new contract resulted in an average of 5 NCL ships calling the facility on a monthly basis


'Falmouth-Port of the Year': William Tatham (centre), VP, Cruise Shipping & Marina Operations, PAJ accepts the 'Port of the Year Award' at the Seatrade Insider Cruise Awards 2011. Sharing in the occasion are Tony Heuer, President, Fidelio Cruise and Anne Kalosh, US Editor, Seatrade Cruise Review.

during the 2011/2012 winter tourist season. The numbers are projected to increase during the 2012/2013 season.

'Cruise Jamaica Wins': William Tatham (centre) receives awards from Miss World Travel Awards (WTA) and Graham E. Cooke, President and Founder, World WTA at the WTA Grand Ceremony held in Doha Qatar, January 12, 2012. PAJ received WTA World's Leading Cruise Destination Award and World's Leading Tourism Development Project Award for the Historic Falmouth Port.

A total of 409 cruise vessels called at Jamaica's cruise ports during the review period, an increase of 69 vessels over 2010/2011. Of this total, 155 vessels or 37.8% visited Falmouth; 150 cruise vessels called at the Port of Ocho Rios, 51 less than the previous fiscal year. Montego Bay welcomed 104 cruise liners, which is representative of 25% of the total.

**Projections for Cruise Market**
Indications are that Jamaica's cruise arrivals will continue to increase. Bookings suggest that passenger arrivals could increase by 5% during 2012/ 2013 financial year.

**Global Recognition**
Jamaica's cruise product continued to enjoy the stature and prestige as a global leader, which is reflected in the numerous awards received during 2011. For the sixth consecutive year Jamaica was voted "The World's Leading Cruise Destination" by the World Travel Awards (WTA), underscoring the high level of recognition of our 'Cruise Jamaica' brand.

This achievement is as a result of the Port Authority's strategic development of its port facilities, dynamic marketing, as well as consistent engagement of all stakeholders in shaping Jamaica's image as a premier cruise destination.

**The Historic Falmouth Port which was opened in the latter part of the 2010/2011 fiscal year, received special recognition. It received the following awards during the period under review:**

1. **World Travel Awards – Caribbean's Leading Tourism Development Project**
2. **World Travel Awards – World's Leading Tourism Development Project**
3. **Seatrade Insider – Port of the Year 2011**
4. **Cruise Insight Magazine – Best Local Initiative**

**The Errol Flynn Marina and Ken Wright Pier**
For the fourth consecutive year, the Errol Flynn Marina was awarded the international "Blue Flag Marina" certification whereby the Marina was successful in achieving environmentally acceptable standards during the period. The Errol Flynn Marina is one of three Marinas in the Caribbean to have ever achieved this recognition.

The Marina is also the designated receiving agency in Jamaica for Yacht Aid Global, a programme that utilizes large yachts that supplies humanitarian goods to beneficiaries in various countries of the world. During the period under review, the Marina assisted Yacht Aid Global in its donation of numerous boxes of educational material for the Long Road School in Portland as well as medical equipment for various government clinics in Portland.

There was a marginal increase in the number of vessels served at the Errol Flynn Marina during this year as 489 vessels were served in comparison to 472 vessels during the previous year.

During this period, the Errol Flynn Marina





purchased and installed a dinghy dock, which serves to enhance the experience for anchorage clients by allowing them to land their dinghies without having to climb the main concrete dock. This 40ft. long dock is accessed by a 20ft x 4ft. aluminium ramp.

Three (3) cruise ships visited the adjoining Ken Wright Pier during the current year with a total of 786 passengers. The Ken Wright Pier which has become a premier location for hosting destination weddings and formal events hosted the United States Ambassador during this fiscal year when she addressed the Annual General Meeting of the Portland Chamber of Commerce.

**The Strategic Focus for the 2012/2013 Fiscal Year**
A key objective will be to increase ship calls from European and North American Cruise companies in order to boost passenger numbers and maximise cruise related revenues.

Marketing programmes will hinge on:
- Increasing the number of home porting vessels at the Port of Montego Bay
- Rebranding the Ports of Montego Bay, Ocho Rios and Port Antonio. The objective is to create brands that will epitomise the unique features and offerings of each port in the minds of itinerary planners and cruise passengers so as to enhance the unique features and appeal of these ports.
- Heightening awareness of Jamaica's cruise offerings by engaging key cruise executives and decision makers on familiarization trips which exhibits the actual cruise passenger experience.
- Strengthening the recognition of the Cruise Jamaica brand among travel agents and consumers of cruise products through:
  - Participation in industry shows and events.
  - Direct interactions with existing and new cruise companies.
  - Distribution of new advertising and collateral development in order to better inform our potential customers.

## OUR OPERATIONS

### Logistics

*Cementing Jamaica's Strategic Location as a Major Global Cargo Hub*

In keeping with Government's Vision 2030 Development Plan, Jamaica will be positioned as an international cargo trans-shipment hub. This mega hub will capitalize on Jamaica's central geographic location, extensive cargo networks and provide a seamless, integrated strategy of linking all modes of cargo transportation: sea, air and land.

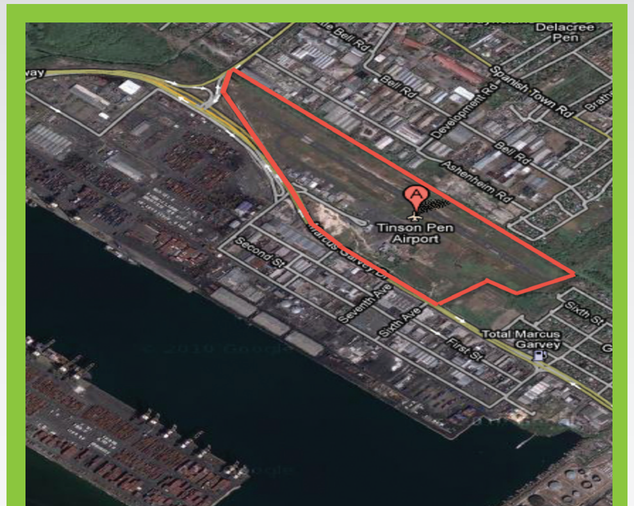
The Authority has engaged in discussions with international interests about the development of a Logistics Centre in this regard.

A hub of this nature will support the Authority's strategic initiative which facilitates the rapid growth of international trade and reduces overall transport and cargo handling costs within the supply chain. At the same time, it also responds to the demand for just-in-time, door-to-door cargo services.

It is evident that as the Panama Canal Expansion draws closer to completion, the demand for logistics and value-added services will increase significantly due to the increased volume of containerized cargo transiting our regional waters.

**Tinson Pen Development**
The Authority has employed a business model at Tinson Pen which focuses specifically on the provision of facilities for promotional and commercial based direct selling activities in the initial phase of the development.

This phase will utilize approximately 17 acres (6.9 hectares) of land and will not result in any interference with the daily aerodrome operations on the site.




Aerial shot of Tinson Pen Airport

The primary areas of focus during the review period included:

- Completion of the tender process for the provision of Engineering Consultancy and Infrastructural Design for the site. This included the 17-acres designed for Phase I. Responses from 5 firms were received and evaluated and a preferred bidder identified.
- Modifications of initial conceptual drawings to reflect the new development focus
- Development of lease arrangements for 17-acres for Phase I in conjunction with the National Land Agency.

**Errol Flynn Marina Development**
During the period, the Authority embarked on establishing new operational arrangements to optimize site assets and broaden revenue streams in order to generate additional revenue.

Within this context, the following initiatives were undertaken:

- Identification of suitable international operators to partner with the PAJ to develop, market, operate and maintain the facilities
- Diversification of the operations to optimize use of the available assets and revenue streams
- Activities geared at operational cost reduction so as to minimize any impact on the PAJ's financial position.

**Caymanas Logistics Development**
China Harbour Engineering Company Limited (CHEC) has submitted a proposal for the development of a container terminal at Fort Augusta, which, in all likelihood, will cement and strengthen the position of the Port of Kingston as one of the preeminent regional transshipment ports. To support this new port, CHEC proposes to develop 200 acres of land in the Caymanas area into an Enterprise Zone to undertake manufacturing, and assembly type activities to support their transhipment activities at the new terminal. Both these developments are expected to progress rapidly once the agreements are executed.

Whilst there were extensive discussions on this matter during the period under review, it was not until March 2012 that Cabinet gave approval for PAJ to proceed with the implementation of a non-binding Memorandum of Understanding with CHEC, through which this concept would be further developed.

## Free Zones

**Kingston Free Zone**
Despite the challenges of the global recession the Kingston Free Zone (KFZ) performed creditably and as at March 31, 2012 registered occupancy level of 98% with the remaining 2% committed to a potential client. It is expected that upon the successful completion of a due diligence being carried out on this client, occupancy level will be 100%.

Although the KFZ enclave has enjoyed high occupancy during the period under review, the upper level of the Portmore Informatics Park (PIP), which consists of 25,000 sq. ft. of space, has remained vacant since the end of September 2010. The space is being marketed by the KFZ with assistance from JAMPRO and whilst at least three (3) companies have expressed interest in the facility, no formal agreement has been concluded.

**Montego Bay Free Zone**
The Business Process Outsourcing (BPO) sector continues to support the main strategic



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objectives of foreign exchange earnings and employment creation at the Montego Bay Free Zone (MBFZ).

The MBFZ in collaboration with JAMPRO hosted four prospective ICT investors during the period. One (1) of these investors set up operations within the MBFZ; Another identified space in Kingston to commence operations in Jamaica during the second quarter of 2012 and a third, Convergys, was in discussion with a private developer in Montego Bay to commence operations in 2013. The MBFZ exceeded its profitability target for the 2011/2012 period by 327%.

**Port Community System**
A Port Community System (PCS) is an electronic platform which connects the multiple systems operated by a variety of organizations (public & private) that make up a seaport, airport or inland port community. It is a single window for the ports of Jamaica as it is shared in the sense that it is set up, organized and used by firms in the same sector – in this case, a port community. A PCS optimises, manages and automates smooth port and logistics processes through a single submission of data and by connecting transport and logistics chains.

The PCS implementation is an opportunity to substantially encourage and promote more efficient and effective trading practices, while reducing the cost of doing business; therefore positioning Jamaica as a global logistics hub for the region. This will be critical for Jamaica to take advantage of the 2014/2015 Completion of the Panama Canal Expansion project.

The project is a collaboration of the Port Authority of Jamaica and Jamaica Customs and includes other entities in the Port Community such as the Shipping Association of Jamaica.

During the year, Cabinet by way of Decision No. 08/12 dated February 27, 2012 approved the following in relation to the establishment of a PCS:

- PAJ and Jamaica Customs to implement a PCS for the Shipping Industry as a Public-Private Partnership (PPP)
- Engagement of the competitive tender process for the selection of a suitable investment partner
- Plans for the establishment of a Joint Venture Company for the development and implementation of the project.

**Security**
The PAJ is the designated Authority charged with the responsibility of ensuring that security systems, standards and procedures at Jamaica's Marine Port Facilities are in keeping with requirements of the International Maritime Organization's/International Ship and Port Facility Security (IMO/ISPS) Code. It is also responsible for the implementation of security systems, policies and procedures at the PAJ and its subsidiaries.

In pursuit of its mandate, security operations were realigned during the period under review in order to improve security at Jamaica's marine ports and at PAJ's subsidiaries, specifically:

- Maintenance of oversight responsibility for the security personnel deployed at the public ports to provide groundside and shipside security.
- Contracting private security companies to provide critical security coverage at designated subsidiary entities of the PAJ.

The scope of responsibility for the Security Division of Authority was broadened during the 2011/2012 fiscal year to include the following non-port subsidiaries of the Port Authority:
1) Kingston Free Zone
2) Montego Bay Free Zone
3) Half Way TreeTransport Centre

**Training**
The Security Department collaborated with the Caribbean Regional Drug Law Enforcement Training Centre in delivering the following training courses to members of staff:

- Computer Based Training Programme - Seaport Interdiction
- Computer Based Training Programme - Airport Interdiction
- Advanced Narcotics Investigators

• Inter-Institutional Training Course on Combating the Illicit Trafficking in Firearms, Ammunition and Explosives

Additionally, consultants were contracted during the past year to provide various in-house training sessions with Security Screeners and Security Surveillance Coordinators.

**Integrated Port Security System (IPSS)**
During the year, the Security Department collaborated with the PAJ's Information Systems Department to scope and design an Integrated Port Security System and is now preparing to engage an appropriate consultant for review and advice on implementation.

The IPSS Project is intended to facilitate the upgrading of technical security capabilities at public ports island-wide, as well as at non-port PAJ facilities where security interfacing is critical for the assurance of the PAJ's overall security programme.

More specifically, the IPSS will utilize a common operating Integrated Port (IP) platform to provide an integration of CCTV surveillance, access control, intrusion detection, fire detection/alarm and video analytics capabilities, thereby providing a holistic security solution for the public ports of:

- Kingston (Kingston Wharves and Kingston Container Terminal)
- Montego Bay Cargo and Cruise Terminals
- Ocho Rios Cruise Ship Terminal

**Visit of the United States Coast Guard Liaison Officer**
A new US Coast Guard Liaison Officer of the International Port Security Programme, Mr. Behler was recently appointed. During the review period, he visited Jamaica for a familiarization tour in preparation for the official country visit in late 2012. The visit included tours and preliminary audits of the following ports over the three day period:

1. Newport Wharf and Storage
2. Kingston Wharves Ltd.
3. Kingston Container Terminal
4. Falmouth Cruise Ship Pier
5. Rockfort Pier (formerly known as Cool Petroleum Pier)

**Records & Information Management**


Hon. Noel Hylton, President & CEO, assists Ceila Stephens (left) Records & Information Manager and Merl Dundas, AVP Compliance in identifying and dating historical photographs.

The Online Records Locator System was assessed to ensure the database can adequately maintain the Authority's physical records, while simultaneously facilitating efficiency of use. In pursuit of this, and to facilitate increasing requests for archived records, coordinators were appointed in departments which had the highest level of turnover of records. These employees were also trained in the use of the Records Locator System to enable them to assist with the classification of records and maintenance of the information in the database.

Arising from this evaluation, it became necessary to develop a "Vital Records Protection Plan" which is an on-going project designed to identify, categorise and create an inventory for vital records.

Throughout the period under review, employees in the Records & Information Unit, Department Coordinators and others, including executives, were exposed to seminars on records management in accordance with Government Guidelines.



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Standing (second right) Ceila Stephens, Records & Information Manager engages members of the Internal Audit Team in a Information Management seminar.

## OUR PEOPLE

### Human Resources

The Port Authority of Jamaica supports a human resources strategy that is hinged on the professional development of employees and honing their expertise to maintain a competitive advantage. The PAJ ensures the implementation of best practices in its business processes through employee engagement and effective organizational communication.

Human Resources re-engineered business processes to overcome challenges in 2011 in the face of the global recession, which resulted in a freeze on employment. The aim was to adjust work flow, find ways to motivate the staff, ensure that all functions were executed effectively and in a timely manner in order to maintain the Authority's high standard of performance excellence.


'Vital Support': Administrative Assistants (L-R) Maxine Burton, Sherece South, Shaday Simmonds and Kaydieann Cole are all smiles for the camera.

**Performance Management**
The continued recognition of the importance of an effective staff performance management system that would ensure fulfilment of targets helped equip the Authority to take advantage of all available opportunities. The performance management framework sought to continually develop individual accountabilities, review performance and determine training and skills development needs. Employees were assessed, twice during the year, on agreed work programmes or key result areas (KRAs) and a set of core competencies.

To ensure greater efficiency in performance to meet agreed targets within the context of local economic challenges necessitated a review of the Performance Appraisal System. This was done by a cross-functional team, comprising employees from different sections. The end results were separate, less subjective and more user-friendly appraisal forms, capturing those factors for assessment relevant to either management/executives or professional/technical/clerical employees. The new Performance Appraisal instruments were approval by Senior Management and introduced for implementation during the year.

**Employee Benefits**

The Authority retained its group life, health and pension benefits to employees. The renewal of the Health Insurance contract with Sagicor Life Jamaica Limited saw nominal increases in the premiums for the different categories. The decision was also taken to separate, on renewal, the accounts for Port Authority Management Services Limited (PAMS) staff in order to effectively track and manage utilisation levels by the different business units.

**Corporate Health & Wellness**

'Catch of the Day': (L-R) Hortense Ross-Innerarity, Superintendent of Pilotage, Elva Richards VP Finance and Belinda Ward VP, Human Resource & Administration are caught on camera at a Fish Fry hosted by the PAJ Sports Club at the Harbours Department.

The emphasis on healthy lifestyles, social integration and interaction was reinforced throughout the review period. The results of the annual screening were confidentially discussed with employees, along with options to ensure and maintain wellness. These results were also used to help determine the health education programme needs in order to support the development of the overall employee wellness programme.

'Off We Go!': PAJ employees all set to depart for the 2011 Annual Port Games in Trinidad and Tobago.

**Training & Development**

Throughout the year, and critical to the achievement of Key Result Areas (KRAs) and organizational targets, there was on-going assessment of staff competence to ensure best-fit for job functions. This meant investing in training to ensure that employees have the requisite knowledge, skills and experience to perform their jobs, and to widen their skills sets to allow them to assume additional responsibilities, in tandem with the philosophy on succession planning. Employees participated in relevant training courses which were designed and implemented internally or done in collaboration with local training institutions/providers.

Records and Information Management personnel were exposed to best practices, current trends and recent developments at a symposium on Records & Information Management. Staff at different levels in the Authority were also apprised of the requirements of the Access to Information Act, while others were trained in the requirements of the Government Procurement Policy and Procedures to ensure compliance with guidelines.

A series of in-house information technology training sessions was also conducted for particular employees, with a total participation of 180 employees. The focus generally was on Microsoft Office Suite and related areas, but targeted employees were trained in CHAMPS, Oracle and AutoCad. Some employees were also trained in fire detection and fire fighting/ cooling down techniques, as part of the thrust towards safety and security at the workplace.

"A Time To Learn': PAJ Employees participates inTime Management Training Session

The Advancement Through Learning Programme continued in 2011 in order to ensure specific employees met employment requirements.

## Corporate Social Responsibility

In fulfilling its mandate as a good corporate citizen, the Authority provided training opportunities to seven (7) final year students from the University of Technology who carried out their internships in the Information Systems, Engineering & Port Development, Finance, and Business Management & Special Projects Departments.

Amid severe budgetary constraints, the Authority was able to maintain its corporate outreach programmes including the provision of breakfast at the Trench Town Comprehensive High School, Calabar and St Michael's Primary schools, and our customary outreach activities at the Hanover Street Poor Relief Shelter and at Farquharson House. The children of the Mark Lane community, and students at the Trench Town Primary and Port Royal All Age, Infant & Basic schools, were also feted at our annual Christmas Treat.

'A Time for Sharing': Kimberley Stiff, Assistant Vice President – Marketing Communications engages students of the Trench Town Primary School while presenting them gifts at the school's Annual Christmas Treat

'Feting our Seniors': Alberta Grant, Industrial Relations Officer presents gift bags to members of the Marie Atkins Centre during an annual treat undertaken by the PAJ.

# FINANCIAL REVIEW

## STATEMENT OF COMPREHENSIVE INCOME

### Surplus

For the financial year ended March 31, 2012 the Authority earned operating surplus of $4.85 billion. However, Net profit for the year was $686 million, which was arrived at after adjusting for loan interest and finance cost of $1.98 billion, depreciation of $1.87 billion, and unrealized exchange loss of $590 million on long term loans.

Net profit for the period showed a reduction of $1.58 billion when compared to March 31, 2011, which was due to unrealized exchange gain of $1.5 billion on foreign currency loans at March 31, 2011.

The financial year March 31, 2012 had mixed results for the Authority's core businesses of cargo transshipment and cruise passenger activities.

The slow pace of recovery of the advanced economies, such as the United States, and the financial crisis in the Euro Zone, negatively affected the global recovery. As a result, the expected rebound of the containerized cargo market was not achieved. Container activities at the Kingston Terminal were 977,144 moves or 1.61 million TEUs, which was 3.4% less than the 1,011,367 moves or 1.64 million TEUs achieved for the year ended March 31, 2011.

On the other hand, cruise passenger arrivals were 1,331,539, (the highest ever recorded in Jamaica), an increase of 400,939 or 43% when compared to 931,619 passenger arrivals at March 31, 2011. A total of 434 vessels called at all the ports in Jamaica compared to 360 vessels at March 31, 2011, an increase of 74 vessels or 20.5%.

The increase in passenger arrivals can be attributed to the start of operations at the Falmouth Cruise Ship Port in March 2011, which allowed for the introduction of weekly calls to the Port by the world's largest cruise vessels, namely, Oasis and the Allure of the Seas.

### Income

Income for the year ended March 31, 2012 was $13.95 billion, an increase of $1.33 million compared to year ended March 31, 2011. This was due mainly to an increase of $1.1 billion in cruise revenue.

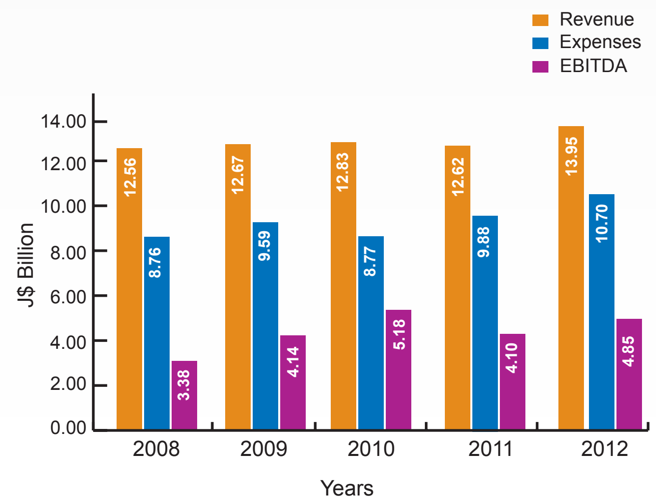
The other sources of income and their relative contribution to total income were generally the same as year ended March 31, 2011.

### Operating Expenses

Total operating expenses (excluding loan interest and finance cost, depreciation and unrealized exchange loss) were $8.83 billion for March 31, 2012, which was $531 million or 6% more than March 31, 2011. This was due mainly to increase in expenses such as salary and wages, fuel and electricity, and equipment maintenance.

The financial performance of the Authority over last 5 years is illustrated in the graphs below.

EBITDA (J$ Billions)




As the graph indicates, Earnings Before Interest Tax and Depreciation (EBITDA) continues to be fairly stable, despite the negative impact of the global recession on the Authority's core businesses. This was achieved through sustained efforts on operating cost reduction strategies, improvement in efficiency and despite the high and uncontrollable price increases in fuel and electricity cost over the period.

## STATEMENT OF FINANCIAL POSITION

The asset base of the Authority was $50.29



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billion at March 31, 2012. Cash and short-term deposits were $1.46 billion.

As required by International Financial Reporting Standards (IFRS), a Chartered Valuator undertook the valuation of the Authority's investment properties and an increase of $262 million fair value gain was recognized in the financial statement. Property, Plant and Equipment continues to be the most significant class of assets, accounting for 71% of the total asset base.

Debt continues to be the main source for financing the Authority's capital programmes and this is reflected in the significant long-term loan portfolio and the high interest & finance costs shown in the financial statements. Management recognized that in order to continue to maintain financial viability and improve available cash flow to support growth and replacement capital, it will be necessary to pursue alternative sources of funding other than debt financing for future capital expansion.

The Authority's commitment to this approach was demonstrated with the private/public sector partnership financial model, which was used for the Development of the Falmouth Cruise Ship Pier, through Private Participation with Royal Caribbean Cruise Limited (RCL).

In addition, with the approval of the Government of Jamaica (GOJ), management has signed Memorandum of Understandings with a major shipping line and an international company, to invest in the development of existing container terminal and for the development of a Greenfield port at Fort Augusta, in preparation for the Panama Canal Expansion, which is scheduled to be complete in 2014/2015. Approval was also granted by GOJ for the engagement of the Consultants to commence Phase 2 of the Privatization exercise for the Kingston Container Terminal.

## SUBSIDIARIES, JOINT VENTURE & ASSOCIATED COMPANIES

Investment in subsidiaries and related companies of the Authority at March 31, 2012 was a net asset of $1.72 billion and net profit of $20 million.

## EXECUTIVE EMOLUMENTS

During the financial year, the salaries for the Authority's Senior Executive Staff were as follows.

SENIOR EXECUTIVE COMPENSATION

| Position of Senior Executives | Year | Salary ($) | Gratuity or Performance Incentive ($) | Travelling Allowance or Value of Assignment of Motor Vehicle ($) | Pension or Other Retirement Benefits ($) | Other Allowances ($) | Non-Cash Benefits ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| President & CEO | | 16,464,090 | 4,116,023 | NIL<br>Net Book Value of assigned motor car | NIL | 1,102,878 | NIL | 21,682,991 |
| SVP Finance & Information Services | | 10,155,317 | 2,893,398 | 2,001,186. | NIL | NIL | NIL | 15,049,901 |
| SVP International Marketing & Client Services | | 10,155,317 | NIL | 2,001,186. | 1,157,359<br>**Note (1)** | | | 13,313,862 |
| SVP Legal, Regulatory & Corporate Affairs | | 8,810,740 | 2,557,254 | 2,001,186. | NIL | NIL | NIL | 13,369,180 |
| SVP Engineering & Port Development | | 8,810,740 | 2,557,254 | 2,001,186. | NIL | NIL | NIL | 13,369,180 |

## SENIOR EXECUTIVE COMPENSATION

| Position of Senior Executives | Year | Salary ($) | Gratuity or Performance Incentive ($) | Travelling Allowance or Value of Assignment of Motor Vehicle ($) | Pension or Other Retirement Benefits ($) | Other Allowances ($) | Non-Cash Benefits ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| SVP Business Management & Special Projects | | 9,539,442 | 2,739,429 | 2,001,186. | NIL | NIL | NIL | 14,280,057 |
| Chief Group Internal Auditor Assurance & Risk Management Services | | 8,980,866 | 2,599,785 | 2,001,186 | NIL | NIL | NIL | 13,581,837 |
| VP Business Development | | 8,333,561 | 2,341,719 | 1,616,226 | NIL | NIL | NIL | 12,291,506 |
| VP Harbours & Port Services | | 8,333,561 | 2,366,732 | 1,716,282 | NIL | NIL | NIL | 12,416,575 |
| VP Security | | 11,631,738 | (Note C) | 1,616,226 | NIL | NIL | NIL | 13,247,964 |
| VP Human Resource & Administration | | 7,643,911 | NIL | 1,616,226 | 867,723 (Note 1) | NIL | NIL | 10,127,860 |
| VP Legal, Regulatory & Corporate Affairs | | 8,022,092 | 2,263,852 | 1,616,226 | NIL | NIL | NIL | 11,902,170 |
| VP Information Systems | | 7,334,822 | 2,092,034 | 1,616,226 | NIL | NIL | NIL | 11,043,082 |
| VP Cruise Shipping & Marina Services | | 7,334,822 | 2,117,048 | 1,716,282 | NIL | NIL | NIL | 11,168,152 |
| VP Finance | | 7,955,807 | 2,247,280 | 1,616,226 | NIL | NIL | NIL | 11,819,313 |
| VP Engineering | | 7,949,476 | 2,270,712 | 1,716,282 | NIL | NIL | NIL | 11,936,470 |
| VP Accounting & Projects | | 6,242,395 | 1,883,509 | 1,276,194 | NIL | NIL | NIL | 9,402,098 |
| Project Manager, Falmouth Cruise Shipping Development | | 2,986,996 | NIL | 942,799 | NIL | NIL | NIL | 3,929,795 |
| VP Operations & Engineering | | 1,597,912 | 464,060 | 404,057 | NIL | NIL | NIL | 2,466,029 |
| **TOTAL** | | **$158,283,605** | **$35,510,089** | **$29,476,368** | **$2,025,082** | **$1,102,872** | **NIL** | **$226,398,022** |



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## DIRECTORS COMPENSATION

| Directors | Fees ($) | Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle ($) | Honoraria ($) | All Other Compensation including Non-Cash Benefits as applicable ($) | Total ($) |
|---|---|---|---|---|---|
| Director | 154,500 | 40,000 | Nil | Nil | 194,500 |
| Director | 123,000 | 40,000 | Nil | Nil | 163,000 |
| Director | 113,000 | 30,000 | Nil | Nil | 143,000 |
| Director | 196,500 | 45,000 | Nil | Nil | 241,500 |
| Director | 119,500 | 40,000 | Nil | Nil | 159,500 |
| Director | 119,000 | 45,000 | Nil | Nil | 164,000 |
| Director | 186,000 | 45,000 | Nil | Nil | 231,000 |
| Director | 102,000 | 30,000 | Nil | Nil | 132,000 |
| Director | 51,000 | 15,000 | Nil | Nil | 66,000 |
| Director | 24,000 | 10,000 | Nil | Nil | 34,000 |
| Director | 20,500 | 10,000 | Nil | Nil | 30,500 |
| Director | 41,500 | 10,000 | Nil | Nil | 51,500 |
| Director | 17,000 | 10,000 | Nil | Nil | 27,000 |
| Director | 17,000 | 10,000 | Nil | Nil | 27,000 |
| Director | 20,500 | 10,000 | Nil | Nil | 30,500 |
| Director | 17,000 | 10,000 | Nil | Nil | 27,000 |
| Director | 17,000 | 10,000 | Nil | Nil | 27,000 |
| **TOTAL** | **1,339,000** | **410,000** | **Nil** | **Nil** | **1,749,000*** |

* Per Financial Statements (Note 25)

***Notes:***

*1. The salary of Executive Board Chairman is included in the Senior Executive compensation.*
*2. All Committees are made up of Board Members and Executive Management Staff.*

In addition, the Senior Executive Management Team participated in the Authority's group life insurance coverage, which is non-contributory and is available to all permanent employees.

### Statutory Deductions

| | $M |
|---|---|
| Balance Outstanding at April 1, 2011 | 54.67 |
| Deductions – April 1, 2011 to March 31, 2012 | 897.29 |
| Balance Outstanding at March 31, 2012 | 137.14 |

Historic Falmouth Port,
Falmouth Trelawny



# FINANCIAL STATEMENTS

## YEAR ENDED MARCH 31, 2012

## CONTENTS





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Page 1.1

**INDEPENDENT AUDITORS' REPORT**

**To the directors of**

THE PORT AUTHORITY

**Report on the financial statements**

We have audited the financial statements of The Port Authority (the Authority), set out on pages 2 to 55, which comprise the statement of financial position as at March 31, 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Port Authority Act and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, 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 auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as at March 31, 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on additional requirements of the Port Authority Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith and give the information required in the manner so required.

Deloitte & Touche

Chartered Accountants
Kingston, Jamaica

## STATEMENT OF FINANCIAL POSITION AT MARCH 31, 2012

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 35,891,786 | 36,627,213 |
| Investment properties | 6 | 7,794,338 | 7,543,435 |
| Intangible assets | 7 | 17,442 | 21,116 |
| Investments in subsidiary, joint venture and associated companies | 8 | 30,508 | 30,508 |
| Other investments | 9 | 568,033 | 557,068 |
| Long-term receivables | 10 | 817,173 | 594,926 |
| | | 45,119,280 | 45,374,266 |
| **Current assets** | | | |
| Inventories | 11 | 939,509 | 829,787 |
| Trade and other receivables | 12 | 2,770,607 | 2,662,189 |
| Cash and short-term deposits | 13 | 1,464,830 | 1,692,175 |
| | | 5,174,946 | 5,184,151 |
| **Total assets** | | 50,294,226 | 50,558,417 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Reserves | 14 | 6,376,254 | 6,323,647 |
| Retained earnings | | 6,334,202 | 5,701,126 |
| | | 12,710,456 | 12,024,773 |
| **Non-current liabilities** | | | |
| Long-term liabilities | 15 | 30,290,857 | 32,777,598 |
| Deferred income | 16 | 480,492 | 516,045 |
| Retirement benefit liability | 17 | 62,399 | 64,452 |
| | | 30,833,748 | 33,358,095 |
| **Current liabilities** | | | |
| Provisions | 18 | 70,563 | 56,756 |
| Current portion of long-term liabilities | 15 | 4,404,136 | 3,519,818 |
| Trade payables and accruals | 19 | 2,236,480 | 1,513,305 |
| Bank overdraft (unsecured) | | 38,843 | 85,670 |
| | | 6,750,022 | 5,175,549 |
| **Total equity and liabilities** | | 50,294,226 | 50,558,417 |

The Notes on Pages 6 to 55 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 55 were approved and authorised for issue by the Board of Directors on ____________________ and are signed on its behalf by:

……………………………… ………………………………
The Hon. Noel A. Hylton
President and CEO

Gary Peart
Director



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## STATEMENT OF COMPREHENSIVE INCOME
### YEAR ENDED MARCH 31, 2012

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| Revenue | 20 | 13,892,382 | 12,507,832 |
| Interest income | 22 | 52,818 | 107,376 |
| Expenses | | | |
| Administration | | ( 1,466,426) | ( 2,086,634) |
| Marine operations | | ( 9,236,400) | ( 7,791,630) |
| Finance charges and interest on loans | 21 | ( 1,967,018) | ( 1,978,339) |
| | | 1,275,356 | 758,605 |
| (Loss) Gain on exchange on foreign currency loans | | ( 589,673) | 1,504,046 |
| **NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 22 | 685,683 | 2,262,651 |

The Notes on Pages 6 to 55 form an integral part of the Financial Statements.

## STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED MARCH 31, 2012
(Expressed in $'000)

**THE PORT AUTHORITY**

**STATEMENT OF CHANGES IN EQUITY**

**YEAR ENDED MARCH 31, 2012**

(Expressed in $'000)

| | | RESERVES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | General 14(a) $ | Capital 14(b) $ | Development 14(c) $ | Equalisation 14(d) $ | Stabilisation Fund 14(e) $ | Fixed Assets Replacement 14(f) $ | Insurance 14(g) $ | Wharfage 14(h) $ | Total Reserves $ | Retained Earnings $ | Total $ |
| Balance at April1, 2010 | | 359,450 | 5,083,337 | 305,150 | 1,630 | 32 | 451,344 | 37,500 | 35,552 | 6,273,995 | 3,488,127 | 9,762,122 |
| Net Profit and Total comprehensive income for the year | | - | - | - | - | - | - | - | - | - | 2,262,651 | 2,262,651 |
| Transfer to reserves of managed operations | | - | - | - | - | - | 28,385 | - | 21,813 | 50,198 | ( 50,198) | - |
| Amounts utilised | | - | - | - | - | - | ( 546) | - | - | ( 546) | 546 | - |
| Balance at March 31, 2011 | | 359,450 | 5,083,337 | 305,150 | 1,630 | 32 | 479,183 | 37,500 | 57,365 | 6,323,647 | 5,701,126 | 12,024,773 |
| Net Profit and Total comprehensive income for the year | | - | - | - | - | - | - | - | - | - | 685,683 | 685,683 |
| Transfer to reserves of managed operations | | - | - | - | - | - | 30,381 | - | 22,226 | 52,607 | ( 52,607) | - |
| Balance at March 31, 2012 | | 359,450 | 5,083,337 | 305,150 | 1,630 | 32 | 509,564 | 37,500 | 79,591 | 6,376,254 | 6,334,202 | 12,710,456 |

The Notes on Pages 6 to 55 form an integral part of the Financial Statements.



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## STATEMENT OF CASH FLOWS
## YEAR ENDED MARCH 31, 2012

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net Profit | 685,683 | 2,262,651 |
| Non-cash items included in net surplus: | | |
| Interest income | ( 52,818) | ( 107,376) |
| Foreign exchange loss adjustment (net) | 568,463 | (1,454,427) |
| Finance cost | 1,967,018 | 1,978,339 |
| Provision for impairment loss recognised on trade receivables | 51,883 | 153,606 |
| Reversal of impairment losses on trade receivables | ( 40,313) | ( 40,534) |
| Change in fair value of investment properties | ( 262,151) | ( 213,215) |
| Depreciation and amortisation | 1,871,928 | 1,579,194 |
| Loss on disposal of investment properties | 20,376 | 37,982 |
| Loss on disposal of property, plant and equipment | 26 | 36 |
| Impairment adjustment to property, plant and equipment | 222,891 | 11,571 |
| Write-off of other investments | - | 101 |
| Increase in provisions | 51,899 | 55,068 |
| Amortisation of deferred income | ( 35,553) | ( 35,553) |
| Post retirement benefit liability | 9,800 | 51,349 |
| | 5,059,132 | 4,278,792 |
| (Increase) Decrease in operating assets | | |
| Trade and other receivables | ( 648,227) | 346,799 |
| Inventories | ( 109,722) | ( 36,389) |
| Increase (Decrease) in operating liabilities | | |
| Trade payables and accruals | 723,175 | ( 708,424) |
| Provisions utilised | ( 38,092) | ( 67,419) |
| Deferred income | - | 277,700 |
| Contributions to defined benefit and retiree medical plans | ( 11,853) | ( 11,126) |
| Cash generated by operations | 4,974,413 | 4,079,933 |
| Interest paid | (1,909,765) | (1,891,271) |
| Cash provided by operating activities | 3,064,648 | 2,188,662 |
| **INVESTING ACTIVITIES** | | |
| Interest received | 52,979 | 107,384 |
| Decrease in long-term receivables | 305,831 | 58,420 |
| Other investments (net) | ( 10,965) | 20,426 |
| Acquisition of intangible assets | ( 177) | ( 801) |
| Acquisition of property, plant and equipment | (1,608,722) | (4,818,107) |
| Proceeds on disposal of property, plant and equipment | 83 | - |
| Acquisition of investment properties | - | ( 198,500) |
| Proceeds on disposal of investment properties | 243,944 | 392,706 |
| Cash used in investing activities | (1,017,027) | (4,438,472) |
| **FINANCING ACTIVITIES** | | |
| Receipt of long-term loans | 2,837,076 | 5,171,493 |
| Repayment of long-term loans | (5,413,654) | (2,939,662) |
| Decrease in prepaid credit insurance | 327,229 | 526,806 |
| Cash (used in) provided by financing activities | (2,249,349) | 2,758,637 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | ( 201,728) | 508,827 |
| **OPENING CASH AND CASH EQUIVALENTS** | 1,606,505 | 1,147,297 |
| Effect of foreign exchange rate changes | 21,210 | ( 49,619) |
| **CLOSING CASH AND CASH EQUIVALENTS** | 1,425,987 | 1,606,505 |
| Cash and cash equivalents comprise: | | |
| Cash and short-term deposits | 1,464,830 | 1,692,175 |
| Bank overdraft | ( 38,843) | ( 85,670) |
| | 1,425,987 | 1,606,505 |

The Notes on Pages 6 to 55 form an integral part of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

1 **IDENTIFICATION**

The Port Authority (the Authority) is a statutory body, incorporated in Jamaica by the Port Authority Act (last updated 1972). Its principal objectives are to provide and regulate port facilities in Jamaica. The registered office of the Authority is 15 Duke Street, Kingston.

The financial statements include the assets and liabilities and income and expenditure relating to the Authority's managed activities at the container terminal, wharves and cruiseship piers as well as its tug operations.

Consolidated financial statements of the Group (the Authority and its subsidiaries) are also prepared and reported on separately.

These financial statements are expressed in Jamaican dollars.

2 **ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Standards and Disclosures affecting amounts reported in the current period (and/or prior periods)

There were no Standards and Interpretations that were applied in the year that affected the presentation and disclosures in these financial statements.

Standards and Interpretations affecting the reported financial performance and/or financial position

There were no Standards and Interpretations that were applicable in the year that affected reported financial performance and/or financial position.

***Standards and Interpretations adopted with no effect on financial statements***

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to Standards | | |
| IAS 1, 34, IFRS 1 and 7 | Amendments arising from May 2010 Annual Improvements to IFRS | January 1, 2011 |
| IAS 24 | Related party disclosures – revised definition of related parties | January 1, 2011 |
| IFRS 1 | First-time Adoption of International Financial Reporting Standards | |
| | - Limited exemption from comparative IFRS 7 disclosures for first-time adopters | July 1, 2010 |
| New and Revised Interpretations | | |
| IFRIC 13 | Customer loyalty programme | |
| | - Amendment arising from May 2010 Annual Improvements to IFRS | January 1, 2011 |
| IFRIC 14: IAS 19 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction: November 2009 amendment with respect to voluntary prepaid contributions | January 1, 2011 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | July 1, 2010 |



THE PORT AUTHORITY OF JAMAICA
ANNUAL REPORT 2011/12

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

***Standards and interpretations in issue not yet effective***

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not effective for the financial period being reported on:

| | | Effective for annual periods beginning on or after |
|---|---|---|
| New Standards | | |
| IFRS 9 | Financial Instruments | |
| | - Classification and Measurement of financial assets | January 1, 2015 |
| | - Accounting for financial liabilities and derecognition | January 1, 2015 |
| IFRS 10 | Consolidated Financial Statements | January 1, 2013 |
| IFRS 11 | Joint Arrangements | January 1, 2013 |
| IFRS 12 | Disclosures of Interests in Other Entities | January 1, 2013 |
| IFRS 13 | Fair Value Measurement | January 1, 2013 |
| Amendments to Standards | | |
| IAS 1 | Presentation of Financial Statements | |
| | - Amendments to revise the way other comprehensive income is presented | July 1, 2012 |
| IAS 12 | Income Taxes – limited scope amendment (recovery of underlying assets) | January 1, 2012 |
| IAS 19 | Employee Benefits – Amended standard resulting from the Post-Employment Benefits and Termination Benefits projects | January 1, 2013 |
| IAS 27 and IFRS 3 | Amendments arising from May 2010 Annual Improvements to IFRS | July 1, 2011 |
| IAS 27 | Consolidated and Separate Financial Statements | |
| | - Reissued as IAS 27 Separate Financial Statements | January 1, 2013 |
| IAS 28 | Investments in Associates | |
| | - Reissued as IAS 28 Investments in Associates and Joint Ventures | January 1, 2013 |
| IAS 32 | Financial Instruments: | |
| | - Amendments to application guidance on the offsetting of financial assets and financial liabilities | January 1, 2014 |
| IFRS 1 | First-time Adoption of International Financial Reporting Standards | |
| | - Replacement of fixed dates for certain exceptions with the date of transition to IFRS | July 1, 2011 |
| | - Additional exemption for entities ceasing to suffer from severe hyperinflation | July 1, 2011 |
| IFRS 7 | Financial Instruments: Disclosures | |
| | - Amendments enhancing disclosures about offsetting financial assets and financial liabilities | January 1, 2013 |
| | - Amendments enhancing disclosures about transfers of financial assets | July 1, 2011 |
| | - Amendments requiring disclosures about the initial application of IFRS 9 | January 1, 2015 (or otherwise when IFRS 9 is first applied) |

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

***Standards and interpretations in issue not yet effective (Cont'd)***

| | | Effective for annual periods beginning on or after |
|---|---|---|
| New and Revised Interpretations | | |
| IFRIC 20 | Stripping costs in the Production Phase of a Surface Mine | January 1, 2013 |

New and Revised Standards and Interpretations in issue not yet effective that are relevant
The Board of Directors and management have assessed the impact of all the new and revised Standards and Interpretations in issue not yet effective and have concluded that the following are relevant to the operations of the Authority:

- The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

  The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

- The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus.

  The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Authority's financial statements for the annual period beginning April 1, 2013 and that the application of the amendments to IAS 19 may have an impact on amounts reported in respect of the Authority's defined benefit pension plan. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

- The amendments to *IFRS 7 Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The Authority does not anticipate that these amendments to IFRS 7 will have any effect on the disclosures in the financial statements.

- Amendment to *IFRS 7 – Enhanced Derecognition Disclosure Requirements* – The IASB introduced enhanced disclosure requirements to IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Disclosures are not required for comparative periods before the date of initial application of the amendments. The application of the amendment will result in enhanced disclosures in the financial statements to the extent applicable.





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

***Standards and interpretations in issue not yet effective (Cont'd)***

New and Revised Standards and Interpretations in issue not yet effective that are relevant (Cont'd)

- *IFRS* 9 Financial Instruments – The Standard introduces new requirements for the classification and measurement of financial assets and liabilities and for derecognition. IFRS 9 requires all recognised financial assets that are within scope IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

  The Board of directors and management anticipate that IFRS 9 will be adopted in the Authority's financial statements for the annual periods beginning January 1, 2015 and that the application of IFRS 9 may impact the amounts reported in respect of the Authority's financial assets and liabilities. However, the directors and management have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the likely impact.

- IFRS 10 *Consolidated Financial Statements* – IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The directors have not yet assessed the impact of the application of this standard on the Authority's consolidated financial statements.

- IFRS 11 *Joint Arrangements:* introduces new accounting requirements for joint arrangements. It removes the option to apply the proportional consolidation method when accounting for jointly-controlled entities and it also eliminates jointly-controlled assets to now only differentiate between joint operations and joint ventures. On adoption at its effective date, the standard is not expected to have any significant impact on the Authority's financial results.

- *IFRS* 12 *Disclosures of Interests in Other Entities* - is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate (1) the nature of, and risks associated with, its interests in other entities, and (2) the effects of those interests on its financial position, financial performance and cash flows. The directors have not yet assessed the impact of the application of this standard on the Authority's financial statements.

- IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. Management has not yet assessed the impact of this IFRS on the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The Authority's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS) and the requirements of the Port Authority Act.

**Basis of preparation**

The financial statements have been prepared under the historical cost basis except for investment properties and available-for-sale investments that are measured at revalued amounts or fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies are set out below:

**Property, plant and equipment**

All property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at historical or deemed cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assets in the course of construction for operations, rental or administrative purposes, or for purposes not yet determined are carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Authority's accounting policy (See Borrowing costs at Page 18). Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, depreciation method and residual values are reviewed at the end of each reporting period with the effect of any change in estimate being accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are measured initially at cost, including transaction cost. Subsequent to initial recognition investment properties are measured at their fair values. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**Intangible assets**

These represent application software acquired and are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets

At the end of each reporting period, the Authority reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Authority estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss unless the relevant asset is carried at a revalued amount in which case the reversal of impairment loss is treated as a revaluation increase.

**Investments in subsidiary and associated companies**

These are stated at acquisition cost. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

A subsidiary is an enterprise controlled by the Authority. Control is achieved where the Authority has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

An associate is an entity over which the Authority has significant influence and that is neither a subsidiary nor an interest in a joint venture (See Interest in joint venture below). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

**Interest in joint venture**

A joint venture is a contractual arrangement whereby the Authority and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest is referred to as jointly controlled entity. The Authority reports its interest in jointly controlled entities at cost less any provision for impairment.

**Inventories**

These are stated at the lower of cost, determined on a first-in, first-out basis, and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price for inventories less all estimated costs to completion and costs necessary to make the sale.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments**

Financial instruments include transactions that give rise to both financial assets and financial liabilities.

Financial assets of the Authority include any asset that is:

(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:

(i) to receive cash or another financial asset from another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Authority.

Financial liabilities of the Authority include any liability that is a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Authority.

Financial assets and financial liabilities are recognised on the Authority's statement of financial position when the Authority becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transactions that are directly attributable to the acquisition or issue of financial assets and liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The fair values of the financial instruments are discussed in Note 27.

Listed below are the Authority's financial assets and liabilities and the specific accounting policies relating to each.

***Financial assets***

These are recognised and derecognised on a trade-date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the time frame established by regulation or convention in the market place.

The Authority's financial assets are classified as "loans and receivables" and "available-for-sale financial assets" with the classification being based on the nature and purpose of the financial asset and is determined at the time of initial recognition.

a) *Loans and receivables*
These are non-derivative financial assets with fixed term or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums and discounts) through the expected life of the financial assets, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments.





NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments (Cont'd)**

***Financial assets (Cont'd)***

b) *Available-for-sale (AFS) investments*

These are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale securities are those that are traded in an active market and are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or market prices.

The Authority has investments in unlisted shares that are not traded in an active market but that are classified as AFS financial assets. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of fair value and other reserves. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value and other reserves is reclassified to profit or loss.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

The available for-sale securities held by the Authority include unquoted shares.

c) *Related party*

A party is related to the Authority if:

(i) directly, or indirectly through one or more intermediaries, the party:
- controls, is controlled by, or is under common control with, the Authority;
- has an interest in the entity that gives it significant influence over the Authority; or
- has joint control over the Authority;

(ii) the party is an associate of the Authority;
(iii) the party is a joint venture in which the Authority is a venturer;
(iv) the party is a member of the key management personnel of the Authority or its parent;
(v) the party is a close family member of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which signifiant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

Related party transactions are initially recorded at agreed group rates and interest is not charged since settlement is anticipated in the near future.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments (Cont'd)**

***Financial assets (Cont'd)***

d) *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after initial recognition of the financial assets, the estimated future cash flows of the assets have been affected.

For shares (listed and unlisted) classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including long-term receivables, objective evidence of impairment would include:

- a significant financial difficulty of the issuer or counterparty;
- or breach of contract, such as default or delinquency in the interest or principal payments;
- or it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- or the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Authority's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what amortised cost would have been had impairment not been recognised. In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated under the heading of fair value and other reserves. In respect of AFS debt securities, impairment losses are consequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments (Cont'd)**

***Financial assets (Cont'd)***

e) Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire; or the Authority transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Authority retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Authority retains control), the Authority allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

***Financial liabilities***

<u>Classification as debt</u>

Debt instruments issued by the Authority are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definition of a financial liability.

These are classified as "other financial liabilities" and comprise borrowings and payables.

Other financial liabilities (including borrowings) are initially measured at fair value net of transaction costs and are subsequently remeasured at amortised cost, using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or where appropriate, a shorter period, to the net carrying amount on initial recognition.

<u>Derecognition of financial liabilities</u>

The Authority derecognises financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Reserves**

At the discretion of the Board of Directors, transfers are made from the accumulated surplus to reserves to provide for the expansion and/or improvement in port facilities.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Deferred income - Government grants**

Government grants are not recognised until there is reasonable assurance that the Authority will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Authority recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Authority should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Authority with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

**Employee benefits**

*Pension*

The Authority operates two pension plans:

(i) Defined contribution plan

This plan provides post retirement benefits that are based on the value of accumulated contributions and interest earned. The plan is funded by contributions from employees and employer with employees contributing 5% of annual salary (with the option of increasing this up to 10%) and the Authority contributing 10% of annual salary. These costs are charged as expenses as they fall due. The Authority bears no obligation for the provision of benefits beyond the terms of the plan.

(ii) Defined benefit plan

The Authority has established a defined benefit pension scheme for its employees (in its employ subsequent to July 31, 2007) that is administered by Trustees and managed by Guardian Life Limited. The Scheme's assets are separately held and the Scheme is funded by employee contributions of 5% of pensionable salaries (with the option of contributing an additional 5%) and the Authority's contributions as recommended by independent actuaries.

Under the rules of this plan, members of the defined contribution plan, referred to above, are entitled to a supplemental pension under certain circumstances.

The cost of providing benefits is determined using the Projected Unit Credit Method with independent actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the Authority's defined benefit obligation and the fair value of plan assets at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Employee benefits (Cont'd)**

*Other post-retirement obligations*

The Authority also provides retiree medical and group life benefits to certain retired employees of a company that previously managed one of its operations. The cost of providing these benefits is determined using the Projected Unit Credit Method with independent actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the present value of the Authority's unfunded defined benefit obligation are recognised in full.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost plus the present value of available refunds and reductions in future contributions to the plan.

*Termination obligations*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Authority recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the end of the reporting period are discounted to present value.

*Leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave for services rendered by employees up to the end of the reporting period.

**Provisions**

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that the Authority will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts recoverable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue in respect of the provision of services is recognised when service is provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease (See Leasing below).

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Revenue recognition (Cont'd)**

Dividend income is recognised when the Authority's rights to receive payments have been established (provided that it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured reliably).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Foreign currencies**

The financial statements are presented in Jamaican dollars, the currency of the primary economic environment in which the Authority operates (its functional currency).

In preparing the financial statements, transactions in currencies other than the Jamaican dollar are recorded at the rates of exchange prevailing on the dates of those transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items that are measured in terms of historical costs in foreign currency are not re-translated. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. All exchange gains and losses are recognised in profit or loss for the period in which they arise except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where such exchange differences are regarded as an adjustment to interest cost on foreign currency borrowings.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Authority as lessor</u>
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Authority's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Authority's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4 **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Authority's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.





NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

4 **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)**

**Critical Judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations (See below), that management has made in the process of applying the Authority's accounting policies and that have the most significant impact on the amounts recognised in the financial statements.

*Assets leased to subsidiary company*

Assets with a net book value at the reporting date totalling $98.659 million (2011: $211.938 million) have been leased to a subsidiary company, Ports Management and Security Co. Ltd. It is management's view that the substantial risks and rewards incidental to ownership of these assets lie with the Authority and the lease is therefore treated as an operating lease in the financial statements.

*Investment properties*

Land held in Montego Bay valuing $1.278 billion (2011: $1.203 billion) was classified as investment properties in 2009 because the future usage of this land was undetermined. During the current financial year, a fair value loss of $5.05 million (2011: gain of $28.4 million) on this land was included in the statement of comprehensive income.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Property, plant and equipment*

a) In 2006, management estimated that with routine maintenance, dredging of the sea channel at Kingston Container Terminal capitalised had a remaining useful life of 20 years. The carrying value at March 31, 2012 is $404.383 million with management estimating remaining useful life as approximately 14 years. At March 31, 2011, the carrying value was $458.08 million with an estimated useful life of approximately 15 years.

b) In the current year, management estimated that with routine maintenance, the dredging of the channel at Falmouth has a useful life of 20 years. The carrying value at March 31, 2012 is $3.954 billion. At March 31, 2011 the total cost amounting to $3.983 billion was included in capital works-in-progress.

*Employee benefit – retiree medical and group life plan*

As disclosed in Note 17, the Authority operates a defined benefit pension plan and provides health benefits to certain retired employees of a company that previously managed one of its operations. The amounts shown in the statement of financial position of a liability of approximately $28.17 million (2011: a liability of $30.12 million) in respect of the defined benefit plan and a liability of approximately $34.23 million (2011: $34.33 million) in respect of the retiree medical and group life plan are subject to estimates in respect of periodic costs which costs would be dependent on future returns on assets, future discount rates, rates of salary increases and inflation rates in respect of the pension plan, and rates of increases in health cost for the retiree medical and group life plan. External actuaries are contracted by the Authority in this regard.

The discount rates which are used to determine the present value of estimated cash outflows expected to be required to settle any future pension, medical and health obligation are determined at the end of each reporting period by the contracted external actuaries.

The cost of benefits is derived using premium rates supplied by the company to which the retired employees were previously employed. For the benefits scheme the benefit is derived using information supplied by the Authority and the Fund managers in relation to full members of the scheme.

Judgement is also exercised in determining the proportionate share of the health obligation and cost as well as the extent that the surplus or deficit in the plan may affect the future contributions to the plan.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

5 **PROPERTY, PLANT AND EQUIPMENT**

| | Freehold Land | Freehold Buildings | Tugs, Cranes, Trailers, Straddle Carriers, Vessels and other Equipment | Lighting, Docks, Berths 10 and 11 | Infrastructure | Dredging | Furniture and Office Equipment | Computers | Motor Vehicles | Capital Works-in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At cost** | | | | | | | | | | | |
| April 1, 2010 | 6,109,699 | 1,068,230 | 14,195,362 | 8,014,986 | 4,657,034 | 942,613 | 120,740 | 239,713 | 139,862 | 7,749,821 | 43,238,060 |
| Additions | 81,194 | 630 | 14,813 | - | - | - | 4,441 | 19,228 | 4,683 | 4,693,118 | 4,818,107 |
| Disposals | - | - | ( 73) | - | - | - | ( 110) | ( 8,143) | - | - | ( 8,326) |
| Transfer from works-in-progress | 1,641,951 | - | 129,123 | - | 5,679 | - | 356 | 1,530 | 2,697 | ( 1,781,336) | - |
| Impairment adjustment (Note 5(g)) | 209 | - | ( 19,828) | - | - | - | - | - | - | ( 1,866) | ( 21,485) |
| March 31, 2011 | 7,833,053 | 1,068,860 | 14,319,397 | 8,014,986 | 4,662,713 | 942,613 | 125,427 | 252,328 | 147,242 | 10,659,737 | 48,026,356 |
| Additions | - | - | 7,280 | - | 302 | - | 11,768 | 52,706 | 398 | 1,536,268 | 1,608,722 |
| Disposals | - | - | ( 272) | - | - | - | - | ( 391) | - | - | ( 663) |
| Reclassification | - | - | ( 4,048) | - | - | - | - | 4,048 | - | - | - |
| Transfer from works-in-progress | 642,747 | 767,279 | 277,800 | 3,580,852 | 1,329,168 | 4,161,916 | 260 | 20,783 | - | (10,780,805) | - |
| Transfer to Investment Properties (Note 6) | - | - | - | - | - | - | - | - | - | ( 253,072) | ( 253,072) |
| March 31, 2012 | 8,475,800 | 1,836,139 | 14,600,157 | 11,595,838 | 5,992,183 | 5,104,529 | 137,455 | 329,474 | 147,640 | 1,162,128 | 49,381,343 |
| **Depreciation** | | | | | | | | | | | |
| April 1, 2010 | - | 262,297 | 6,331,970 | 1,319,963 | 1,128,388 | 430,834 | 71,261 | 182,523 | 115,199 | - | 9,842,435 |
| Charge for year | - | 37,391 | 990,769 | 200,763 | 240,826 | 53,697 | 10,655 | 29,860 | 10,951 | - | 1,574,912 |
| On disposals | - | - | ( 58) | - | - | - | ( 101) | ( 8,131) | - | - | ( 8,290) |
| Impairment adjustment (Note 5(g)) | - | - | ( 9,914) | - | - | - | - | - | - | - | ( 9,914) |
| March 31, 2011 | - | 299,688 | 7,312,767 | 1,520,726 | 1,369,214 | 484,531 | 81,815 | 204,252 | 126,150 | - | 11,399,143 |
| Charge for year | - | 36,004 | 926,800 | 290,321 | 293,974 | 261,793 | 10,978 | 41,481 | 6,726 | - | 1,868,077 |
| On disposals | - | - | ( 163) | - | - | - | - | ( 391) | - | - | ( 554) |
| Reclassification | - | 6 | ( 2) | - | ( 2) | 2 | ( 2) | ( 2) | - | - | - |
| Impairment adjustment (Note 5(g)) | - | - | 222,891 | - | - | - | - | - | - | - | 222,891 |
| March 31, 2012 | - | 335,698 | 8,462,293 | 1,811,047 | 1,663,186 | 746,326 | 92,791 | 245,340 | 132,876 | - | 13,489,557 |
| **Net book value** | | | | | | | | | | | |
| March 31, 2012 | 8,475,800 | 1,500,441 | 6,137,864 | 9,784,791 | 4,328,997 | 4,358,203 | 44,664 | 84,134 | 14,764 | 1,237,128 | 35,891,786 |
| March 31, 2011 | 7,833,053 | 769,172 | 7,006,630 | 6,494,260 | 3,293,499 | 458,082 | 43,612 | 48,076 | 21,092 | 10,659,737 | 36,627,213 |





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

5 **PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

(a) The following useful lives are used in the calculation of depreciation:

| | | |
|---|---|---|
| Buildings | - | 20 - 40 years |
| Tugs, cranes, trailers, straddle carriers and other equipment | - | 10 - 25 years |
| Vessels | - | 20 years |
| Lighting, docks and berths | - | 20 - 40 years |
| Infrastructure and dredging | - | 15 - 20 years |
| Furniture and office equipment | - | 10 years |
| Computers | - | 3 - 7 years |
| Motor vehicles | - | 5 years |

(b) Property, plant and equipment stated at deemed cost based on valuations as permitted under IFRS 1 are as follows:

- Land

  Land included at $3.3 billion was valued at March 31, 2002 by Allison Pitter and Company, Chartered (Valuation) Surveyors.

- Freehold buildings

  Freehold buildings included at $52.94 million were valued at March 31, 2002 by Allison Pitter and Company, Chartered (Valuation) Surveyors.

- Port equipment, plant and machinery

  Port equipment, plant and machinery included at depreciated replacement cost of $1.02 billion were valued by Deryck A. Gibson, Licensed Real Estate Appraisers, at March 31, 2000.

- Lighthouses, harbour lights, beacons including associated buildings located in Westmoreland, St. Elizabeth, St. Thomas, Clarendon, Portland, St. Mary and Port Royal included at $165 million were valued by Winston Madden for Commissioner of Land (Valuation) in February 2003 on the transfer of these assets to the Authority by the Government of Jamaica.

All valuations which, except otherwise stated, were at market value were recorded at the respective dates of valuation.

Subsequent additions are stated at cost.

(c) Capitalised interest included in property, plant and equipment acquired during the year amounted to approximately $16.537 million (2011: $141.741 million) (Note 21).

(d) The Authority has pledged certain equipment (included in Tugs, Cranes, Tractors, Straddle Carriers, Vessels and Other Equipment) with a carrying value of $57.872 million as partial security for certain long-term liabilities. (Note 15(c)).

(e) Included in property, plant and equipment is land with a carrying value of approximately $514.8 million (2011: $514.8 million) for which the Authority does not hold a registered title as the legal formalities in this regard have not been completed.

(f) The Authority self insures straddle carriers with a carrying value of $771.08 million (2011: $994.82 million).

(g) During the year, included in Tugs, Cranes, Trailers, Straddle Carriers, Vessels and Other Equipment were cranes at a cost of $987.533 million which were written down due to obsolescence.

In 2010/2011 included in Tugs, Cranes, Trailers, Straddle Carriers, Vessels and Other Equipment and Computer were equipment totalling $11.6 million (net book value) that were damaged beyond repairs and written off.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

### 6 INVESTMENT PROPERTIES

| | Land (Note 6(a)) $'000 | Buildings (Note 6(b)) $'000 | Total $'000 |
|---|---|---|---|
| **Fair values** | | | |
| Balance, April 1, 2010 | 4,806,284 | 2,756,124 | 7,562,408 |
| Addition | 148,500 | 50,000 | 198,500 |
| Disposal | ( 430,688) | - | ( 430,688) |
| Reclassification | ( 35) | 35 | - |
| Increase in fair value (Note 20) | 106,174 | 107,041 | 213,215 |
| Balance, March 31, 2011 | 4,630,235 | 2,913,200 | 7,543,435 |
| Disposal | ( 233,820) | ( 30,500) | ( 264,320) |
| Transfer from property, plant and equipment (Note 5) | 253,072 | - | 253,072 |
| Increase in fair value (Note 20) | 74,981 | 187,170 | 262,151 |
| Balance, March 31, 2012 | 4,724,468 | 3,069,870 | 7,794,338 |

(a) Investment Properties (Land)

Comprise mainly land retained for future development.

(b) Investment Properties (Buildings)

Comprise commercial and office buildings held for long-term rental and are not occupied by the Authority.

(c) Fair values of Investment Properties

The fair values of the Authority's investment properties at the end of the reporting period has been arrived at on the basis of valuations carried out between April 20 and 25, 2012 (2011: between March 24 and 31, 2011) by C. D. Alexander Realty Company Limited independent valuers not connected with the Authority. C. D. Alexander Realty Company Limited are licensed real estate valuers with the Real Estate Board, and have appropriate qualifications and relevant experience in the valuation of similar properties. The valuations were arrived at by the reference to market evidence of transaction prices for similar properties.

(d) The property rental income earned by the Authority from its investment properties leased under operating leases amounted to $173.79 million (2011: $167.95 million). Direct operating expenses arising in the investment properties during the period amounted to $1.11 million (2011: $1.01 million).



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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

### 7 INTANGIBLE ASSETS

| | $'000 |
|---|---|
| **Cost** | |
| Balance, April 1, 2010 | 93,616 |
| Additions | 801 |
| Balance, March 31, 2011 | 94,417 |
| Additions | 177 |
| Balance, March 31, 2012 | 94,594 |
| **Amortisation** | |
| Balance, April 1, 2010 | 69,019 |
| Charge for the year | 4,282 |
| Balance, March 31, 2011 | 73,301 |
| Charge for the year | 3,851 |
| Balance, March 31, 2012 | 77,152 |
| **Carrying amount:** | |
| March 31, 2012 | 17,442 |
| March 31, 2011 | 21,116 |

This consists primarily of software purchased, the costs of which are being amortised over a period of three years.

### 8 INVESTMENTS IN SUBSIDIARY, JOINT VENTURE AND ASSOCIATED COMPANIES

| | 2012 $'000 | 2011 $'000 | |
|---|---|---|---|
| **Shares at cost** | | | |
| *Subsidiary companies* | | | |
| Kingston Free Zone Co. Ltd. | 12,410 | 12,410 | |
| Montego Bay Freezone Co. Ltd. | - | - | * |
| Ports Management and Security Ltd. | - | - | ** |
| Jamaica International Free Zone Development Ltd. | 10,725 | 10,725 | *** |
| Port Authority Management Services | - | - | **** |
| KCT Services Limited | - | - | ***** |
| | 23,135 | 23,135 | |
| *Joint venture* | | | |
| Boundbrook Wharves Development Company | - | - | ****** |
| *Associated companies* | | | |
| Security Administrators Ltd. | 7,353 | 7,353 | |
| Montego Bay Cold Storage | 20 | 20 | |
| | 7,373 | 7,373 | |
| Total investments in subsidiary, joint venture and associated companies | 30,508 | 30,508 | |

* Denotes 1 ordinary share at a cost of $1.00
** Denotes 51 ordinary shares at a cost of $51.00
*** Denotes 10,725,075 ordinary shares
**** Denotes 500 ordinary shares at a cost of $500
***** Denotes 102 ordinary shares at a cost of $102
****** Denotes 200 ordinary shares at a cost of $200

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

8 **INVESTMENTS IN SUBSIDIARY, JOINT VENTURE AND ASSOCIATED COMPANIES** (Cont'd)

(a) Details of the subsidiaries as at March 31, 2012 are as follows:

| Name of subsidiary | Place of Incorporation and operation | Proportion of ownership interest | Proportion of voting power held | Date of last Audited Financial statements | Principal Activity |
|---|---|---|---|---|---|
| Kingston Free Zone Company Limited | Jamaica | 72% | 72% | March 31, 2012 | Rental of warehouses and property management |
| Montego Bay Free Zone Company Limited | Jamaica | 50% | 50% | March 31, 2012 | Rental of offices and factory space and property management |
| Ports Management and Security Limited | Jamaica | 51% | 51% | March 31, 2012 | Provision of security at ports |
| Jamaica International Freezone Development Limited | Jamaica | 75% | 75% | March 31, 2012 | Acquiring, developing and leasing property for the purpose of logistics and distribution activities |
| Port Authority Management Services Limited | Jamaica | 100% | 100% | March 31, 2012 | Managing Half-Way-Tree Transportation Centre on behalf of the Ministry of Housing, Transport, Water and Works |
| KCT Services Limited | Jamaica | 100% | 100% | March 31, 2011 | Managing the operations of the Kingston Container Terminal |

(b) Details of the joint venture as at March 31, 2012 are as follows:

| Name of joint venture | Place of Incorporation and operation | Proportion of ownership interest | Proportion of voting power held | Date of last Audited Financial statements | Principal Activity |
|---|---|---|---|---|---|
| Boundbrook Wharves Development Limited | Jamaica | 51% | 51% | March 31, 2011 | Rehabilitation and leasing of Boundbrook Wharf (See Note 8(e)) |



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## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

8 **INVESTMENTS IN SUBSIDIARY, JOINT VENTURE AND ASSOCIATED COMPANIES** (Cont'd)

(c) Details of the associates as at March 31, 2012 are as follows:

| Name of associate | Place of Incorporation and operation | Proportion of ownership interest | Proportion of voting power held | Date of last Audited Financial statements | Principal Activity |
|---|---|---|---|---|---|
| Security Administrators Limited | Jamaica | 33.33% | 33.33% | December 31, 2010 | Provision of security services at Port Bustamante |
| Montego Bay Cold Storage Limited | Jamaica | 33.33% | 33.33% | December 31, 2011 | Rental of refrigerated warehouses |

(d) (i) Summarised financial information in respect of the Authority's subsidiaries is as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Total assets | 2,292,472 | 2,256,520 |
| Total liabilities | 833,772 | 803,503 |
| Net assets | 1,458,700 | 1,453,017 |
| Revenue | 1,880,510 | 1,901,919 |
| Profit for the period | 7,573 | 62,902 |

(ii) Summarised financial information in respect of the Authority's joint venture is as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Total assets | 41,986 | 45,825 |
| Total liabilities | 24,881 | 17,656 |
| Net assets | 17,105 | 28,169 |
| Revenue | 1,849 | 2,721 |
| Loss for the period | (12,853) | (10,030) |

(iii) Summarised financial information in respect of the Authority's associates is as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Total assets | 293,669 | 294,975 |
| Total liabilities | 53,171 | 39,766 |
| Net assets | 240,498 | 255,209 |
| Revenue | 434,926 | 399,888 |
| Profit for the period | 25,287 | 27,547 |

(e) The company is currently being wound up.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

### 9 OTHER INVESTMENTS

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Deposit (See (i) below) | 542,530 | 532,614 |
| Staff mortgage deposits (See (ii) below) | 25,503 | 24,454 |
| | 568,033 | 557,068 |

(i) This amount includes approximately US$6,221,000 (2011: US$6,218,000) on deposit in an offshore bank trust account in the names of the Authority and the European Investment Bank (EIB). The deposit is made in accordance with the EIB loan agreements 20.553 and 20.729, Articles 1.04A(e) and (c), which stipulate a specific ratio in respect of the aggregate principal on loans outstanding and the balance in the trust account. The loans are to be repaid by March 2020 and July 2021 respectively. The Authority maintains the deposit at an amount to meet the required ratio which was met at the end of the reporting period. At year end the rate of interest on this deposit ranged from 0.0625% to 0.2968% per annum (2011: 0.0312% to 0.0625%). (See note 15(h)). At March 31, 2012, interest receivable amounted to $0.092 million (2011: $0.036 million).

(ii) This represents savings account balances held at Victoria Mutual Building Society at a rate of approximately 2% (2011: 7%) per annum. At March 31, 2012, interest receivable amounted to $0.095 million (2011: $0.312 million).

### 10 LONG-TERM RECEIVABLES

| | | 2012 | 2011 |
|---|---|---|---|
| | | $'000 | $'000 |
| Motor car loans (Note 10(a)) | | 4,358 | 13,282 |
| Staff housing assistance fund (Note 10(b)) | | 18,492 | 16,156 |
| Deposit – Jamaica Public Service Co. Ltd. | | 3,475 | 3,475 |
| Due from shipping line approximately US$8,981,000 (2011: US$12,743,000) net of provision of $71.554 million (2011: $Nil) (Note 10(c)) | | 709,126 | 1,088,207 |
| Advances to related companies (net) (Note 10(d)) | | 81,827 | 75,412 |
| Other | | 1,775 | 67 |
| | | 819,053 | 1,196,599 |
| Current portion included in | | | |
| Trade and other receivables (Note 12) | - other | ( 1,880) | ( 4,427) |
| | - shipping lines | - | ( 597,246) |
| | | ( 1,880) | ( 601,673) |
| | | 817,173 | 594,926 |

(a) Motor car loans

The balance relates to amounts outstanding under motor car loan agreements between the Authority and its staff. It is recoverable over a period of three to five years and bears interest at 5% - 8% per annum calculated on the reducing balance basis. The loans are secured by bills of sale over the motor cars.

(b) Staff housing assistance fund

This represents the balance on a revolving fund used to provide housing benefits to staff members. The loan amounts range between $200,000 and $500,000 with repayment terms ranging between 7 to 10 years. Loans are granted at an average interest rate of 6% per annum.





NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

### 10 LONG-TERM RECEIVABLES (Cont'd)

(c) Due from shipping line

This balance outstanding at March 31, 2012 represents amounts outstanding from a shipping line, and is repayable by March 2016 with the first installment due January 2014. No interest is charged to the shipping line, however a consequent adjustment of $71.55 million (2011: $33.705 million) to record the outstanding interest free balance at amortised cost was effected during the year. The balance at March 31, 2011 represented amounts outstanding from two shipping lines and was repayable by March 2014. Interest at a rate of 3% per annum was charged to one shipping line while there was no interest charged to the other shipping line.

(d) Advances to related companies (net)

This comprises the following:

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Montego Bay Freezone Company Limited | ( 4,500) | ( 4,500) |
| Boundbrook Wharves Development Limited | - | ( 895) |
| Jamaica International Freezone Development Limited | 86,327 | 80,807 |
| | 81,827 | 75,412 |

These amounts are unsecured, non-interest bearing and there are no stipulated repayment terms.

### 11 INVENTORIES

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Spares | 900,910 | 809,215 |
| Fuel | 39,467 | 32,681 |
| Other | 590 | 452 |
| Goods in transit | 33,688 | 22,595 |
| | 974,655 | 864,943 |
| Provision for obsolescence | ( 35,146) | ( 35,156) |
| | 939,509 | 829,787 |

The cost of inventories recognised as an expense during the year was $1.083 billion (2011: $955.51 million).

The cost of inventories recognised as an expense includes $1.08 million (2011: $2.13 million) in respect of write-downs of inventory to net realisable value, and has been reduced by $1.09 million (2011: $Nil) in respect of the reversals of previous write-downs.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

12 **TRADE AND OTHER RECEIVABLES**

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Trade | 2,093,975 | 1,519,884 |
| Provision for impairment | ( 10,518) | ( 84,536) |
| | 2,083,457 | 1,435,348 |
| Staff receivables | 133,649 | 109,368 |
| GCT recoverable (net of provisions of $135,903 (2011: $Nil)) | 155,204 | 304,681 |
| Sundry receivables | 247,810 | 86,001 |
| Prepaid expenses | 11,469 | 63,761 |
| Lease receivable – Ports Management and Security Limited | 118,005 | 54,827 |
| Advances to subsidiaries, associates and joint venture (See 12 (a) below) | 19,133 | 6,530 |
| Current portion of long-term receivables (Note 10) | 1,880 | 601,673 |
| | 2,770,607 | 2,662,189 |

The average credit period on services rendered is 30 days.

It is the policy of the Authority to mimimise credit and the associated risks of non-collection. The management of credit risk is treated as a priority. Therefore, despite the majority of the Authority's major debtors being entities within the maritime industry which have developed long-standing relationships with the Authority, the Authority has established a credit quality review process, and has credit policies and procedures which require regular analysis of the ability of debtors to meet their obligations.

The credit policy requires that each customer must be analysed individually for creditworthiness prior to the Authority offering them a credit facility. Management also has the option to strengthen the credit terms for individual accounts if it is felt that the customer's financial strength has declined.

The credit evaluation process includes inter alia, reviewing the number of years that the customer has been in business, the volume of business conducted with the Authority, reviewing financial statements and obtaining bank references for the customer. In certain instances an irrevocable bank guarantee is required prior to the granting of credit. The credit policy also addresses specific actions that will be taken when receivables are outstanding in excess of the credit periods granted.

The Authority assesses the probability of default of individual counterparties using internal ratings. Clients of the Authority are segmented into two groups as follows:

| **Rating** | **Description of the grade** |
|---|---|
| Grade A | Standard |
| Grade B | Potential problem credit |

100% (2011: 99%) of trade receivables that were neither past due nor impaired at the end of the reporting period were classified in Grade A.



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12 TRADE AND OTHER RECEIVABLES (Cont'd)

As at March 31, 2012 receivables of $1.113 billion (2011: $1.315 billion inclusive of $597.25 million classified as current portion of long-term receivables), was past due but not impaired. These relate to a number of customers for whom there is no history of default. The Authority does not hold any collateral over these balances. The average age of these receivables is 66 days (2011: 90 days).

Ageing of past due but not impaired

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| 31-60 days | 491,888 | 409,471 |
| 61-90 days | 268,937 | 246,270 |
| Over 90 days | 352,544 | 659,185 |
| | 1,113,369 | 1,314,926 |

Quarterly reviews are performed on all receivables to verify the quality of the receivables as well as to determine whether the amounts outstanding are collectible.

Among the matters considered is the age of the receivable, the payment patterns of the customer, whether there is any history of default, whether there are any known difficulties in the cash flows of the customer, as well as the circumstances surrounding the specific balances being reviewed. Provisions are made where balances owed are considered to be impaired.

Movement in the allowance for impaired receivables

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Balance at beginning of the year | 84,536 | 46,597 |
| Impairment losses recognised | 37,849 | 78,473 |
| Impairment losses reversed | (40,313) | (40,534) |
| Provision related to shipping agents reclassified to long-term receivables (Note 10) | (71,554) | - |
| Balance at end of the year | 10,518 | 84,536 |

In determining the recoverability of a receivable, the Authority considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. Management believes that at the end of the reporting period, there is no further credit provision required in excess of the allowance for impaired receivables.

Ageing of impaired trade and other receivables

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| 0 – 30 days | - | 12,377 |
| 31 – 60 days | - | 11,951 |
| 61 – 90 days | - | 13,260 |
| Over 90 days | 10,518 | 46,948 |
| | 10,518 | 84,536 |

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

12 TRADE AND OTHER RECEIVABLES (Cont'd)

(a) Advances to (from) subsidiaries, associates and joint venture

This comprises the following:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Kingston Free Zone Company Limited | 2,333 | ( 516) |
| Montego Bay Free Zone Company Limited | 586 | 1,678 |
| Ports Management and Security Limited | ( 5,972) | ( 804) |
| Port Authority Management Services | 98,727 | 75,133 |
| Boundbrook Wharves Development Limited | 12,626 | 6,172 |
| | 108,300 | 81,663 |
| Provision for impairment losses | ( 89,167) | (75,133) |
| | 19,133 | 6,530 |

These amounts are unsecured, non-interest bearing and have no stipulated repayment terms.

Movement in the allowance for impairment

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Balance at the beginning of the year | 75,133 | - |
| Impairment losses recognised | 14,034 | 75,133 |
| Balance at the end of the year | 89,167 | 75,133 |

13 **CASH AND SHORT-TERM DEPOSITS**

| | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| | | US$'000 | J$'000 | US$'000 | J$'000 |
| Cash | - J$ | - | 87,943 | - | 91,495 |
| | - US$ | 3,636 | 316,034 | 3,488 | 297,821 |
| Short-term deposits | - J$ | - | 465,906 | - | 158,854 |
| | - US$ | 6,844 | 594,947 | 13,396 | 1,144,005 |
| | | 10,480 | 1,464,830 | 16,884 | 1,692,175 |

Short-term deposits have an original maturity of three (3) months or less and are being held to meet short-term cash needs. Included in this balance are amounts totalling $206.13M (2011: $153.18M) designated in respect of the partial funding of fixed asset replacement (Note 14(f)) and wharfage reserves (Note 14(h)). The Jamaican dollar deposits are at interest rates ranging from 1.25% - 5.25% per annum (2011: 5.5% - 9%). The United States dollar deposits are at interest rates ranging from 0.45% - 3.8% (2011: 1.5% - 4.25%).



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14 **RESERVES**

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| General (Note 14(a)) | 359,450 | 359,450 |
| Capital (Note 14(b)) | 5,083,337 | 5,083,337 |
| Development (Note 14(c)) | 305,150 | 305,150 |
| Equalisation (Note 14(d)) | 1,630 | 1,630 |
| Stabilisation (Note 14(e)) | 32 | 32 |
| Fixed assets replacement (Note 14(f)) | 509,564 | 479,183 |
| Insurance (Note 14(g)) | 37,500 | 37,500 |
| Wharfage (Note 14(h)) | 79,591 | 57,365 |
| | 6,376,254 | 6,323,647 |

(a) General

This represents transfer from retained earnings at the discretion of the directors.

(b) Capital

This represents the unrealised surplus on the revaluation of property, plant and equipment.

(c) Development

This represents transfers from retained earnings at the discretion of the directors to provide for the expansion and/or improvement of the port facilities.

(d) Equalisation

This represents profits realised from the hiring of motor vessels for the Pilotage Department transferred from retained earnings.

(e) Stabilisation

This represents profits from the operation of a tug service on behalf of the Authority transferred from retained earnings.

(f) Fixed assets replacement

This represents transfers from retained earnings to offset the cost of replacing fixed assets. It is partially funded by bank deposits totalling $128.01 million (2011: $97.59 million) (Note 13).

This comprises:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Transfers from retained earnings | 613,550 | 583,169 |
| Amounts received from wharf operators from the Special Wharfage Fund as reimbursement to the Authority for certain capital expenditure | 4,996 | 4,996 |
| Amounts used to offset repairs to wharves | ( 31,330) | ( 31,330) |
| Amounts used to acquire property | ( 77,652) | ( 77,652) |
| | 509,564 | 479,183 |

This reserve is used to fund the operations at the Authority as well as the Container Terminal and Montego Bay operations.

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

14 **RESERVES (Cont'd)**

(g) Insurance reserve

This represents amounts transferred from retained earnings for an unfunded insurance reserve to provide for future insurance coverage of the Authority's assets.

(h) Wharfage reserve

This represents a percentage of gross wharfage revenue that is transferred annually to a reserve fund for any port development and expenditure. The percentage transferred for the year represents 16% (2011: 16%) of total direct gross wharfage revenue. It is partially funded by bank deposits totalling $78.12 million (2011: $55.59 million) (Note 13).

| This comprises: | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Transfers from retained earnings | 204,889 | 182,663 |
| Amount drawn down for property purchase | (125,298) | (125,298) |
| | 79,591 | 57,365 |

15 **LONG-TERM LIABILITIES**

| These comprise: | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| (a) Non-government loans | | |
| Foreign currency loans (Note 15(c)) | 24,411,927 | 25,890,136 |
| (b) Government loans (Note 15(d)) | | |
| Local currency loans | 30,974 | 30,974 |
| Foreign currency loans | 10,922,034 | 11,360,105 |
| | 10,953,008 | 11,391,079 |
| | 35,364,935 | 37,281,215 |
| Loan interest payable | 325,341 | 338,714 |
| Prepaid credit insurance (Note 15(f)) | ( 995,283) | ( 1,322,513) |
| | 34,694,993 | 36,297,416 |
| Current portion: | | |
| Long-term liabilities | ( 4,646,720) | ( 3,818,807) |
| Prepaid credit insurance | 242,584 | 298,989 |
| Current portion of long-term liabilities | ( 4,404,136) | ( 3,519,818) |
| Non-current portion of long-term liabilities | 30,290,857 | 32,777,598 |





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

15 **LONG-TERM LIABILITIES (Cont'd)**

(c) Non-government loans

| Interest Rate % | Lender | Repayment Instalments | | 2012 Foreign Currency $'000 | 2012 JMD $'000 | 2011 Foreign Currency $'000 | 2011 JMD $'000 |
|---|---|---|---|---|---|---|---|
| Foreign currency loans | | | | | | | |
| 5.21 | HSBC S/Carrier – $23.27M | Semi-annually until 2014/2015 | US$ | 8,262 | 721,260 | 11,033 | 946,098 |
| LIBOR + 1.50 | HSBC US$121.65M (Falmouth Cruise Ship Development) | Semi-annually until 2020/2021 | US$ | 99,723 | 8,705,825 | 100,692 | 8,634,192 |
| 3.00 | European Investment Bank Loan #1.7391 | Semi-annually until 2015/2016) | US$ | 900 | 78,583 | 1,133 | 97,180 |
| | MBFZ 70 Acre | ) | YEN | 8,145 | 8,642 | 10,255 | 10,589 |
| | | ) | SF | 558 | 53,645 | 702 | 65,254 |
| | | ) | STRL | 44 | 6,059 | 55 | 7,518 |
| | | ) | EURO | 60 | 6,975 | 76 | 9,173 |
| 3.00 | European Investment Bank Loan #20.729 (KCT 3 WESTERN EXPANSION) (Note 15(h)) | Annually until 2020/2021 | EURO | 7,826 | 906,857 | 8,574 | 1,036,384 |
| 3.56 | European Investment Bank Loan #20.553 (KCT 3 WESTERN EXPANSION) (Note 15(h)) | Semi-annually until 2019/2020 | US$ | 17,384 | 1,517,602 | 19,253 | 1,650,916 |
| 3.38 | European Investment Bank Loan #1.8902 | Semi-annually until 2016/2017 ) | US$ | 7,677 | 670,235 | 9,234 | 791,811 |
| | Gordon Cay | ) | SF | 607 | 58,342 | 729 | 67,796 |
| | | ) | STRL | 216 | 30,046 | 259 | 35,619 |
| 3.79 | Exim Bank of China – BLA03046 | Semi-annually 2012/2013 | US$ | 1,474 | 128,720 | 4,423 | 379,260 |
| 5.9 | Exim Bank of China – BLASH 2006001 | Semi-annually 2013/2014 | US$ | 3,804 | 332,067 | 5,725 | 490,929 |
| Nil | Commerzbank | Semi-annually until 2015/2016 ) | EURO | 1,991 | 230,714 | 2,489 | 300,847 |
| LIBOR +0.25 | Wachovia Bank N.A. X-ray Loan – Tranche A | Semi-annually until 2014/2015 | US$ | 5,014 | 437,724 | 6,600 | 565,943 |
| LIBOR +0.25 | Wachovia Bank N.A. X-ray Loan – Tranche B | Semi-annually until 2016/2017 | US$ | 1,375 | 119,995 | 1,637 | 140,367 |
| | Carried forward | | | | 14,013,291 | | 15,229,876 |

## NOTES TO THE FINANCIAL STATEMENTS
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15 **LONG-TERM LIABILITIES (Cont'd)**

(c) Non-government loans (Cont'd)

| Interest Rate % | Lender | Repayment Instalments | | 2012 Foreign Currency $'000 | 2012 JMD $'000 | 2011 Foreign Currency $'000 | 2011 JMD $'000 |
|---|---|---|---|---|---|---|---|
| Foreign currency loans (Cont'd) | | | | | | | |
| | Brought forward | | | | 14,013,291 | | 15,229,876 |
| Greater of LIBOR + 2.875 or 7.25 | Bank of Nova Scotia (US$17M) (Note 15(i)(i)) | Quarterly until 2017/2018 | US$ | - | - | 14,693 | 1,259,869 |
| 8.755 | Bank of Nova Scotia (US$44M) refinanced (Note 15(i)(ii))* | Quarterly until 2020/2021 | US$ | 36,244 | 3,164,079 | 36,192 | 3,103,423 |
| 5.97 | Bank of Nova Scotia – Europe (US$48.65M) | Quarterly until 2017/2018 | US$ | 27,942 | 2,439,304 | 32,805 | 2,812,988 |
| 8.95 | Bank of Nova Scotia – (US$39.4M) refinanced (Note 15(i)(iii))* | Quarterly until 2021/2022 | US$ | 39,344 | 3,434,692 | 39,358 | 3,374,895 |
| LIBOR+3.50 | FirstCaribbean International Bank (Note 15(j)) | Quarterly until 2021/2022 | US$ | 14,040 | 1,225,725 | - | - |
| 3.57 | Insurance Financing | Monthly until 2012/2013 | US$ | 1,545 | 134,836 | 1,266 | 108,526 |
| 5.0 | Governments of Jamaica and the Netherlands | No fixed terms | NKR | - | - | 1,622 | 559 |
| **TOTAL** | | | | | 24,411,927 | | 25,890,136 |
| Secured | | | | | | | |
| Guaranteed by the Government of Jamaica | | | | | 19,329,568 | | 20,711,449 |
| Letters of undertaking by the Government of Jamaica | | | | | 3,164,079 | | 3,103,423 |
| Charge on the assets (Note 5(d)) | | | | | 557,719 | | 1,966,738 |
| Unsecured - Evidenced by Promissory Notes | | | | | 1,360,561 | | 108,526 |
| | | | | | 24,411,927 | | 25,890,136 |

LIBOR at March 31, 2012 was 0.74875% (2011: 0.4640%)

Prime at March 31, 2012 was 3.25% (2011: 3.25%).

* These loans were restructured in 2008/2009 resulting in an extension of the repayment period (Note 15(i)).





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

15 **LONG-TERM LIABILITIES (Cont'd)**

(d) Government of Jamaica (GOJ) - loans

*Local currency loans*

| | | | 2012 $'000 | | 2011 $'000 |
|---|---|---|---|---|---|
| (i) | Purchase of lands at Gordon Cay<br>Interest<br>Rate % | | | | |
| | Prime + 1.25 ) | | 7,500 | | 7,500 |
| | LIBOR + 2 ) | | 4,100 | | 4,100 |
| | | | 11,600 | | 11,600 |
| | Add: Accrued interest | | 7,770 | | 7,770 |
| | | | 19,370 | | 19,370 |
| (ii) | Purchase of Montego Wharves<br>12% payable semi-annually 1991-1996,<br>to be evidenced by promissory notes | | 10,098 | | 10,098 |
| | Add: Accrued interest capitalised | | 16,938 | | 16,938 |
| | | | 27,036 | | 27,036 |
| (iii) | Payments to the Accountant General (Note 15(e)) | | (15,091) | | (15,091) |
| (iv) | Payment of Caribbean Development Bank loan for GOJ - Ocho Rios Cruise Ship Pier | | (341) | | (341) |
| | | | 30,974 | | 30,974 |
| *Foreign currency loans* | | US$'000 | | US$'000 | |
| (v) | GOJ Petrocaribe<br>5% payable semi-annually in arrears 2008 – 2021 (US$11 million) | 7,666 | 669,253 | 8,523 | 730,823 |
| | 5% payable semi-annually in arrears 2008 – 2023 (US$22 million) (evidenced by promissory notes) | 16,583 | 1,447,720 | 17,971 | 1,540,994 |
| | 6.5% payable semi-annually in arrears 2012 – 2028 (US$100M) (evidenced by promissory notes) (Note 15(i)(iv)) | 94,364 | 8,237,985 | 99,911 | 8,567,252 |
| | 5% payable semi-annually in arrears 2013 – 2035 (US$30 million) (evidenced by promissory notes) (Note 15(i)(v)) | 6,496 | 567,076 | 6,076 | 521,036 |
| | | | 10,922,034 | | 11,360,105 |
| | | | 10,953,008 | | 11,391,079 |

(e) Payments to Accountant General

The payment of $15.091 million (Note 15(d)(iii)) has been applied in the reduction of loans payable to the GOJ.

(f) Prepaid credit insurance

This represents credit insurance on certain long-term loans. This amount is being amortised over the respective lives (5 - 11 years) of these loans.

(g) The loans from the GOJ, including the Petrocaribe loans, are unsecured.

## NOTES TO THE FINANCIAL STATEMENTS
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15 **LONG-TERM LIABILITIES (Cont'd)**

(h) In accordance with the loan agreements, a deposit is maintained in an offshore bank trust account to cover a specific ratio in respect of the aggregate principal on loans outstanding (Note 9(i)).

(i) Loans with moratorium on repayment

i) The loan from Bank of Nova Scotia of US$17 million was for a period of 10 years inclusive of a 2 year moratorium on principal repayments. Quarterly principal repayments commenced on September 1, 2009 with a final lump sum principal payment due on July 1, 2019. During the year, the loan was settled in full.
ii) Bank of Nova Scotia (US$44M) – the principal amount is repayable in 34 equal quarterly instalments commencing May 15, 2012.
iii) Bank of Nova Scotia (US$39.4M) – the principal is repayable in 44 equal quarterly instalments commencing May 15, 2012.
iv) The Petrocaribe loan of US$100 million was disbursed in tranches, and the entire amount was received by the end of March 31, 2011. The loan is for a period of 20 years inclusive of a 2 year moratorium and is repayable in 36 semi-annual instalments which commenced June 30, 2011.
v) The Petrocaribe loan of US$30 million is a non-revolving loan to be disbursed in tranches. The loan is for a period of 25 years inclusive of a 4 year moratorium on principal balance and a 2 year moratorium on interest payments. The loan is repayable in semi-annual instalments commencing September 1, 2013. At the end of the reporting period, interest capitalised amounted to US$0.288 million (2011: US$0.166 million).

(j) The loan from First Caribbean International Bank Limited was disbursed on September 1, 2011. The loan is for a period of 10 years and principal is repayable in 39 equal quarterly installments which commenced December 2011. Interest is charged at a rate of LIBOR plus 3.5% per annum.

(k) Breach of loan agreements

During 2010/2011, the Authority was late in making payment of certain loan installments with carrying amounts as noted below. The loan installments outstanding in the respect currencies as noted below were paid in full prior to the end of that reporting period, including interest and penalties. In respect of the current reporting period, the Authority did not meet certain debt covenant ratios. The lenders did not request accelerated repayment of the loans and the terms of the loans were not changed.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying amount of loan | Principal and interest in breach | Carrying amount of loan | Principal and interest in breach |
| | $'000 | $'000 | $'000 | $'000 |
| Euro | - | - | 8,655 | 1,015 |
| Swiss Francs | - | - | 702 | 82 |
| Pounds | - | - | 55 | 6 |
| Japan | - | - | 10,260 | 1,191 |
| United States | - | - | 1,133 | 132 |

16 **DEFERRED INCOME**

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Balance, beginning of the period | 516,045 | 273,898 |
| Additions during the year (Note 16(b)(iii)) | - | 277,700 |
| Amortised during the year | ( 35,553) | ( 35,553) |
| Balance, end of the period | 480,492 | 516,045 |
| Comprising: | | |
| Grants received (Note 16(a)) | 81,443 | 100,058 |
| Assets transferred (Note 16(b)) | 399,049 | 415,987 |
| | 480,492 | 516,045 |



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16 **DEFERRED INCOME (Cont'd)**

This represents:

(a) Two grants that were received during 2010/2011 from the Netherlands Government in respect of:

(i) Construction of a tug;
(ii) Dredging of ship's channel at Kingston Harbour.

The two grants are being amortised over 20 years.

(b) This represents:

(i) The transfer of lighthouses and associated buildings to the Authority by the Government of Jamaica. The grant is being amortised over 40 years, the lives of the respective assets.

(ii) Transfer of land valued at $19.5 million in 2009/2010 to the Authority by the Government of Jamaica. The grant is being amortised over 40 years which is the period equivalent to the life of the building on the property.

(iii) Transfer of Boundbrook land and building valued at $198.5 million and Boundbrook land (Marina section) valued at $79.2 million to the Authority during 2010/2011 by the Government of Jamaica for development of the Port Antonio Marina. The grants are being amortised over the lives of the buildings of 20 years and 33 years respectively.

17 **POST EMPLOYMENT BENEFITS**

*Defined benefit pension plans*
The Authority has established a defined benefit plan for its employees (in its employ subsequent to July 31, 2007). The Plan is administered by Trustees and managed by Guardian Life Limited.

The Plan is funded by contributions from the employees and the Authority. The employees contribute at a rate of 5% of annual pensionable salaries and may also elect to pay additional voluntary contributions of 5% of pensionable salaries in order to secure additional benefits on retirement or otherwise. Pension benefits are determined on a prescribed basis and are payable at a rate of 2% of the employee's average earnings over the three years prior to retirement from the fund times the number of years pensionable service. Normal retirement is 65 years.

The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligations were carried out on June 20, 2012 (2011: July 5, 2011) by Duggan Consulting Limited, Fellow of the Institute of Actuaries. This valuation was in respect of balances at March 31, 2012 (2011: March 31, 2011). The present value of the defined benefit obligation and the related current service cost were measured using the projected unit credit method.

*Retiree medical and group life plan*
The Authority provides health benefits to certain retired employees of a company that previously managed one of its operations.

The most recent actuarial valuation of the retiree medical plan assets and the present values of the obligations were carried out at April 30, 2012 (2011: April 21, 2011) by Eckler Partners Limited (Consulting Actuaries) in respect of obligations as at March 31, 2012 (2011: March 31, 2011). The present value of the obligation and the related current service costs and past service cost, were measured using the projected unit credit method.

(a) Key assumptions used:

| | 2012 | 2011 |
|---|---|---|
| Expected return on plan assets | 7.5% | 10.0% |
| Future salary increases | 5.0% | 7.5% |
| Discount rates | 10.0% | 10.5% |
| Health cost inflation | 8.0% | 10.0% |

## NOTES TO THE FINANCIAL STATEMENTS
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**17 POST EMPLOYMENT BENEFITS (Cont'd)**

(b) Amounts included in the statement of financial position in respect of these plans are as follows:

| | Defined Benefit Plan | | Retiree Medical Plan | | Total | Total |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Present value of obligation | 84,761 | 71,660 | 30,893 | 32,260 | 115,654 | 103,920 |
| Fair value of plan assets | (24,348) | (30,934) | - | - | ( 24,348) | ( 30,934) |
| | 60,413 | 40,726 | 30,893 | 32,260 | 91,306 | 72,986 |
| Unrecognised actuarial (loss) gains | (32,240) | (10,603) | 3,333 | 2,069 | ( 28,907) | ( 8,534) |
| Net liability recognised in statement of financial position | 28,173 | 30,123 | 34,226 | 34,329 | 62,399 | 64,452 |

(c) Movements in the net liability (asset) in the year were as follows:

| | Defined Benefit Plan | | Retiree Medical Plan | | Total | Total |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance, beginning of the period | 30,123 | ( 7,813) | 34,329 | 32,042 | 64,452 | 24,229 |
| Amounts charged to expense | 6,756 | 45,636 | 3,044 | 5,713 | 9,800 | 51,349 |
| Contributions by employer | ( 8,706) | ( 7,700) | ( 3,147) | ( 3,426) | (11,853) | (11,126) |
| Balance, end of the period | 28,173 | 30,123 | 34,226 | 34,329 | 62,399 | 64,452 |

(d) Amounts recognised in the statement of comprehensive income in respect of the plans are as follows:

| | Defined Benefit Plan | | Retiree Medical Plan | | Total | Total |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Current service cost | 1,616 | 1,235 | - | - | 1,616 | 1,235 |
| Past service cost – vested benefits | - | 44,696 | - | - | - | 44,696 |
| Interest cost | 6,990 | 2,196 | 3,222 | 3,750 | 10,212 | 5,946 |
| Recognised actuarial loss (gain) | 264 | 123 | ( 178) | 1,963 | 86 | 2,086 |
| Expected return on plan asset | (2,114) | ( 2,614) | - | - | ( 2,114) | ( 2,614) |
| Total included in employee benefit expense | 6,756 | 45,636 | 3,044 | 5,713 | 9,800 | 51,349 |
| Actual return on plan assets | 2,430 | 1,942 | - | - | 2,430 | 1,942 |



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## YEAR ENDED MARCH 31, 2012

**17 POST EMPLOYMENT BENEFITS (Cont'd)**

(e) Changes in the present value of the defined benefit obligation were as follows:

| | Defined Benefit Plan | | Retiree Medical Plans | | Total | Total |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Opening defined benefit obligation | 71,660 | 14,556 | 32,260 | 34,319 | 103,920 | 48,875 |
| Current service cost | 1,616 | 1,235 | - | - | 1,616 | 1,235 |
| Past service cost – vested benefits | - | 44,696 | - | - | - | 44,696 |
| Interest cost | 6,990 | 2,196 | 3,222 | 3,750 | 10,212 | 5,946 |
| Contributions from plan participants | 4,963 | 4,348 | - | - | 4,963 | 4,348 |
| Benefits paid | (22,685) | ( 1,595) | ( 3,147) | ( 3,426) | ( 25,832) | ( 5,021) |
| Actuarial loss (gain) | 22,217 | 6,224 | ( 1,442) | ( 2,383) | 20,775 | 3,841 |
| Closing defined benefit obligation | 84,761 | 71,660 | 30,893 | 32,260 | 115,654 | 103,920 |

(f) Movement in the present value of the plan assets in the current period were as follows:

| | Defined Benefit Plan | | Retiree Medical Plan | | Total | Total |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Opening fair value of plan assets | 30,934 | 18,539 | - | - | 30,934 | 18,539 |
| Expected return on plan assets | 2,114 | 2,614 | - | - | 2,114 | 2,614 |
| Contributions - employer | 8,706 | 7,700 | - | - | 8,706 | 7,700 |
| - employees | 4,963 | 4,348 | - | - | 4,963 | 4,348 |
| Benefits paid | (22,685) | ( 1,595) | - | - | (22,685) | ( 1,595) |
| Actuarial gain (loss) | 316 | ( 672) | - | - | 316 | ( 672) |
| Closing fair value of the plan assets | 24,348 | 30,934 | - | - | 24,348 | 30,934 |

(g) The history of experience adjustments is as follows:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Defined Benefit Plan | | | | | |
| Present value of defined benefit obligation | (84,761) | (71,660) | (14,556) | ( 4,349) | - |
| Fair value of plan assets | 24,348 | 30,934 | 18,539 | 6,693 | - |
| Fund (deficit) surplus | (60,413) | (40,726) | 3,983 | 2,344 | - |
| Experience adjustment on plan liabilities | 22,217 | 6,224 | 6,419 | ( 2,180) | - |
| Experience adjustment on plan assets | 316 | ( 672) | 593 | 96 | - |
| Retiree Medical Plan | | | | | |
| Present value of defined benefit obligation | 30,893 | 32,260 | 34,319 | 28,675 | 29,021 |
| Deficit | 30,893 | 32,260 | 34,319 | 28,675 | 29,021 |
| Experience adjustment on plan liabilities | ( 1,442) | ( 2,383) | 3,751 | ( 108) | ( 8,304) |

Impact of 1% Increase/Decrease in medical inflation rate in the Retiree Medical Plan

| | 2012 @9% | 2012 @7% |
|---|---|---|
| Revised interest cost | 3,347 | 2,850 |
| Revised accumulated benefit obligation | 31,109 | 26,990 |

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

17 **POST EMPLOYMENT BENEFITS (Cont'd)**

(g) (Cont'd)

The Authority expects to make a contribution of $7.063 million (2011: $7.18 million) to the health benefit scheme and $8.66 million (2011: $39.03 million) to the defined benefit plan during the next financial year.

18 **PROVISIONS**

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| At beginning of the period | 56,756 | 69,107 |
| Provision for the year | 51,899 | 55,068 |
| Utilised for the year | (38,092) | (67,419) |
| At end of the period | 70,563 | 56,756 |

This represents amounts provided for in respect of annual vacation leave entitlement for employees.

19 **TRADE PAYABLES AND ACCRUALS**

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Trade | 236,091 | 233,501 |
| Amounts to be disbursed in respect of specific projects | 808,444 | 336,524 |
| Accruals | 916,376 | 613,180 |
| Due to related party – Montego Bay Freezone (Note 19(a)) | 100,000 | 100,000 |
| Other payables | 175,569 | 230,100 |
| | 2,236,480 | 1,513,305 |

(a) This amount is unsecured, non-interest bearing and has no stipulated repayment terms.

20 **REVENUE**

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Port fees | 8,408,924 | 8,542,226 |
| Facility fees – net | 1,891,470 | 804,482 |
| Investment properties – fair value adjustment (Note 6) | 262,151 | 213,215 |
| Wharfage | 772,403 | 770,941 |
| Harbour fees | 581,129 | 499,605 |
| Tug fees | 478,541 | 470,555 |
| Equipment lease (Note 20(a)) | 587,216 | 582,850 |
| Land and building lease (Note 20(b)) | 161,520 | 155,765 |
| Port Antonio Marina | 70,305 | 48,559 |
| Foreign currency gain | 83,810 | - |
| Oil royalty | 93,114 | 93,664 |
| Pilotage | 74,484 | 66,789 |
| Other (Note 20(c)) | 427,315 | 259,181 |
| | 13,892,382 | 12,507,832 |

(a) Equipment lease includes charges for equipment rented to the subsidiary company, Ports Management and Security Company Limited of $550.78 million (2011: $530.72 million).





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

20 **REVENUE** (Cont'd)

(b) Land and building lease includes charges to Kingston Free Zone Company Limited of $29.55 million (2011: $29.66 million) and charges to Montego Bay Free Zone Company Limited of $131.97 million (2011: $119.11 million).

(c) Other income includes management fees from Jamaica International Free Zone Development Limited of $3.5 million (2011: $3.5 million), Kingston Free Zone Company Limited of $3.5 million (2011: $3.5 million) Ports Management and Security Company Limited of $16.5 million (2011: $16.5 million), Port Authority Management Services Limited of $18.24 million (2011: $18.24 million) and rental from other investment properties of $12.27 million (2011: $12.18 million).

21 **FINANCE CHARGES AND INTEREST ON LOANS**

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Interest on long-term liabilities | 1,882,483 | 1,956,491 |
| Interest on overdraft and other finance charges | 101,072 | 163,589 |
| | 1,983,555 | 2,120,080 |
| Less amount included in additions to property, plant and equipment (Note 5(c)) | ( 16,537) | ( 141,741) |
| | 1,967,018 | 1,978,339 |

22 **NET PROFIT**

Net profit is stated after taking into account the following items:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| a) Revenue (expense): | | |
| Interest income on financial assets at amortised cost | | |
| - Long-term receivables | 2,700 | 4,887 |
| - Short-term deposits | 48,333 | 100,377 |
| - Other investments | 1,785 | 2,112 |
| | 52,818 | 107,376 |
| Finance charges and interest on loans at amortised cost | (1,967,018) | (1,978,339) |
| Impairment recoveries (losses) on financial assets at amortised cost | | |
| Trade and other receivables | | |
| - Trade | 2,464 | ( 37,939) |
| - Advances to subsidiaries, associates and joint venture | ( 14,034) | ( 75,133) |
| b) Gains (losses) | | |
| Net foreign exchange (losses) gains on financial instruments at amortised costs | | |
| - Foreign currency loans | ( 589,673) | 1,504,046 |
| - Short-term deposits and other investments | 83,810 | ( 194,255) |

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

22 **NET SURPLUS** (Cont'd)

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| c) Other | | |
| Audit fees (Authority and managed operations) | | |
| - current year | 11,584 | 9,840 |
| - prior year | 367 | - |
| Cost of inventories recognised in expenses | 1,083,085 | 955,511 |
| Loss on disposal of investment properties | 20,376 | 37,982 |
| Loss on disposal of property, plant and equipment | 26 | 36 |
| Loss on adjustment of property, plant and equipment | - | 11,571 |
| Depreciation and amortisation | 1,887,562 | 1,579,194 |
| Fair value gain on investment properties | 262,151 | 213,215 |

23 **COMMITMENTS AND CONTINGENT LIABILITIES**

*Capital commitments*

At the end of the reporting period, approximately $1.108 billion (2011: $3.635 billion) had been committed and contracted by the Authority for KCT trolley rail, paver block and berth expansion projects, purchase of lands at Falmouth and other projects. In respect of the prior year, commitments related to Falmouth Cruise Ship Development and other projects. Commitments in respect of a 3 year contract for the maintenance of the X-ray machines amounting to $402.75 million (US$4.613 million) (2011: $170.2 million (US$1.991 million)) have been authorised but not contracted for at year end.

*Contingent liabilities*

a) The following legal proceedings were initiated against the Authority at the end of the reporting period. Management believes these actions will not be successful and consequently no provisions have been made in these financial statements.

(i) Claim of US$5.056 million in respect of monies reportedly spent by the claimant in respect of premises owned by the Authority.

(ii) Claims of $16.237 million in respect of compensation for injuries sustained at one of the Authority's Managed Operations which are in excess of the Employer's Liability Insurance policy limit of the Authority.

b) Trade payables and accruals include amounts payable to a statutory agency. The Authority could be subject to penalties and interest on the outstanding balance however, at year end penalties and interest, if any, had not been determined.

*Other contingency*

During the year, a managed operation of the Authority paid Special Consumption Taxes (SCT) on fuel used in trans-shipment operations, reflecting the related amounts as recoverable in the financial statements. The Tax Administration Jamaica (TAJ) in a letter dated November 3, 2011, represented that these costs should be borne by the Authority's managed operation. The Ministry of Finance and Planning, by letter dated July 31, 2012, has committed to reviewing the position of the TAJ in keeping with the request for a waiver of the SCT by the managed operation as at March 31, 2012.

24 **OPERATING LEASE ARRANGEMENTS**

Operating leases relate primarily to the investment properties and equipment owned by the Authority with lease terms between 1 to 5 years. The lessee does not have an option to purchase the property or the equipment at the expiry of the lease period.

Rental earned during the year comprised:

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Equipment | 550,779 | 530,719 |
| Property | 177,426 | 173,534 |
| | 728,205 | 704,253 |





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

24 OPERATING LEASE ARRANGEMENTS (Cont'd)

At the end of the reporting period, the Authority contracted with its lessees for the following future minimum lease payments.

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | 730,463 | 707,030 |
| In the second to fifth years inclusive | 1,704,743 | 1,214,577 |
| | 2,435,206 | 1,921,607 |

25 **RELATED PARTY TRANSACTIONS/BALANCES**

*Transactions and balances*

During the year, the Authority entered into transactions with affiliated entities and key management personnel, including members of the Board of Directors. The following is a summary of the transactions and balances:

| | Lease rental | | Other | | Balance due from (to) | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Subsidiaries | | | | | | |
| Jamaica International Free Zone Development Limited | - | - | - | - | 86,327 | 80,807 |
| Kingston Free Zone Company Limited | 29,551 | 29,658 | 3,500 | 3,500 | 2,333 | ( 516) |
| Montego Bay Free Zone Company Limited | 131,969 | 119,107 | 3,500 | 3,500 | (103,914) | (102,822) |
| Ports Management and Security Limited | 550,779 | 530,719 | 16,500 | 16,500 | 112,033 | 54,023 |
| Port Authority Management Services Limited | - | - | 18,236 | 18,236 | 98,727 | 75,133 |
| | 712,299 | 679,484 | 41,736 | 41,736 | 195,506 | 106,625 |
| Provision for impairment (Note 12(a)) | - | - | - | - | ( 89,167) | ( 75,133) |
| Joint venture | | | | | | |
| Boundbrook Wharves Development Limited | - | - | - | - | 12,626 | 5,277 |
| | 712,299 | 679,484 | 41,736 | 41,736 | 118,965 | 36,769 |
| Included in the following balances: | | | | | | |
| Long-term receivables (Note 10(d)) | - | - | - | - | 81,827 | 75,412 |
| Trade and other receivables (Note 12) | - | - | - | - | 137,138 | 61,357 |
| Trade and other payables (Note 19(a)) | - | - | - | - | (100,000) | (100,000) |
| | - | - | - | - | 118,965 | 36,769 |
| Key management personnel | - | - | 12,246 | 13,286 | 29,567 | 39,334 |

## NOTES TO THE FINANCIAL STATEMENTS
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25 **RELATED PARTY TRANSACTIONS/BALANCES (Cont'd)**

The remuneration of directors, committee members and other key members of management during the year was as follows:

*Key management personnel*

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Short-term benefits | 226,398 | 200,335 |
| Pension | 7,503 | 1,677 |
| | 233,901 | 202,012 |

The remuneration of the above is determined by the Board of Directors under the guidelines set by the Ministry of Finance, having regard to the performance of individuals and market trends.

*Board of Directors and Committee members (excluding those included above)*

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Short-term benefits (directors fees) | 1,749 | 2,244 |

Interest on staff loans
Interest earned on loans to employees amounted to $6.572 million (2011: $7.714 million).

26 **FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial assets, financial liability and equity instruments are disclosed in Note 3 to the financial statements.

*Categories of financial instruments*

The following table sets out the financial instruments as at the end of the reporting period:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Financial Assets** | | |
| Available for sale (at cost) | | |
| Investment in subsidiary, joint venture and associated companies | 30,508 | 30,508 |
| Loans and receivables at amortised cost | | |
| Other investments | 568,033 | 557,068 |
| Long-term receivables | 817,173 | 594,926 |
| Trade and other receivables | 2,603,934 | 2,293,747 |
| Cash and short-term deposits | 1,464,830 | 1,692,175 |
| | 5,453,970 | 5,137,916 |
| Total Financial Assets | 5,484,478 | 5,168,424 |



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26 **FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)**

*Categories of financial instruments (Cont'd)*

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Financial Liabilities** | | |
| Long-term liabilities | 34,694,993 | 36,297,416 |
| Trade and other payables | 1,320,104 | 900,125 |
| Bank overdraft | 38,843 | 85,670 |
| Total Financial Liabilities | 36,053,940 | 37,283,211 |

**Financial risk management policies and objectives**

The Authority's activities involve the use of financial instruments.

The Authority has exposure to the following risks from its use of its financial instruments: market risk, credit risk and liquidity risk.

Financial risk management objectives
The Authority's activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Authority's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Authority's financial performance.

The Authority's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Authority regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The Board of Directors is ultimately responsible for the establishment and oversight of the Authority's risk management framework. Its directives are carried out through the Finance Committee, Audit Committee, Internal Audit Department and Procurement Sector Committee.

*Finance Committee*

This Management Committee has direct responsibility for the management of the statement of financial position and overall financial structure which includes liquidity, interest rate and foreign currency risks management.

*Audit Committee*

The Audit Committee has oversight for the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and risk management procedures.

*The Internal Audit Department*

The Internal Audit Department has responsibility for ensuring the effectiveness and adequacy of risk management, internal controls and procedures and conducts both ad hoc and regular reviews. The Internal Audit Department reports the result of all findings to the Audit Committee, who reports the findings, recommendations and management responses to the Board of Directors.

*Procurement Sector Committee*

The committee has overall responsibility for the monitoring of procurement activities of the Authority, including procurement of contracts and the evaluation and monitoring of costs incurred.

There has been no change in the Authority's exposure to these financial risks or manner in which it manages and measures risk during the period.

## NOTES TO THE FINANCIAL STATEMENTS
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26 **FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)**

**Financial risk management policies and objectives (Cont'd)**

Exposures are measured using sensitivity analyses indicated below.

(a) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Authority's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as disclosed in Note 26(b) below as well as interest rates as disclosed in Note 26(c) below.

Management of market risk
The Authority manages this risk by conducting market research and ensuring that its net exposure is kept to an acceptable level. Market risk exposures are measured using sensitivity analyses.

There has been no change to the Authority's exposure to market risk or the manner in which it manages and measures the risk.

(b) Foreign currency risk management

The Authority undertakes transactions denominated in currencies other than the Jamaican dollar resulting in exposures to exchange rate fluctuation.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Authority manages its exposure in this regard by constant monitoring of international foreign exchange markets and factors influencing currency movements and positioning its foreign currency assets and liabilities and by ensuring that the net exposure of such assets and liabilities is kept to an acceptable level. The Authority further manages the risk by maximising foreign currency earnings and holdings in foreign currency balances.

At March 31, 2012, the Authority had US$ denominated investments amounting to US$16.698 million (2011: US$23.102 million) of which US$6.221 million (2011: US$6.218 million) (Note 9(i)) is required to be held under the terms of certain loan agreements with outstanding balances amounting to US$17.384 million and €7.826 million (2011: US$19.253 million and €8.574 million ) (Note 15(c)) at the end of the reporting period.

The carrying amounts of the Authority's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | | Net liabilities | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | J$'000 | J$'000 | J$'000 | J$'000 | J$'000 | J$'000 |
| United States Dollar | 34,978,194 | 36,232,945 | 4,292,886 | 4,499,542 | 30,685,308 | 31,733,403 |
| Japanese yen | 8,747 | 10,715 | - | - | 8,747 | 10,715 |
| Swiss franc | 113,044 | 134,301 | - | - | 113,044 | 134,301 |
| Pound sterling | 36,388 | 43,476 | - | - | 36,388 | 43,476 |
| EURO | 1,164,279 | 1,368,882 | - | - | 1,164,279 | 1,368,882 |
| NKR | - | 1,213 | - | - | - | 1,213 |



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26 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

(b) Foreign currency risk management (Cont'd)

Foreign currency sensitivity analysis
The Authority's most significant currency exposure is to the United States dollar. The following table details the Authority's sensitivity to a 0.5% revaluation and 1% devaluation (2011: 0.5% revaluation and 1% devaluation) in the Jamaican dollar against the relevant foreign currencies. The above sensitivity rates are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the percentage changes as in foreign currency rates as described above. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the borrower.

If the Jamaican dollar strengthens 0.5% or weakens by 1% against the relevant currencies, (2011: strengthens by 0.5% or weakens by 1%) income will increase or decrease by:

| | Revaluation | | Devaluation | | Revaluation | | Devaluation | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | 2012 | | 2011 | | 2011 | |
| | Change in Currency rates | | Change in Currency rates | | Change in Currency rates | | Change in Currency rates | |
| | % | $'000 | % | $'000 | % | $'000 | % | $'000 |
| **Currency** | | | | | | | | |
| United States dollar | +0.5 | 153,427 | -1 | 306,853 | +0.5 | 158,667 | -1 | 317,334 |
| Japanese yen | +0.5 | 44 | -1 | 87 | +0.5 | 54 | -1 | 108 |
| Swiss franc | +0.5 | 565 | -1 | 1,130 | +0.5 | 672 | -1 | 1,344 |
| Pound sterling | +0.5 | 182 | -1 | 364 | +0.5 | 217 | -1 | 434 |
| EURO | +0.5 | 5,821 | -1 | 11,643 | +0.5 | 6,844 | -1 | 13,688 |
| NKR | +0.5 | - | -1 | - | +0.5 | 6 | -1 | 12 |

This is mainly attributable to the exposure outstanding on cash and cash equivalents, receivables, payables and long-term loans in the respective currency at the end of the reporting period.

The Authority's sensitivity to foreign currency has decreased during the period due to the repayment of loans as well as decreased investment in bank deposits.

(c) Interest rate risk

Interest rate risk is the potential that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial instruments subject to fixed interest rates are exposed to fair value interest rate risk while those subject to floating interest rates are exposed to cash flow interest rate risk.

The Authority is exposed to significant interest rate risk as it borrows funds at both fixed and floating interest rates.

Management of interest rate risk
The risk is managed by the Authority by maintaining an appropriate mix between fixed and floating rate borrowings by monitoring the movements in the market interest rates closely. The Authority's exposure to interest rates on financial assets and financial liabilities is detailed below.

## NOTES TO THE FINANCIAL STATEMENTS
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26 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

(c) Interest rate risk (Cont'd)

The table below summarises the Authority's exposure to interest rate risk at the end of the reporting period at the earlier of the repricing or maturity date.

| | Less than 3 Months | 3 Months to 1 Year | 1-5 Years | Over 5 Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At March 31, 2012** | | | | | | |
| **Assets** | | | | | | |
| Investment in subsidiary, joint venture and associated companies | - | - | - | - | 30,508 | 30,508 |
| Long-term receivables | 117 | 356 | 5,653 | 15,270 | 795,777 | 817,173 |
| Other investments | - | 27,140 | 540,893 | - | - | 568,033 |
| Trade and other receivables | - | - | - | - | 2,603,934 | 2,603,934 |
| Cash and short-term deposits | 1,429,711 | - | - | - | 35,119 | 1,464,830 |
| Total assets | 1,429,828 | 27,496 | 546,546 | 15,270 | 3,465,338 | 5,484,478 |
| **Liabilities** | | | | | | |
| Long-term liabilities | 905,822 | 3,458,004 | 14,622,529 | 15,708,638 | - | 34,694,993 |
| Trade payables and accruals | - | - | - | - | 1,320,104 | 1,320,104 |
| Bank overdraft (unsecured) | 38,843 | - | - | - | - | 38,843 |
| Total liabilities | 944,665 | 3,458,004 | 14,622,529 | 15,708,638 | 1,320,104 | 36,053,940 |
| Total interest rate sensitivity gap | 485,163 | (3,430,508) | (14,075,983) | (15,693,368) | 2,145,234 | (30,569,462) |
| Cumulative gap | 485,163 | (2,945,345) | (17,021,328) | (32,714,696) | (30,569,462) | |





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

26 **FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)**

**Financial risk management policies and objectives (Cont'd)**

(c) Interest rate risk (Cont'd)

| | Less than 3 Months | 3 Months to 1 Year | 1-5 Years | Over 5 Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At March 31, 2011** | | | | | | |
| **Assets** | | | | | | |
| Investment in subsidiary, joint venture and associated companies | - | - | - | - | 30,508 | 30,508 |
| Long-term receivables | 113 | 2,359 | 14,307 | 8,232 | 569,915 | 594,926 |
| Other investments | - | 26,092 | 530,976 | - | - | 557,068 |
| Trade and other receivables | 161,617 | 320,373 | - | - | 1,811,757 | 2,293,747 |
| Cash and short-term deposits | 1,670,734 | - | - | - | 21,441 | 1,692,175 |
| Total assets | 1,832,464 | 348,824 | 545,283 | 8,232 | 2,433,621 | 5,168,424 |
| **Liabilities** | | | | | | |
| Long-term liabilities | 824,159 | 1,770,034 | 15,988,836 | 17,714,387 | - | 36,297,416 |
| Trade payables and accruals | - | - | - | - | 900,125 | 900,125 |
| Bank overdraft (unsecured) | 85,670 | - | - | - | - | 85,670 |
| Total liabilities | 909,829 | 1,770,034 | 15,988,836 | 17,714,387 | 900,125 | 37,283,211 |
| Total interest rate sensitivity gap | 922,635 | (1,421,210) | (15,443,553) | (17,706,155) | 1,533,496 | (32,114,787) |
| Cumulative gap | 922,635 | ( 498,575) | (15,942,128) | (33,648,283) | (32,114,787) | |

**26 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)**

**Financial risk management policies and objectives (Cont'd)**

(c) Interest rate risk (Cont'd)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date is outstanding for the whole year. A 50 basis points increase or 100 basis points decrease for local borrowing and a 50 basis points increase/decrease is used for foreign currency denominated balances when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower on its foreign currency borrowings and investments (2011: 50 basis points higher/lower) and all other variables were held constant, the profit for the year would decrease/increase by approximately $48.162 million (2011: $48.858 million). For the local borrowings and investments if interest rates were 50 basis points higher and 100 basis points lower (2011: 50 basis points higher and 100 basis points lower) the profit for the year would increase/decrease by $0.167 million and $0.335 million respectively (2011: $0.229 million and $0.457 million respectively). This is mainly attributed to the Authority's exposure to interest rates on its variable rate borrowings and amounts held on fixed deposits.

The Authority's sensitivity to interest rates for foreign currency borrowings has increased during the current period mainly due to an increase in the variable rate debt instruments.
The Authority's sensitivity to interest rates on local borrowings and investments has increased during the current period mainly due to the increase in the holdings of local currency deposits.

See also Liquidity risk management at 26(e) below.

(d) Credit risk management

Credit risk is the risk that a party to a financial instrument will default on its contractual obligations resulting in financial loss to the Authority. Financial assets that potentially subject the Authority to credit risk primarily consist of trade receivables, investment in subsidiary, joint venture and associated companies, other investments, long-term receivables and cash and bank deposits. The maximum exposure to credit risk is the amount of approximately $5.484 billion (2011: $5.168 billion) disclosed under "categories of financial instruments' above and the Authority holds no collateral in this regard. The Authority manages the risk primarily by reviews of the financial status of each obligator and its investments which are monitored regularly are held with reputable financial institutions. Management believes that the credit risk associated with these financial instruments are minimal.

In respect of trade receivables from the operations managed by related companies, the risk is low as customers are pre-approved by the Authority and specific credit periods are given in some instances to individual customers. Credit risk is monitored according to the customers' credit characteristics such as whether it is an individual or entity, its geographic location, industry, aging profile, and history of previous financial difficulties.

The Authority has a significant concentration of credit risk exposure to companies operating in the Marine Industry which accounts for 100% of trade receivables (2011: 100%). Two debtors of the Authority account for approximately 29% and 35% (2011: 23% and 52%) respectively of the Authority's trade receivables. Management however seeks to minimise this risk by ensuring that outstanding amounts are received within a reasonable time period.

There is also credit risk with respect to loans to employees which account for approximately 2.6% (2011: 4.9%) of long-term receivables. The Authority has established policies and procedures which govern standards for granting loans and the process of continuous monitoring.

The Authority seeks to minimise the risk on its investments in deposits in the following ways:

- Investments are only placed with financial institutions stipulated by the Government of Jamaica and the guidelines of the Board.
- Senior management conducts constant monitoring of the investments to ensure that the agreed terms are adhered to and that the particular institutions fulfil their financial obligation to the Authority as they fall due.
- Management limits the amount of investment placed with any institution in accordance with the Board guidelines.



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## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

**26 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)**

**Financial risk management policies and objectives (Cont'd)**

(e) Liquidity risk management

Liquidity risk, also referred to as funding risk, is the risk that the Authority will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed facilities. The Authority has contractual arrangements with established local and international lending institutions, which, along with its internally-generated cash resources, are sufficient to meet all its current obligations.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed credit facilities. The Authority aims at maintaining flexibility in funding by keeping lines of funding available with relevant bankers, maintaining a portfolio of marketable assets and optimising cash returns on investments.

***Liquidity and interest risk analyses in respect of non-derivative financial liabilities***

*Non-derivative financial liabilities*

The following tables detail the Authority's remaining contractual maturity for non-derivative financial liabilities.

The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities that will be paid on those liabilities except where the Authority anticipates that the cash flow will occur in a different period.

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Term to Maturity/Repricing | | | | |
| | Less than 3 Months | 3 Months to 1 year | 1-5 years | Over Five years | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Liabilities** | | | | | |
| ***Interest bearing*** | | | | | |
| Variable rate loans | 116,642 | 1,416,960 | 5,609,079 | 4,845,376 | 11,988,057 |
| Fixed rate loans | 587,612 | 3,936,783 | 14,840,213 | 14,693,467 | 34,058,075 |
| Bank overdraft | 38,843 | - | - | - | 38,843 |
| ***Non-interest bearing*** | | | | | |
| Trade and other payables | 1,197,679 | - | 120,036 | 2,389 | 1,320,104 |
| Total | 1,940,776 | 5,353,743 | 20,569,328 | 19,541,232 | 47,405,079 |

**NOTES TO THE FINANCIAL STATEMENTS**
**YEAR ENDED MARCH 31, 2012**

## 26 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)

### Financial risk management policies and objectives (Cont'd)

(e) Liquidity risk management (Cont'd)

***Liquidity and interest risk analyses in respect of non-derivative financial liabilities*** (Cont'd)

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Term to Maturity/Repricing | | | | |
| | Less than 3 Months | 3 Months to 1 year | 1-5 years | Over Five years | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Liabilities** | | | | | |
| ***Interest bearing*** | | | | | |
| Variable rate loans | 125,102 | 1,371,363 | 5,971,338 | 4,582,300 | 12,050,103 |
| Fixed rate loans | 466,497 | 3,504,118 | 15,775,096 | 17,571,091 | 37,316,802 |
| Bank overdraft | 85,670 | - | - | - | 85,670 |
| ***Non-interest bearing*** | | | | | |
| Trade and other payables | 670,665 | 229,460 | - | - | 900,125 |
| Total | 1,347,934 | 5,104,941 | 21,746,434 | 22,153,391 | 50,352,700 |



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**NOTES TO THE FINANCIAL STATEMENTS**
**YEAR ENDED MARCH 31, 2012**

## 26 FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT (Cont'd)

### Financial risk management policies and objectives (Cont'd)

(e) Liquidity risk management (Cont'd)

***Non-derivative financial assets***

The following tables detail the Authority's remaining contractual maturity for non-derivative financial assets.

The tables below have been drawn up based on the undiscounted contractual maturities of financial assets including interest that will be earned on those assets except where the Authority anticipates that the cash flow will occur in a different period.

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Term to Maturity/Repricing | | | | | |
| | Less than 3 Months | 3 Months to 1 Year | 1 - 5 Years | Over 5 Years | No Specific Maturity | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | | | |
| Investments in subsidiary, joint venture and associated companies | - | - | - | - | 30,508 | 30,508 |
| Other Investments | - | 27,451 | 542,336 | - | - | 569,787 |
| Long-term receivables | 150 | 87,447 | 716,873 | 17,796 | - | 822,266 |
| Trade and other receivables | 2,393,399 | 96,777 | 113,758 | - | - | 2,603,934 |
| Cash and short-term deposits | 1,466,653 | - | - | - | - | 1,466,653 |
| Total Financial Assets | 3,860,202 | 211,675 | 1,372,967 | 17,796 | 30,508 | 5,493,148 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Term to Maturity/Repricing | | | | | |
| | Less than 3 Months | 3 Months to 1 Year | 1 - 5 Years | Over 5 Years | No Specific Maturity | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | | | |
| Investments in subsidiary, joint venture and associated companies | - | - | - | - | 30,508 | 30,508 |
| Other Investments | - | 27,058 | 538,480 | - | - | 565,538 |
| Long-term receivables | 126 | 78,258 | 517,097 | 5,683 | - | 601,164 |
| Trade and other receivables | 1,722,481 | 507,333 | 69,842 | 82 | - | 2,299,738 |
| Cash and short-term deposits | 1,693,731 | - | - | - | - | 1,693,731 |
| Total Financial Assets | 3,416,338 | 612,649 | 1,125,419 | 5,765 | 30,508 | 5,190,679 |

## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

26 **FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL RISK MANAGEMENT** (Cont'd)

**Financial risk management policies and objectives (Cont'd)**

(f) Capital risk management

The Authority's objective when managing capital is to safeguard the Authority's ability to continue as a going concern and to maintain a strong capital base to carry out its mandate.

The Authority is not subject to any external regulatory capital requirements and capital adequacy is monitored by the Authority's management on a regular basis. The Authority's strategy remains unchanged from 2011.

The capital structure of the Authority consists of reserves (Note 14) and accumulated surplus.

27 **FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available for the financial assets and liabilities, fair values are determined using various estimation techniques based on market conditions existing at the end of the reporting period. Generally, judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that the Authority would realize in a current market exchange.

The following methods and assumptions have been used:

(i) The carrying amounts of cash and short-term deposits, trade receivables, trade payables and other assets and liabilities maturing within twelve months are assumed to approximate their fair values because of the short-term maturity of these instruments.

(ii) The carrying amounts of other investments and financial assets included in long-term receivables are assumed to approximate fair value as their applicable interest rates are market determined.

(iii) The carrying amounts of variable rate loans, totalling approximately $10.489 billion (2011: $10.600 billion) are assumed to approximate their fair values.

(iv) The fair values of other fixed rate loans and concessionary rate loans have been estimated by applying market rates of similar loans at year end to the expected future cash flows.

Fair values of financial instruments which differed from the carrying values are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | $'000 | $'000 | $'000 | $'000 |
| Fixed rate loans | 10,385,932 | 10,925,594 | 11,247,652 | 12,890,843 |
| Concessionary rate loans | 14,489,734 | 14,134,851 | 15,433,192 | 16,850,781 |

Fair value measurements recognised in the Statement of Financial Position

There were no financial instruments that were measured subsequent to initial recognition at fair value.





## NOTES TO THE FINANCIAL STATEMENTS
## YEAR ENDED MARCH 31, 2012

28 **OTHER DISCLOSURES**

(a) Employed directly by the Authority

Staff costs incurred during the year:

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Salaries, wages and allowances | 690,776 | 742,208 |
| Statutory contributions | 62,665 | 64,926 |
| Pension contributions | 42,132 | 86,345 |
| Health scheme contributions | 38,550 | 32,035 |
| Travelling and other | 103,820 | 86,307 |
| | 937,943 | 1,011,821 |

Included in the salaries, wages and allowances for year ended March 31, 2012 is an amount of $2.386 million (2011: $8.851 million) for redundancy costs and $Nil (2011: $152.763 million) provided for retroactive salaries and increments for period 2009 – 2011.

(b) Contracted by management companies

Contracted services

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Container Terminal | 2,570,915 | 2,173,953 |
| Tugs and Boats | 126,541 | 126,510 |
| Port Handlers | 46,670 | 48,542 |
| Cruise Ship Pier | 6,647 | 6,346 |
| | 2,750,773 | 2,355,351 |

Included in the container terminal balance of $2.57 billion (2011: $2.17 billion) is an amount of $60 million (2011: $10.269 million) for redundancy cost at Kingston Container Terminal.

## *Corporate Data*

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*Kingston Jamaica W.I.*
*Telephone: 876-922-0290-9*
*Email: paj@portjam.com*
*Website: www.portjam.com*

| | |
|---|---|
| *Creative Direction* | *Marketing Communications*<br>*International Marketing & Client Services Division* |
| *Design* | *Prism Communications Limited* |
| *Auditors* | *Deloitte & Touche Chartered Accountants* |
| *Printers* | *MAPCO Printers Limited* |


The Port Authority
of Jamaica