PHILIPPINE PORTS AUTHORITY

BRINGING PORTS CLOSER TO ITS CLIENTS

2006 ANNUAL REPORT

COVER STORY

The main images for this cover are the mooring line and the bollard of a pier. The vessel is not revealed to give more emphasis on the port which is the real domain of the Philippine Ports Authority.

The bollard is made of strong and solid metal representing PPA's stability, reliability and expertise in maritime transport industry. The mooring line, which connects the vessel to the port, symbolizes PPA's central role of bringing the ports closer to its clients, thus, spurring economic activities over thousands of islands of the archipelagic Philippines.

The photo comes in warm sepia-like filter, complemented by a burgundy-red and earthy tone to communicate the passion and enthusiasm of PPA in providing its clients and the general public with faster and easier access to its services while keeping its commitment to the protection of the environment.

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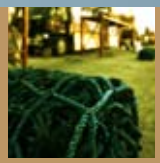
Mission

"We commit to provide reliable and responsive services in our ports, sustain development of our port communities and the environment and be a model corporate agency of the government."

Vision

"To meet the international standards in port facilities and services in at least 10 ports by year 2010 in support of national development."



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MESSAGE OF THE GENERAL MANAGER

2006 was a year of sustained growth for the PPA. Despite a slight decrease in overall trade volume, moderate reduction in ship calls, and double-digit decline in passengers accommodated at its ports for the year in review, PPA posted P6.018 billion in revenues and a net income of P2.67 billion. PPA's operating income of P2.79 billion in 2006 though slightly lower than that posted in 2005, is directly attributable to higher shares from fixed fees coming from the privatized operations of the International Container Terminal Services, Inc. (ICTSI) and Asian Terminals, Inc. (ATI), and arrastre/stevedoring income from cargo handling operations. As its contribution in shoring up government revenues, PPA turned in a total of P1.63 billion in dividend remittances to the national coffer, a figure significantly higher than that posted a year ago.

Focused execution of key infrastructure initiatives for the gateways, SRNH and Ro-Ro in 2006 enabled us to deliver our mandate in sync with the government's direction and thrusts and over and above the expectation of its clientele and the general public amidst changes in the environment.

The Management Team through its Board of Directors sought to enshrine through Board Resolution No. 2049 dated 09 February 2006 its adoption of a combination of strategies to support PPA's accelerated port development program beginning 2006, to wit: private sector initiative or participation, partnership with the LGUs, use of internally generated funds and borrowings from domestic sources, to include bond flotation and official development assistance (ODA) from multi-lateral funding sources.

"Staying client-focused is both a mindset and a strategy to achieve sustained stable performance as we try to bridge the gap between and among producers, marketers and consumers or end-users."

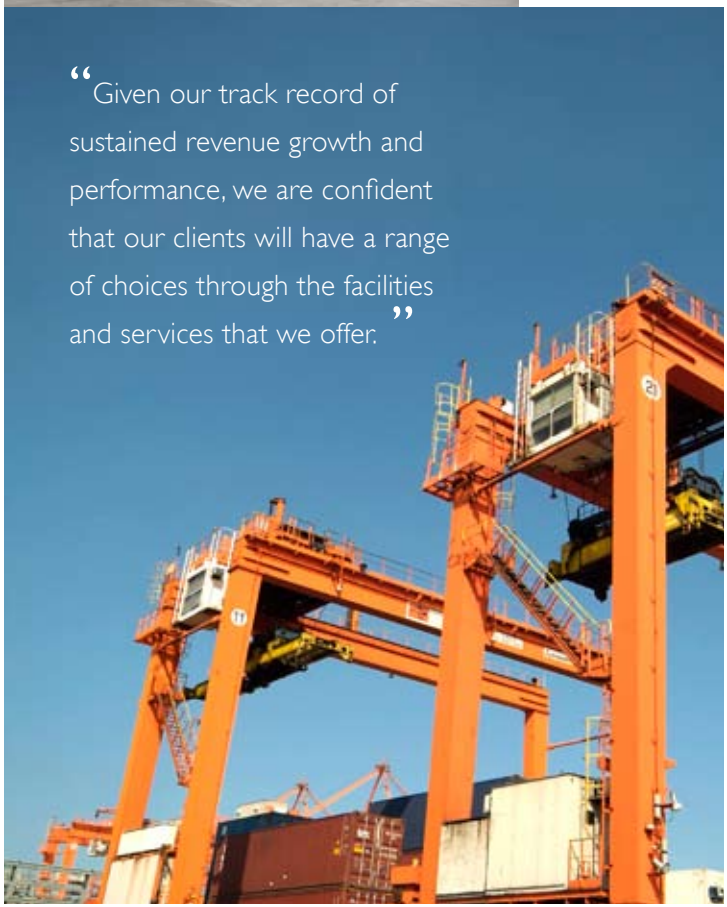
For these initiatives, a total investment of some P4.29 billion at various stages of development and procurement has been programmed, undeniably showing a resolve to keep pace with client expectation and the demands of the maritime/port sector. Succeeding investments will have to include a first ever P2 billion bond flotation arranged and syndicated by the Development Bank of the Philippines (DBP) to fund various presidential SONA and SRNH commitments. This mix of financing options is calculated to widen PPA's latitude in employing different funding modes while ensuring a stable and secure cash flow requirements to fund operating and capital expenditures.

In taking these initiatives, we believe that we will be in a stronger position in the longer term as we reap the expected fruits and benefits of a more robust growth in transaction activities at the ports.

Thus, Investments for the gateway ports of South Harbor, Cagayan de Oro, Davao, General Santos and Zamboanga are being made to enable them to maintain their traditional status as important hubs in the regions they serve and propel them as PPA's envisioned globally-benchmarked ports.
In the case of the SONA and Ro-Ro port initiatives, PPA has gone a step further in terms of fulfilling the eco-tourism program of the government in areas where they have been constructed and making a significant dent in terms of reduction in logistics costs through the sheer breadth and depth of their coverage, i.e., going as far north as Basco in Batanes, through the famed El Nido in Palawan and Sindangan in southern Mindanao.

In taking these initiatives, we believe that we will be in a stronger position in the longer term as we reap the expected fruits and benefits of a more robust growth in transaction activities at the ports. Not only will this directly benefit the organization but this will also usher in the realization of the larger view of helping push the government's development agenda in reducing logistics costs and attaining seamless physical and economic integration. Staying client-focused is both a mindset and a strategy to achieve sustained stable performance as we try to bridge the gap between and among producers, marketers and consumers or end-users.

Overall, the fundamentals in key areas point to a sustained overall performance as the port sector continues to parry pressures in the economic front and competition from within the industry and other transport modes, particularly the airline sector. The 12.53 percent reduction in sea-borne passengers accommodated at our ports for instance, notwithstanding the stiff competition posed by the airline carriers which aggressively offer budget and low airfares, has not deterred PPA from pursuing its commitment to construct passenger terminal buildings (PTBs) equipped with above average standard passenger amenities at its high-volume gateways. For its part, PPA has always accommodated the demands and requirements of sea-borne passengers in terms of amenities at the ports and security equipment in the form of x-ray baggage scanners matching the norms in the airline sector while remaining compliant with international requirements for safety and security such as mandated by the ISPS.



"Given our track record of sustained revenue growth and performance, we are confident that our clients will have a range of choices through the facilities and services that we offer."

As we continue to hone our operations through calculated investments in physical facilities and services for a more stable financial and operating environment, so too will we relentlessly reshape the organization by investing in value-added technology through our MIS Computerization Program and our Vessel Traffic Monitoring System (VTMS) in our efforts to be at par with port authorities in the region in terms of operating efficiency. These are but among the moves that we knew would have impact on our investment priorities, being now in the midst of our aggressive expansion and modernization program in our 32 years of existence.

We place our trust and optimism for PPA's sustained future growth and the attainment of its Vision to develop and operate ports that can be competitive globally.

Given our track record of sustained revenue growth and performance, we are confident that our clients will have a range of choices through the facilities and services that we offer. These, at the same time, will essentially allow us to be stable, flexible and proactive in capturing future growth opportunities.

In terms of operations, our most urgent focus has been in pushing predictable revenue volumes in the wake of difficult economic climate and challenging business conditions. We remain true to our policy of modernizing and privatizing North Harbor to duplicate the success story of our ICTSI and South Harbor privatization initiatives. Much spadework needs to be done, but we are one in the belief that the road ahead will finally be cleared of impediments to give way to much delayed modernization that will ensure the continuous viable performance of the country's principal domestic gateway.

Still on another front, our painstaking cost containment efforts, in line with the national directives, best illustrate how far we have evolved organizationally in terms of enhancing our operating capabilities given a not so spectacular traffic growth and steadily increasing cost of constructing, operating and maintaining port facilities. In all of these, the PPA held its own, reflecting our organization's collective emphasis on reducing costs and raising productivity through value-added initiatives.

Looking ahead, our priorities essentially remain unchanged but we are determined to keep picking up the pace, improving our results and being more circumspective in allocating our resources to new growth opportunities particularly from our emerging gateways where we have poured our investments into, side by side with our more established gateways and other port links.

As we find ourselves at a very important stage in our 32-year growth as an organization, we are thankful that our more than 2,000 strong workforce across our port system can be counted upon to carry on writing the next chapter in the success story of PPA's continuing transformation into a vibrant partner of the government in nation building. Together with our Board of Directors, we place our trust and optimism on them for PPA's sustained future growth and the attainment of its Vision to develop and operate ports that can be competitive globally.

ATTY. OSCAR M. SEVILLA

Shipping and Trade Performance

The traffic growth for 2006, while posting moderate decline over last year's figure, is in part indicative of PPA's sustained position in the global market over the years and at the same time reflective of the aggressive shift of producers, consumers and traders to the alternative mode of the Government-espoused Ro-Ro transport system. The shift to Ro-Ro mode did not properly reflect and capture volumes which would otherwise be recorded under the conventional mode of transporting cargoes.

Cargo Traffic

Total volume of cargoes handled in 2006 was 154.34 million metric tons (MMT) or 0.58 percent decline from last year's figure of 155.24 MMT. Foreign cargo represents 52.81 percent or 81.50 MMT of the total volume handled while domestic cargo registered a lower volume of 72.84 MMT or 48.19 percent.

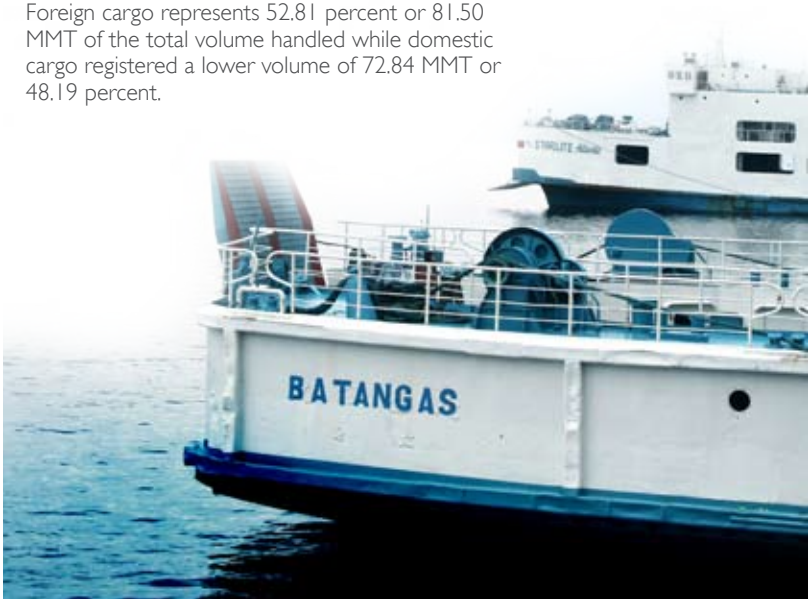
Foreign cargo recorded an increase of 7.47 percent which is significantly higher than last year's modest growth of only 1.88 percent. The top ten Port Management Offices (PMOs) are home to six (6) of the ten (10) gateway ports (i.e. MICT, Batangas, South Harbor, North Harbor, Cagayan de Oro and Davao) which were the focus of massive development in recent years, consistent with the PPA Vision to upgrade the existing facilities in gateway ports to international standards.

On the other hand, domestic cargo further declined by 8.27 percent from the 4.26 percent decline from last year's figure. Notably, and affirming the previous observation, most PMOs with ports included and/or linked to the Strong Republic Nautical Highway (SRNH) all recorded drops in domestic cargo handled e.g South Harbor (-2.44%), Batangas (-1.81%), Calapan (-3.38%), Iloilo (-3.98%), Tacloban (-65.67%), Tagbilaran (-21.04%), Iligan (-20.97%), Ozamiz (-50.04%) and Zamboanga (-7.49%). This trend only proves the growing preference of port users to have their goods transported by wheeled vehicles from the source to the end-users and the increasing capability of PPA ports to service the complementing Ro-Ro vessels.

Table 1 : Ten Top Port Management Office
(Foreign Cargoes, In Metric Tons)

PMO	2006	2005	Growth (%)	Standing in 2005
MICT	14,488,274	14,848,326	(-) 2.48%	1
Batangas	12,884,473	12,113,861	(+) 5.98%	2
Cagayan de Oro	12,767,857	12,075,576	(+) 5.22%	3
Limay	12,570,366	10,745,795	(+) 14.51%	4
South Harbor	6,054,629	5,764,650	(+) 4.79%	5
Davao	4,515,986	4,528,685	(-) 0.28%	6
Surigao	4,285,212	1,701,049	(+) 60.30%	10
North Harbor	2,956,637	3,001,791	(-) 1.53%	8
Ormoc	2,500,295	2,229,890	(+) 10.82%	9
San Fernando	2,216,088	3,275,865	(-) 47.82%	7

In 2006, containerized cargoes moved upward by 2.03 percent from 3,710,064 TEUs in 2005 to 3,785,363 TEUs. As in the previous years, the Manila International Container Terminal or MICT handled the highest volume, accounting for more than 30 percent of the total. In terms of growth, PMOs Pulupandan and Davao garnered the most impressive rates of 31.18 percent and 14.45 percent, respectively, thus, giving PPA the confidence to pour sizeable investments for the physical development of Ports of Pulupandan and Davao, with the expectation that investments will be recovered in some future time.



This trend only proves the growing preference of port users to have their goods transported by wheeled vehicles from the source to the end-users and the increasing capability of PPA ports to service the complementing Ro-Ro vessels.

Table 2 : Five Top Port Management Office
(Shipcalls)

PMO	2006	2005	Growth (%)	Standing in 2005
Batangas	36,670	37,121	(-) 1.21%	1
Dumaguete	35,957	29,698	(+) 21.08%	2
Davao	21,933	27,893	(-) 21.37%	3
Pulupandan	21,036	22,455	(-) 6.32%	4
Iloilo	18,493	20,006	(-) 7.56%	5

Shipping

Ports nationwide accommodated a total of 306,107 vessels at berth and at anchorage from last year's figure of 319,764 or a 4.27% decline. The top five PMOs in terms of shipcalls retained their posts despite the slight drop in actual number of vessels served in most of the ports under their area of jurisdiction.

In general, only the PMOs of Dumaguete, Ormoc, Legazpi and North Harbor managed to record positive growth which could be attributed to the steady foreign demand for mineral, metal ores and coconut oil sourced from areas where these PMOs operate. The negative growth in all other PMOs, however, is not to be taken as a conclusive indicator of the economic activity during the year since it could also signal the positive response of the shipping sector on the government's campaign for the gradual phasing of outmoded vessels. The deployment of new and larger vessels with greater carrying capacity continued in most ports in 2006 replacing smaller vessels for more efficient movement of bulk and containerized cargoes. Also, old vessels which failed in the sea-worthiness requirements of the Maritime Industry Authority (MARINA) and Philippine Coast Guard were restricted from sailing. These are welcome developments in the maritime transport sector which are anticipated to manifest favorably through more upbeat statistical trend in the very near future.

Passenger

The effect of stiff competition offered by other transport modes, particularly from the airline sector, is reflected in this year's passenger traffic. The total number of passengers who embarked and disembarked at various ports was recorded at 42.556 million or a slide of 12.53 percent from the previous year's 48.652 million.

Table 3 : Five Top Port Management Office
(Passenger Volume)

PMO	2006	2005	Growth (%)	Standing in 2005
Batangas	4,602,680	3,903,252	(+) 17.92%	2
Zamboanga	3,208,531	4,374,473	(-) 26.65%	1
Calapan	3,081,410	3,526,885	(-) 12.63%	4
Tagbilaran	3,053,578	3,736,357	(-) 18.27%	3
Ozamiz	2,862,394	3,375,410	(-) 15.20%	5

Batangas did not only top the 23 PMOs in number of passengers but managed to post the highest growth of 17.92 percent as well. Other ports that cater to famous tourist destinations such as Boracay and Bohol beaches joined Batangas in the five top performers in terms of passenger volume, as shown in the accompanying table.

Cargo Handling Operations

The standing policy of PPA as regard the participation of the private sector in government services is particularly manifested in the continuing delegation of cargo handling services to private entities.

For 2006, PPA through its Port Operations Services Department, was able to process 18 cargo handling contracts, listed in Table 4, for the different ports nationwide. In cases where the process of public bidding is not successfully completed, the existing cargo handling operator is issued Hold-Over Authority (HOA) to enable it to continue its operation. A total of 14 HOAs were, thus, processed in the same year.

While promoting private-sector participation, PPA is not remiss on its duty of ensuring port efficiency and effectiveness in cargo handling operation. To ensure uninterrupted operation, PPA created special take-over units (STU) for 18 ports where the authorized CHOs grossly failed to sustain the competence level of performance required under their respective contracts.

To provide a quick reference on all rules pertaining to cargo handling, the Compendium of Regulations on Cargo Handling Operations was circulated under PPA Administrative Order No. 01-2006. Apart from being a legal reference, the compendium will also serve as a useful guide to private business enterprises which may want to seriously engage in this type of service and/or business.

Table 4 : Cargo Handling Contracts Issued in 2006

Cargo Handling Operator	Area of Operation
1-Year	
ATS Real Estate Dealer	- Basilan Port
Concord Arrastre & Stevedoring Corporation	- Masao Port
Leyte Integrated Port Services, Inc.	- Palompon Port
Prudential Custom Brokerage Services, Inc.	- Brooke's Point Port
San Alonzo Arrastre & Stevedoring, Inc.	- Balingoan Port
Taytay Multi-Services, Inc.	- Liminangcong Port
2-Years	
Bilang-Bilang Arrastre Services, Inc.	- Verano Port
3-Years	
MBL Port Resources & Services	- Bulalacao Port
Liloy Cargo Handling Services Corp.	- Liloy Port
Kabayan Marine & Port Services, Inc.	- Pola Port
Sindangan Arrastre & Brokerage Corp.	- Sindangan Port
5-Years	
Antique Cargo Handling & Port Services, Inc.	- San Jose de Buenavista Port
FTM Brokerage & Port Services, Inc.	- Jordan Port
10-Years	
Calapan Labor Services Cooperative, Inc.	- Calapan Port
Davao Integrated Port Stevedoring Services Corp.	- Davao Port
Filipinas Port Services, Inc.	- Davao Port
Iloilo Integrated Arrastre Services, Co.	- Iloilo Port
South Cotabato Integrated Port Services, Inc.	- General Santos Port

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Harbor Pilot Appointments

PPA appointed anew 7 chief pilots, 7 regular pilots and 10 probationary pilots to protect both vessels and port facilities from navigation-related accidents. The services of these additional 24 harbor pilots shall be made available to vessels in ports covered by different pilotage districts throughout the country, namely: Aparri, Manila, Masinloc-Sta. Cruz-Sual, Batangas, Bicol Region in Luzon; Catbalogan and North Panay in the Visayas, and; General Santos, Iligan and Zamboanga in Mindanao.

Operation and Development of Private Ports

Over 300 private ports exist and operate throughout the country. The supervision over their construction and operation is part of the Authority's regulatory functions. In the exercise of this responsibility, PPA constantly reviews and amends regulations and policies pertaining to the operations of private ports to strengthen their complementary role as service providers or developers and/or operators of facilities and/or terminals.

In 2006, the Commercial Services Department renewed the Certificate of Registration and Permits to Operate of 18 private ports. The registration process for 1 new applicant on the other hand, was nearing completion as of year-end.

A Clearance to Develop the Dalahican Ro-Ro Terminal in Cavite City was likewise issued during the year. This could be taken as another indication of the private sector's positive response to the Authority's effort of encouraging private sector participation in Ro-Ro terminal development.

Real Estate Management

In February, 2006, PPA entered into a 10-year lease contract with South Cotabato Integrated Port Services, Inc. for the use of a portion of an area within the Makar Wharf in General Santos. For the long-term lease of a portion of PPA property in South Harbor, on the other hand, the contract with Port Users' Confederation was also processed.

Leasing of identified available areas in the port zones is intended to optimize their utilization and to encourage the active participation of private entities in providing complementary ancilliary port services while at the same time an effective means of shoring up revenues.

Port Tariff

Cost-Based Tariff Analysis and Development Project

The consultancy contract for the Cost-Based Tariff Analysis and Development Project was signed in October 2006. The study aims to come up with information that is expected to provide the port clientele with better understanding of the relationship of the actual service delivered and the current tariff rates. Ultimately, the Activity-Based Cost Model (ABCM) shall be used for rate-setting and rate-adjustments for each of the various tariff items, taking into consideration the important factors such (a) recovery of capital costs and investments on the port facilities and services provided, (b) reasonable rate of government share in cargo handling services, and (c) reasonable profit margin for the contractor, operator or service-provider. Port tariff covered under the Project are port charges, cargo handling charges and Road Roll-on Roll-off Terminal Fees and other related charges.

Tariff Adjustment

PPA Memorandum Circular No. 17-2006 was issued in October 2006 resuming the previously approved increase in domestic port charges such as usage fee and wharfage. The resumption of the previously suspended tariff adjustment is expected to help sustain the viability of PPA and to fund continuing port development and operation.

Vessel Traffic Management System

June 2006 marks the completion and official turn-over to PDO Manila/Northern Luzon of the Vessel Traffic Management System (VTMS) Project, which seeks to establish a system of identifying and tracking vessels to promote safer and more efficient navigation.

The VTMS Project began in May of 2004 immediately with the award of the contract to F.F. Cruz/Japan Radio Co. The completed facilities, in three locations (MICT, Manila North Harbor, and Corregidor Island in Cavite City), consist of a 6-storey building with 42 meters structural steel tower, 18-meter cylindrical concrete structure with electronic and generator room and a 35-meter cylindrical concrete structure with 3-storey building at the highest point of Corregidor Island, Cavite City.

Through the VTMS, vessels can be detected by radar systems and sensors installed at the aforementioned radar stations. It is specifically designed to monitor movements of the vessels in the Port of Manila, approaches of Corregidor Island and some parts of Manila Bay. The radar information, transmitted by communication links to the Control Center, completes the tracking system that provides necessary advice for route planning and estimated time of arrival of observed vessels as well as early warnings against risk of accidents. By June 2006, the VTMS Control Center has commenced its 24-hour operation which enabled the PPA to closely monitor and facilitate the mooring of vessels at the designated anchorages and has kept the fairways and sea-lanes clear. Meanwhile, vessels opposing traffic flow receive advisories to adjust their course to avoid confusion and possible collision within the Traffic Separation Scheme (TSS). The implementation though generally smooth was not without the attendant risks. For one, there have been occasions when small fishing vessels and carriers, tanker barges and towing tugs are not acknowledging calls. This non-compliance during the first few months is expected to be temporary and should not significantly affect the overall execution of the project.

In July 2006, PPA Administrative Order No. 03-2006 entitled "Guidelines for the Implementation of the VTMS at the Port District of Manila" took effect This Order also prescribes the approved Schedule of VTMS Fees. For the period of August to December 2006, a total of 3,036 vessels were monitored by VTMS Control Center composed of 1,200 foreign and 1,836 domestic ships. This translates to a total amount of P3.569 million vessel service (VTS) fees collected during these first months of its operations.

Though still in its maiden year, the VTMS has resulted in a fairly increased efficiency in monitoring traffic, facilitating communication with ships during navigation, particularly vessels in distress and thereby improving response time and assistance from concerned authorities. Indeed, the VTMS Project is delivering the goods as it has promised.

The expected success and projected marginal returns of the VTMS in terms of efficiency and safety has inspired other ports, particularly the Port of Batangas, to duplicate the project and establish their own VTS. The PPA looks forward to the replication of the Project, albeit in varying scale responsive to actual needs of the areas affected, in various ports to maximize the utility and efficiency offered by a state-of-the-art port facility.

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PPA has also taken an active role in the promotion of ISPS standards by conducting and participating in workshops, conferences and seminars on port safety and security,

International Ship and Port Facility Security (ISPS) Code

As a long-term commitment to port security and safety, the PPA continuously adopts policies and standards to keep our ports not only customer-friendly but also safe and secure. As a matter of policy, PPA is strictly implementing the International Ship and Port Facility Security (ISPS) Code with a view towards establishing sustainable safety measures and stricter security guidelines to avert any possible security threats at the earliest opportunity.

Towards this end, the PPA thru the Port Police Department (PPD) has coordinated with the Office of Transportation Security (OTS) of the Department of Transportation and Communication (DOTC) for the issuance of Statement of Compliance of a Port Facility to qualified port facilities nationwide. The Statement of Compliance is granted only to ports facilities that has submitted port security plan and which has been subsequently approved, surveyed and inspected by the OTS. Further, each port facility must have complied with the requirements under the Port Facility Security Assessment. A total of 133 port facilities have obtained a Statement of Compliance during the year.

As part of its capability-building, a complement of 45 newly hired port police officers underwent a rigorous port police and tactical training course to equip them with the required skills to perform their duties in the field. Additional security guards and personnel were deployed at the VTMS Control Center, Radar Station in Corregidor as well as in several ports to increase visibility of security personnel and intensify campaign against illegal activities in the ports. Measures were also pursued in completing the combat gears and uniforms of the PPA Port Police.

As an ISPS advocate, PPA has also taken an active role in the promotion of ISPS standards by conducting and participating in workshops, conferences and seminars on port safety and security, with different audiences from private stakeholders to other government agencies. Among the important inter-agency meetings, seminars and conferences attended by PPA participants were the following: (i) Airport Security Awareness; (ii) Technical Working Group on "Transportation Security Act of 2006"; (iii) Basic Port Police Orientation Course; (iv) Conduct of Firearm Familiarization Course and Graded marksmanship for newly hired ISOs; (v) Inter-Agency Border Strengthening Workshop; (vi) participated in the Counter Terrorism Executive Directorate (CTED) of the United Nations Security Council (UNSC) and 1267 Analytical and Sanctions Monitoring Team; and (vii) National Seminar on Suppression of Unlawful Acts (SUA).

Shore Reception Facility (SRF)

The Shore Reception Facility (SRF) Project, started in 2003, was envisioned as a preventive measure against pollution by providing receptacles for wastes coming from ships. Three years into its implementation, it has significantly contributed to the protection of the environment and the nation's waters from avoidable pollutants and wastes.

As of end of 2006, PPA has established and maintained new SRFs in seven (7) base ports through its commissioned service provider – the Golden Dragon International Terminal, Inc. (GDITI).

These areas are in addition to the 11 base ports already provided with such facilities since the Project inception. The newly established SRFs are in the ports of Zamboanga, Iligan, Nasipit, Pulupandan, Legaspi, Surigao and Dumaguete. SRF services in the baseports of Calapan (Mindoro), Tagbilaran (Bohol), San Fernando (La Union) and Cotabato are slated to be opened in 2007.

A substantial increase of 57 percent in number of vessels serviced in 2006 as compared to the previous year was recorded, or a total of 46,745 vessels served of which 41,614 were domestic and 5,131 foreign vessels. (Refer to Table 5)

In terms of volume of waste collected, a total of 17, 674.17 cu.m. was disposed of during the year. Specifically, oily waste totalling 2,975.78 cu.m. were collected from vessels calling at eight (8) baseports, namely: South Harbor, MICT, North Harbor, Limay, Batangas, Davao, General Santos and Cagayan de Oro. Davao port topped the list with 1,745 cu.m, of oil waste, followed by MICT with 823 cu.m. On the other hand, solid waste collected during the period reached 17,677 cu.m.

Although there was a significant percentage of increase as regard the number of vessels served during the year, the increase in the volume of waste collected recorded only a 0.08 percent average per vessel. To remedy this problem, GDITI has committed to push for the stricter implementation of PPA Administrative Order No. 02-2003 covering the Implementing Guidelines for Shore Reception Facility in ports to sanction non-complying vessels.

Table 5: Number of Vessels Served in Shore Reception Facilities

Base Ports/SRF Location	Domestic	Foreign	Total
South Harbor	764	1,007	1,771
MICT	0	1,435	1,435
North Harbor	1,911	208	2,119
Limay	3,121	222	3,343
Batangas	18,520	624	19,144
Puerto Princesa	1,186	26	1,212
Iloilo	3,170	40	3,210
Tacloban	668	50	718
Pulupandan	625	10	635
Davao	1,001	998	1,999
Gen. Santos	711	245	956
Cagayan de Oro	1,433	109	1,542
Zamboanga	7,266	27	7,293
Iligan	926	125	1,051
Nasipit	224	5	229
Surigao	73	0	73
Legazpi	15	0	15
Dumaguete	9	0	9

The Shore Reception Facility has significantly contributed to the protection of the environment and the nation's waters from avoidable pollutants and wastes.

The generally enhanced business and economic climate characterized by significant improvement in foreign trade and favorable ratings and market assessment made by various international credit rating organizations generated an upbeat prognosis for the Philippine economy in 2006.

Flagship Projects & Development of Major Gateways

2006 was marked by an aggressive investment in capital expenditures geared towards responding to the requirements and expectation of the port clientele and the general public. This year also witnessed these activities as major components of the PPA's strategy of aligning the corporate thrusts with the national development and growth agenda of physically and economically integrating the archipelago, specifically through initiatives in fulfillment of the President's Flagship Projects – the **Development of Super Regions**[1] **and Strong Republic Nautical Highways**. Hence in 2006, a total amount P4.29 billion, consisting of P2.54 billion internally generated corporate revenues and P1.36 billion loan from Japan Bank for International Cooperation[2] , was poured into port projects nationwide which are now in various stages of development. The investments to capital projects were mostly on the following: construction/ rehabilitation/extension/widening of berths and RORO facilities; construction/renovation of passenger terminal buildings (PTBs) and other structures; reclamation works to provide expansion of back-up and operational areas, and construction/ upgrading of breakwaters/port protection works.

Investment Allocation in the Port Districts and Project Category

By amount of investment allocation, the top three biggest recipients were the Port District Offices (PDOs) of Southern Luzon (P2,226 million or 52.61%), Visayas (P700.38 million or 16.55%), Northern Mindanao (P546.17 million or 12.91%). A total of P1,685.18 million of PDO Southern Luzon went to the remaining packages of the lone foreign-assisted project - Batangas Port Development Project Phase II. Together, the Port Districts of Northern and Southern Mindanao had a significant share of more than 20 percent, affirming the Authority's thrusts of concentrating investments in the Mindanao growth corridors in response to the clamor of businessmen and producers for port facilities that will be instrumental in reducing logistics costs from Mindanao to Luzon and efficiently transporting a significant volume of raw materials and agricultural produce to markets nationwide. PDO Manila/Northern Luzon had the smallest allocation at P326.44 million or 12.81 percent because of the considerable participation of the private sector in the operations and continuing development of the Port of Manila.

[1] *President Gloria Macapagal Commitments contained in State of the Nation Address (SONA) before the 13th Congress on 24 July 2006*
[2] *Part of the P 5.55 billion Loan Package for Batangas Port Development Project – Phase II granted in 1999*

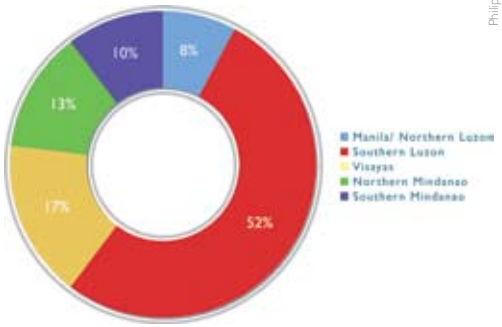


This year also witnessed these activities as major components of the PPA's strategy of aligning the corporate thrusts with the national development and growth agenda of physically and economically integrating the archipelago.

The single biggest completed project in 2006 is in Pulupandan for the construction of new RORO wharf facilities in the amount of P 416.16 million targeted to provide a competitive alternative to the congested private commercial ports operating in the area. South Harbor has a P108.56 million upgraded existing breakwater which will significantly enhance navigational safety along its approaches while the ports of Calapan in Mindoro and San Juan in Batangas are expected to boost their RORO linkages with the completion of new facilities totaling P127.89 million. The reconstruction, widening and extension of the pier facilities in Maasin in Leyte, a major RORO port route, in the amount of P92.55 million, was completed while the gateway of Cagayan de Oro is expected to sustain its competitive position vis-à-vis PHIVIDEC port with the completion of its P263.89 million worth projects involving the reconstruction of Berths 1 to 5 of its RC wharf as well as with the extension of its wharf.

Northern and Southern Mindanao have some P1.44 billion worth of projects in progress in Bislig, Dapitan, Lianga, Masao, Plaridel, Sindangan, Mabila, Mati, and Pagadian as well as the gateway ports of Cagayan de Oro, Ozamiz, Davao and Zamboanga. The scope of projects ranges from port development/reclamation, upgrading/rehabilitation of back-up areas, port expansion and extension as well as construction of transit shed to accommodate surging cargo and passenger volume. The single biggest investment project which was started in 2004 involves the reclamation/port expansion of the gateway port of Zamboanga with a total cost of P311.524 million. This is followed by a P222.92 million port expansion in the burgeoning SRNH tourist port of Dapitan in Zamboanga del Norte, the P162.52 million upgrading/rehabilitation of back-up area in the gateway port of Cagayan de Oro and the P118.49 million new RORO wharf development in Masao.

Regional Distribution in Capital Investment Projects
(in million pesos)



In PDO Visayas, ongoing port investments totaling P546.94 million are in significant development stages at the ports of Caticlan, Danao, Dumaguete, Hilongos, Iloilo, Liloan and Talibon. In particular, the P82.711 million project for the port of Caticlan is expected to further boost the economy of the locality from tourism-related activities generated by the international tourist destination of Boracay.

To cash in on emerging growth opportunities as well as tourism-related business activities, PDO Southern Luzon has a total of P252.38 million port initiatives in the ports of El Nido, Masbate, Pantao, Legazpi and Cagayan. For PDO Manila/ Northern Luzon, port investments totaling P147.96 million are underway at the ports of Dingalan and Lamao.

The SRNH-RORO Ports system is an intricate network of improved roads and ports in various regions which bridge the country's three main islands: Luzon, the Visayas and Mindanao to spur interisland farm trade, improve distribution of basic goods, reduce travel time and transportation/logistics costs, and promote domestic tourism.

By project category, more than P3.00 billion of PPA investment went to component ports of the government's Flagship Projects spread over the period of 3 years beginning 2005.
The Super Region Component Ports (also referred to as **SONA Ports**) are those which are being developed and upgraded in fulfillment of the President's 10-point legacy agenda of establishing a nationwide system of port/RORO links for a more effective national transportation network. Major projects in eight SONA ports involving an initial investment of P826 million were undertaken during the year. These are in Dingalan Port in Aurora of the North Luzon Agri-Business Quadrangle; Batangas Port of the North Luzon Beltway, and; the Ports of Cawayan, Pantao, Maasin, Jagna, Davao and Cagayan de Oro of the Central Philippines Region.

On the other hand, thirty-four (34) major projects in **SRNH/RORO** Ports nationwide with a total investment cost of P2.25 billion were also implemented. The SRNH-RORO Ports system is an intricate network of improved roads and ports in various regions which bridge the country's three main islands: Luzon, the Visayas and Mindanao to spur interisland farm trade, improve distribution of basic goods, reduce travel time and transportation/logistics costs, and promote domestic tourism. The bulk of SRNH and RORO initiatives are in the Port Districts of Visayas (Pulupandan, Caticlan, Danao, Dumaguete, Hilongos, Iloilo, Jagna, Liloan, and Talibon) and Northern Mindanao (Bislig, Dapitan, Liangas, Masao, Ozamiz, Plaridel, and Sindangan). Please refer to Tables 6.a and 6.b for the List of Projects

Harbor Maintenance

Dredging the harbors nationwide to the required depth through removal of silts is a regular function. PPA recognizes the economic benefits of the maintenance of basins and navigational channels, particularly under privatized set-up which it acknowledges as having significantly unburdened it of the administration of dredging equipment and sourcing of spare parts.

As of end-December 2006, F.F. Cruz & Co., Inc., the Dredging Contractor under the Privatized Set-up, was able to remove a total of 2.289 million cubic meters of silts at the following ports: MICT; Pasig River Mouth and Berths of Pier 9 & 13 at South Harbor; Fairway Channel leading to Piers 3 & 5, Basin fronting Piers 2-16; Piers 2, 8 & 10 at North Harbor; Tagbilaran, Jagna, Basilan Roxas, Ubay, Buyabod, Tubigon, Calatagan, Baybay, Hilongos, Bato Basilan, San Carlos, Calbayog, Getafe, Clarin, Naval; and, Iloilo Container Port Complex, Iloilo River Mouth and Fairway.

Costs incurred in dredging activities in 2006 amounted to P260.18 million.

Repair & Maintenance of Port Facilities

As PPA continuously undertakes various port investment projects nationwide to meet its vision and sustain its operation, the routine function of the repairs and maintenance of its port facilities to restore assets to their normal condition has not

As PPA continuously undertakes various port investment projects nationwide to meet its vision and sustain its operation, the routine function of the repairs and maintenance of its port facilities to restore assets to their normal condition has not once taken a back seat.

once taken a back seat. In 2006, PPA programmed and approved the amount of P483.37 million for various new repair projects involving port structures, building and equipment in all its Port District Offices. PPA also allocated a total amount of P115.64 million for regular and preventive maintenance of all its port facilities. Inclusive of the Head Office and carry-over projects, the total amount earmarked and approved for R&M projects reached P605.44 million in 2006. This amount is higher than the previous year's allocation on account of the P258 million supplemental budget which funded critical repair projects nationwide.

PDO Manila/Northern Luzon accounted for the biggest share of new repair projects at P220.45 million or 36.41%, followed by PDO Northern Mindanao at P83.05 million or 13.72%, PDO Visayas at P64.69 million or 10.68%, PDO Southern Mindanao at P63.288 million or 10.45% and Southern Luzon at P51.89 million or 8.57%.

MIS Computerization Project

For the past several years, the Management Information Systems (MIS) Computerization Project has been part of the long-term infrastructure project pursued by the PPA geared towards its commitment of upgrading the technological capability and efficiency of its port management systems. Through the MIS Project, core services are simplified and business transactions are computerized both for transparency and efficiency.

Now on its final rollout phase, three major milestones of the MIS Project have been completed and signed off, namely the System Requirements Specifications (SRS), Functional Specifications (FS) and User Acceptance Testing (UAT) for the Port Operations Management System (POMS), Real Estate Management System (REMS) and Legal Support System (LSS) systems including the invoicing and receipting portions of the Accounting and Financial Management System (AFMS). The e-Port which is a facility of the Project to accept vessel and cargo information upload from shipping companies has also been rolled-out while the Records Management System (RMS) has been implemented in the Head Office. The conduct of user training and briefing for personnel concerned in both pilot and non-pilot sites have likewise been completed for the following:

1. Helpdesk Facility
2. Data Conversion Management
3. Conduct of PROMPT Training Sessions for various users
4. Training and apprenticeship program for MISD designated System, Network and Database System Administrators
5. Training of PPATC and HRMD personnel to handle all future PROMPT Training programs
6. Training of selected REMS end-users on the use of the MapInfo GIS software
7. Training program for MIS designated Executive Information (EIS) ad-hoc query reporting.

The PPA Board of Directors has approved the project extension up to 2008 to complete the undelivered modules and/or functionalities of the PPA MIS Computerization Project.

Table 6.a : Completed Major Locally Funded Projects
By Port Category, In Million Pesos

Project Location	Project Description	Project Cost
Super Region Component Ports		
Cagayan de Oro*	Extension of R.C. Wharf	66.15
Cagayan de Oro	Reconstruction of R.C. Wharf, Berth 1-5	197.75
Maasin	Reconstruction, Widening & Extension of R.C. Pier / Breakwater	92.56
SRNH Component & Other RORO Ports		
Balanacan	Rehabilitation of Old Wharf	6.81
Basilan	Construction of 30m RC Ext.	9.00
Batangas*	Construction of 3 units RORO Ramp	17.57
Calapan	Reclamation, Construction of Rock Bulkhead, Pavement & Covered Walk	82.56
Culasi	Upgrading of Deteriorated RC Deck and Pavement / Additional Improvement	16.20
Liloy	Construction of RORO Ramp & Concreting of Back-up Area	11.92
Orion	Construction of CHB Fence & Gates	7.47
Pulupandan	Additional Height of Concrete Fence	5.09
Pulupandan	Construction of New Wharf	416.16
Pulupandan	Widening of Passenger Access Lane	7.98
San Juan (Batangas)	Rock Causeway, Construction of RORO Ramp & Access Trestle & Breasting Dolphin	45.34
South Harbor*	Upgrading of Existing Breakwater	108.57
Other Ports		
Aparri	Improvement of Marginal Wharf Phase I	18.15
Aparri	Improvement of Marginal Wharf Phase II	12.23
Biri	Widening of Passenger Access Lane	7.98
Caluya	Causeway Ext. & Mini Port Devt	16.73
Carigara	Port Devt/Improvement (Ext. of RC Pier)	5.16
Jomalig	Construction of Rock Causeway	5.26
Libertad	R.C. Deck & Causeway Ext.	9.91
Masantol	River Wharf Improvement	17.49
Punulukan	Widening & Ext. of Existing Causeway	5.03

*Also a Gateway Port

Table 6.b : Ongoing Major Locally Funded Projects**
By Port Category, In Million Pesos

Project Location	Project Description	Project Cost	Status of Completion
Super Region Component Ports			
Cagayan de Oro*	Upgrading/Rehabilitation of Back-up area	162.523	66.25%
Cawayan	Port Improvement (Back-up area, RORO Ramp, Breasting Dolphin & Port Lighting System)	42.950	54.32%
Dingalan	Port Devt (Rock Causeway, Construction of RORO Ramp, R.C. Pier & Platform, Mooring and Fendering)	49.742	71.40%
Jagna	Port Improvement (R.C. Wharf Ext., 1,034 sq. m.)	54.595	83.79%
Pantao	Port Devt Phase II (Reclamation)	97.744	66.71%
SRNH Component & Other RORO Ports			
Bislig (Caramcam)	Port Devt (Reclamation, Construction of Pier & RORO Ramp)	35.510	84.63%
Bislig (Lawigan)	Port Devt (Reclamation, RORO Ramp, Causeway, R.C. Pier & Port Lighting System)	76.229	84.64%
Caticlan	Port Devt (Construction of R.C. Pier, RORO Ramp, Reclamation, Breasting Dolphin & Installation of Port Lighting System)	82.711	94.11%
Danao	Port Improvement (Reclamation, Ext. of Wharf, Construction of RORO Ramp & Breasting Dolphin)	60.850	30.71%
Dapitan	Port Expansion (Reclamation)	222.923	74.72%
Davao*	Construction of Transit Shed (6,250 sq. m.)	74.686	78.50%
Dumaguete	Port Expansion (Reclamation, Paving of Storage Area & Construction of Additional RORO Ramp)	70.000	25.89%
El Nido	Port Expansion (Construction of Back-up Area & RORO Ramp)	49.451	8.92%
Hilongos	Port Expansion (4,497 sq.m Reclamation, RORO Ramp)	85.989	74.91%
Iloilo	Improvement of Iloilo River Wharf (Phase II)	58.164	97.45%
Lamao	Extension/widening of Finger Pier & Reclamation	98.213	19.85%
Legazpi	Port Expansion (Back-up Area)	99.480	76.83%
Lianga	Port Devt (Rock Causeway, RORO Ramp & Port Lighting System)	49.765	1.85%
Liloan	Ferry Terminal Expansion (Reclamation & Construction of RORO Ramp & R.C. Platform)	62.659	90.66%
Mabila	Construction of Rock Causeway, R.C. Pier, RORO Ramp, Reclamation	42.842	38.29%
Masao	Port Devt (Wharf Ext. & RORO Berth)	118.490	92.79%
Masbate	Expansion of Back-up Area (Closing of Breather 1, 2 & 3 behind R.C. Wharf, Demolition of R.C. Sheet Pile Wall & Breather)	60.499	80.16%
Mati	R.C. Wharf Ext., R.C. Platform & RORO Ramp)	52.500	74.12%
Ozamiz*	Construction of Wharf Ext.	82.987	78.14%
Pagadian	Reclamation (RORO on-fill & Ext. of R.C. Wharf)	67.708	89.11%
Plaridel	Rehabilitation of R.C. Pier, RORO Ramp	63.497	30.17%
Sindangan	Port Devt (Reclamation of Back-up Area & Construction of RORO Ramp)	82.950	42.44%
Talibon	Port expansion (Reclamation, RORO Ramp, Expansion of Pier)	71.970	62.41%
Zamboanga*	Port Expansion (Reclamation, Construction of Steel Sheet Pile Wall, Mooring & Fendering)	311.524	93.28%

*Also a Gateway Port
**Head Office-Implemented Projects

In its 32 years of existence, the PPA has remained on a stable financial footing amidst dynamic factors in its operating environment. Proof of this is the consistent streak of good financial performance which saw 2006 as not deviating from this established pattern. The generally enhanced business and economic climate characterized by significant improvement in foreign trade and favorable ratings and market assessment made by various international credit rating organizations generated an upbeat prognosis for the Philippine economy in 2006.

With renewed international confidence on the country's steady economic recovery, transaction activities at the ports, particularly with respect to foreign cargo volume, became markedly energized in 2006. The growth in foreign business volume coupled with stronger trade relations with our neighbors like China and Japan likewise contributed in no small measure to the improved performance of the export/import sector, as well as the services and industrial sectors which in turn kept our ports preoccupied and in operation 24/7. This is evident in our favorable streams of income generated largely from our cargo handling operations as well as fixed fee and variable fee remittances from our authorized global port terminal services operators/providers, notably the International Container Terminal Services, Inc. (ICTSI) and Asian Terminals, Inc. (ATI).

With foreign cargo volumes surging, domestic trade however exhibited flat but still stable growth. Despite the noticeable drop in the domestic cargo throughput as an immediate effect of the RRTS policy which provided shippers significant tariff leeway in transporting cargoes thru the RRTS route, the PPA managed to maintain a comfortable domestic volume.

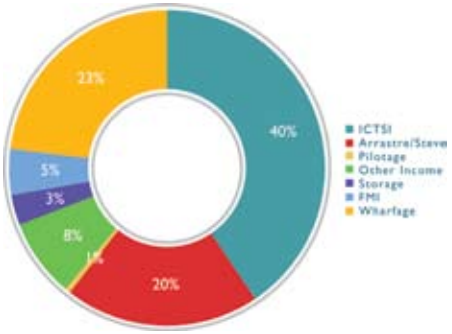
"With renewed international confidence on the country's steady economic recovery, transaction activities at the ports, particularly with respect to foreign cargo volume, became markedly energized in 2006."

The PPA policy that strongly advocated measures on financial discipline and prudent fund management has enabled it to weather difficult challenges and kept its overall financial performance relatively stable for the year 2006.

Revenue

This relatively stable financial performance continued in 2006 when it generated gross revenues of P6,018 million, up by 1.65% (P97.85 million) from P5,920 million posted in 2005. Earnings from port operations reached P5,772 million or 2.05 percent rise from the previous year's earnings of P5,862 million.

Port Revenue By Type
(in million pesos)
Jan. - Dec. 2006



By source, the bulk or P2.10 billion (35 percent) were revenues generated in the form of PPA's share of the fixed and variable fees from its authorized port operators - the Manila International Container Terminals (MICT) followed by revenues from wharfage at P1.20 billion (20 percent), government share on arrastre and stevedoring at P1.04 billion (17 percent), port dues and dockage at P811 million (13 percent) and other income at P425 million (7 percent). In terms of revenue by tariff items, increases were noted on the following (i) foreign vessel charges, (ii) wharfage (foreign); (iii) share in Arrastre/ Stevedoring, and (iv) other income. Other income include revenue from non-traditional income and special take-over units.

This year's Fund Management Income (FMI) was recorded at P246 million, 6.92 percent lower than last year's figures, mainly due to the reduced temporary investments and hence reduced idle cash on account of marked increase

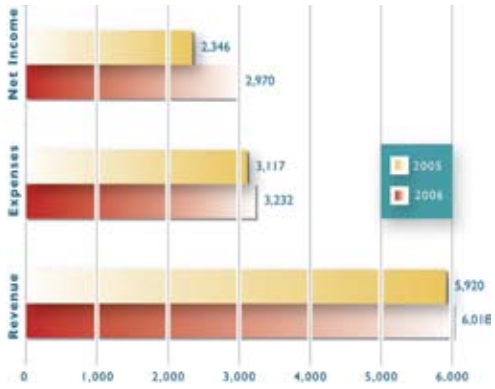
The PPA policy that strongly advocated measures to weather difficult challenges and kept its overall financial performance relatively stable for the year 2006.

in expenditures for various port development projects. FMI is derived from time deposit placements and investments in government securities.

Expenditures

On the expense side, actual spending for 2006 stood at P3,232 million which is 3.57 percent higher than the previous year's expenditures of P3,117 million, notwithstanding austerity measures in place, due notably to higher actual spending on repair and maintenance of ports nationwide, which soared by 127 percent. This is because of the increasing number of ports and facilities being maintained along with the rise in the cost of utilities and other services. The increased maintenance expense, however, gives assurance that port efficiency will not be sacrificed.

Revenues, Expenses & Net Income 2006 vs 2005
(in million pesos)



On the whole, actual expenditures were lower by P1,427 million or 31 percent as compared to the projected expense, enabling the Authority to tip a comfortable scale of margin between its revenues and expenses.

Net Income

Net income before tax was marked at P2,970 million which is P624 million or 17.38 percent lower than the previous year's income level.

Collection Efficiency

Accounts Receivables – Trade refers to the amount due from port users/customers resulting from the trading or business operations of PPA's field offices. At the end of 2006, this only amounted to P619.85 million consisting of P182.98 million Prior Years' (PY) Account and P436.86 million Current Year (CY) Account. CY collection efficiency ratio (CER) stood at a high 92.43% while PY Accounts CER reached 67.82% exceeding the year's performance target of 60%.

Dividend Remittances to the National Government

PPA is among the viable government corporations which have remained conscientious in complying with its obligation to remit to the national coffers a mandated portion of its annual income to help augment the National Government's resources. Based on audited financial report as of December 31, 2006, PPA's dividend declarations amounted to P1.638 billion or about 65% higher than the previous year's remittances.

Table 7: Accounts Receivables – Trade
(In Million Pesos)

		Amount	%
Prior Years' (PY) Accounts			
PY Accounts as of 31 Dec. 2005	P	568.62	100.00
Collected/Settled		385.64	67.82
PYs' Account Balance	P	182.98	32.18
Current Year's (CY) Accounts			
CY Operating Revenue	P	5,764.34	100.00
Collected/Settled	P	5,327.47	92.43
CYs' Account Balance		436.87	7.57
Current Year's (CY) Accounts			
PYs' Account Balance	P	182.98	
CYs' Account Balance		436.87	
Total	**P**	**619.85**	

Performance Audit

As an institutionalized operating set-up, PPA has in place performance standards and internal auditing mechanisms. The objectives are manifold and may include the following: (i) to determine the degree to which corporate funded programs and activities are accomplishing their goals and objectives; (ii) to provide measurements of program results and effectiveness; (iii) to evaluate efficiency in the allocation of resources; (iv) to assess the extent of compliance of each unit or external service provider with applicable laws, regulations, policies and procedures; (iv) to assess the ability of its units and service providers/contractors to comply with performance/service standards (vi) to evaluate the adequacy, reliability and effectiveness of financial and management reporting systems and procedures; (vii) to institute proper safeguards for the protection of corporate resources and assets; and (viii) more recently, to evaluate the adequacy of the internal control structures in the management of risks.

The Internal Control Department, together with the Internal Control Services Staff of the Port District Offices (PDOs), spearheads this critical function of measuring each responsible unit's or service contractor's actual performance vis-à-vis the institutionalized benchmarks, identifying gaps and recommending measures to address gaps, if any.

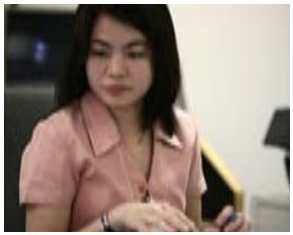
For the year 2006, a total of sixty-five (65) audits were conducted as follows: Cargo Handling Operators (19 audits), Special Take-over Units (16 audits) and Terminal Offices (15 audits). In addition, ten (10) locally funded projects where likewise audited during the year in review.

Results of the performance audit on various units, projects and service contractors serve as guideposts for the Management in its day-to-day and long-term decision-making processes geared towards promoting efficiency, transparency and accountability in all aspects of its operations.

Global Networks & Partnership

It is PPA's vowed commitment to maintain its cooperative ties with its regional counterparts in various areas of concern in the maritime, shipping and port sectors.

In 2006, PPA enhanced its international linkages through various conferences and gatherings, principally through the Asean Ports Association (APA), whose Permanent Secretariat is headquartered in Manila. PPA was well represented and participated in the following fora, technical meetings and congress: (1) the 27th APA Working Committee Meeting in Kuantan, Malaysia on July 3-6, 2006; (2) the 12th ASEAN Maritime Transport Working Group Meeting in Bangkok, Thailand on August 14-16, 2006; (3) the Asean /APA/GTZ



In the 24/7 business of running the country's ports, the PPA has continually accorded equal importance to its corporate social responsibility of improving the economic and social plight of the marginalized segment of the communities where it operates.

Project on "Handling of Dangerous Goods in ASEAN Ports" Workshop on Harmonized Legal; Framework for Transport and Handling of Dangerous Goods and Emergency response in Bangkok, Thailand on August 15-18, 2006; (4) the Asean /APA/GTZ Project on "Handling of Dangerous Goods in ASEAN Ports" Workshop on Risk Assessment and Waste Management, Storage and Segregation and IMDG Code in Ho Chi Minh City on August 21-25, 2006; (5) the Maritime HR Summit 2006 in Singapore on October 30-31, 2006; (6) the 5th BIMP-EAGA Small and Medium Enterprises Development (SMED) in Bandung, Indonesia on November 4-6, 2006; and (7) the East Asian Seas Congress in Ho Chi Minh City on August 21-25, 2006.

Other regional APA conferences of note which PPA actively participated in were as follows: (1) the ASEAN Ports Familiarization Program in Bintulu, Sarawak, Malaysia on February 21-23, 2006; (2) the Mid-Term Seminar-Workshop on the APA Project on "Handling of Dangerous Goods in Asean Ports" in Jakarta, Indonesia on March 20-24, 2006; (3) the 11th Asean Maritime Transport Working Group Meeting in Phuket, Thailand on April 4-5, 2006; (4) the TLS Congress APAC 2006 in Kuala Lumpur, Malaysia on April 4-5, 2006; and (5) the 4th Asean Ports and Shipping in Kuala Lumpur, Malaysia on June 6-7, 2006.

Locally, it is also in 2006 that PPA reactivated the National Port Advisory Council (NPAC) to transform it into a potent organization for the ventilation of resolution of issues that are critical in the development, management and operation of its ports. A new set of comprehensive and integrated procedures in the operation of the NPAC was established to address organizational issues that affect its continuous operations such as inter-locking representation, difficulty in mustering quorum and continuity of representation.

PPA Administrative Order No. 04-2006 titled "Revised Guidelines in the Operation of the National Port Advisory Council" was issued in October 2006 which trimmed down the number of members to a more manageable level. While the membership in the Council was limited to those sectors specifically identified in the PPA Charter (e.g. customs, labor, chamber of commerce, import and export group, shipping, arrastre and stevedoring and consumer group) PPA AO 04-2006 introduced a new mechanism for the participation of non-members in the discussion and deliberation of various issues that would affect their interests. Further, a more liberal scheme was provided in appointing, designating and replacing official representatives in the Council instead of restricting members' tenure to a defined period.

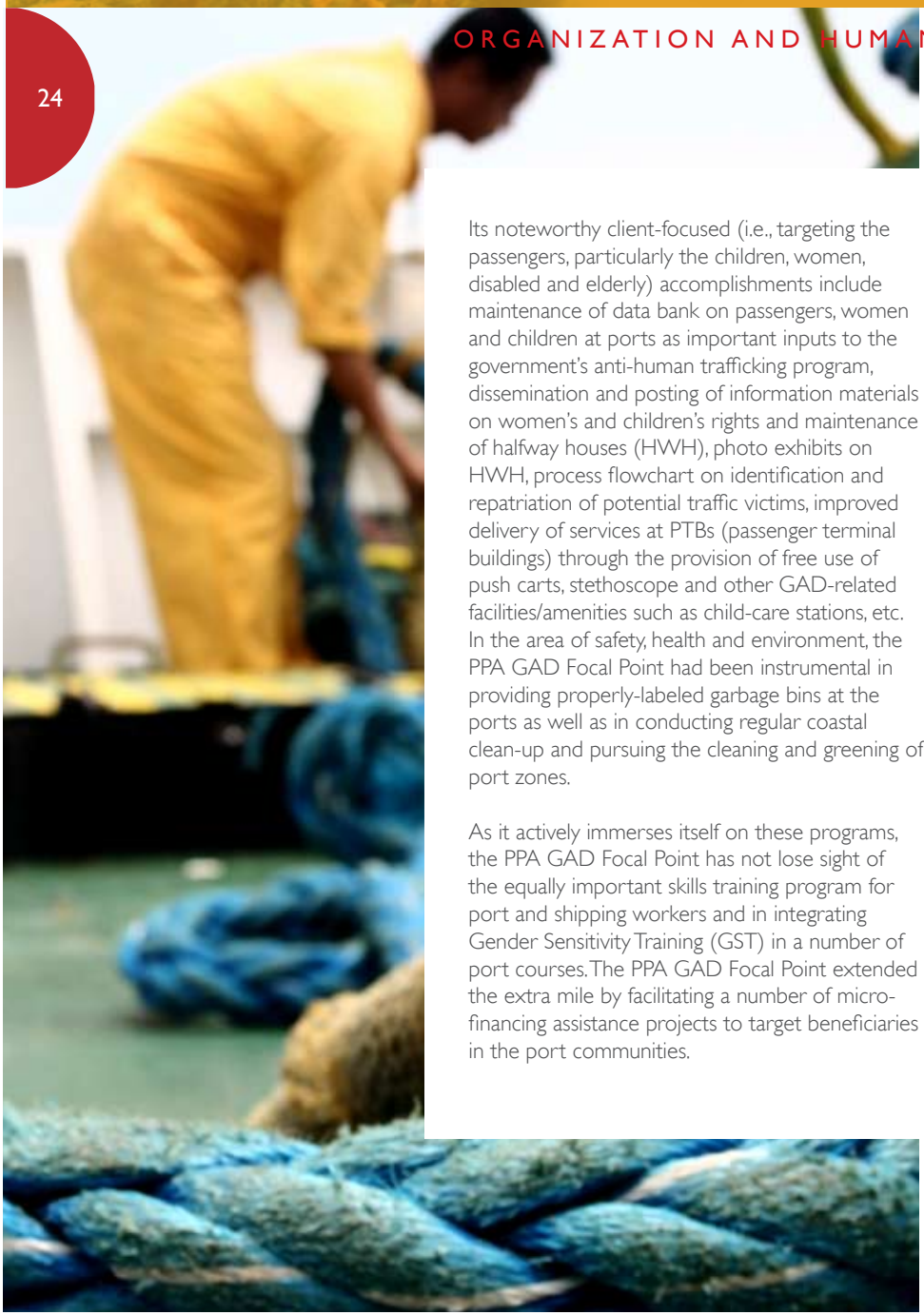
PPA is optimistic that, with this new set up, its partnership with the private sector will be further strengthened particularly in the formulation of policies and determination of priority areas in the administration of ports which are essential in the promotion and maintenance of industrial peace.

Caring for the Port Community

In the 24/7 business of running the country's ports, the PPA has continually accorded equal importance to its corporate social responsibility of improving the economic and social plight of the marginalized segment of the communities where it operates. By pursuing socially directed projects and initiatives, PPA aims to complement the government poverty-alleviation thrusts.

In 2006, the PPA, primarily through its Gender and Development (GAD) Focal Point, implemented a broad-based social enhancement program geared towards the organization itself and the clients it serves. Of its overall 90 target activities for the medium-term, the PPA GAD Focal Point successfully implemented a total of 53-programmed activities or an accomplishment rate of 59 % as of 2006.

Organizational-focused activities involved such key areas as information dissemination and advocacy, safety/health/environment, gender mainstreaming and general administration/support services/ multiple burden. On the other hand, client-focused activities aims to advocate appropriate interventions, specifically on such socially sensitive areas as violations against personhood and human trafficking and implementing projects and activities centering on gender mainstreaming, establishment of sex-disaggregated data, improved service delivery for port users, port workers skills training and pro-poor projects.



Its noteworthy client-focused (i.e., targeting the passengers, particularly the children, women, disabled and elderly) accomplishments include maintenance of data bank on passengers, women and children at ports as important inputs to the government's anti-human trafficking program, dissemination and posting of information materials on women's and children's rights and maintenance of halfway houses (HWH), photo exhibits on HWH, process flowchart on identification and repatriation of potential traffic victims, improved delivery of services at PTBs (passenger terminal buildings) through the provision of free use of push carts, stethoscope and other GAD-related facilities/amenities such as child-care stations, etc. In the area of safety, health and environment, the PPA GAD Focal Point had been instrumental in providing properly-labeled garbage bins at the ports as well as in conducting regular coastal clean-up and pursuing the cleaning and greening of port zones.

As it actively immerses itself on these programs, the PPA GAD Focal Point has not lose sight of the equally important skills training program for port and shipping workers and in integrating Gender Sensitivity Training (GST) in a number of port courses. The PPA GAD Focal Point extended the extra mile by facilitating a number of micro-financing assistance projects to target beneficiaries in the port communities.

More importantly, the PPA GAD-Focal Point through the halfway houses or Bahay Silungan sa Daungan (BSD) it helped to fund and construct has elicited accolade from various groups (government, NGOs, private entities and international organizations) in terms of best international practice in the fight against human trafficking. While the original objective of these facilities is the provision of temporary shelter for stranded passengers, its role evolved into an effective medium in preventing human trafficking, specifically women and children. Inspired by the social impact of the first BSD at Manila North Harbor in 2001, the facility was replicated at the Ports of Batangas, Matnog and Davao where passenger traffic is dense in the succeeding years. In the last six years, the existing halfway houses have provided services to a total of 18,590 victims and potential victims of trafficking, of which 22 percent are children and 69 percent are female.

In 2006, PPA renewed its pact with the Visayan Forum Foundation, Inc. (VFFI) – an NGO which manages and operates the BSDs in PPA's major ports. The Philippines continuing campaign against human trafficking, through the PPA-GAD, received backing from the US Agency for International Development (USAID) and the U.S. Department of State. The expression of support was formalized with the turn-over of US$250,000.00 grant to VFFI during the US officials' visit at the halfway house at Port of Davao.

Human Resource Development

PPA is an organization committed to taking care of the professional growth of its personnel through relevant and calibrated training and skills development program that is responsive to their actual needs and seeks to promote growth in their career paths. Consistent with its vision

PPA has made it a priority to provide its employees opportunities to enhance their access to knowledge-based information systems and keep them abreast with emerging and current technological trends in the fields of port operations

for a highly professionalized and skilled pool of workforce, PPA has made it a priority to provide its employees opportunities for higher education to build their skills and competencies, enhance their access to knowledge-based information systems and keep them abreast with emerging and current technological trends in the fields of port operations, management, engineering and finance.

Despite budgetary constraints due to government mandated austerity measures, PPA through its Human Resource Management Department has intensified its capabilities in accessing various government-to-government foreign study grants as well as special training and project-based grants to its qualified personnel. It has likewise continuously rationalized its efforts in providing adequate developmental training within allowable resources by coordinating with a host of local and foreign educational and training institutions to ensure that PPA personnel access the best possible educational and training courses.

In 2006, PPA invested P3.39 million in manpower development through various scholarship programs and specialized training and skills improvement courses. A total of 25 personnel benefited from 17 foreign scholarships and training grants in the fields of water science and engineering, port facility maintenance, port security, transport and handling of dangerous goods, port management and operations, economics, risk assessment, waste management, emergency response training, coastal/hydraulic engineering and management. Recipients of foreign scholarships completed their courses in the following countries: Netherlands, Singapore, Indonesia, Malaysia, Japan, Thailand, Vietnam and Sweden.

The National Scholarship Program for Development (NSPD) reaped for PPA additional graduates of Public Administration and Masters in Government Management from the state-owned university – Pamantasan ng Lungsod ng Maynila. The Scholarship Program is in line with the government's continuing effort to professionalize public service.

On the other hand, 185 participants were recipients of 47 various local courses handled by government and private organizations. PPA's training arm, the PPA Training Center or PPATC, complemented the external local courses by conducting 29 in-house organic courses (these were pre-screened based on employees' training needs analysis) benefiting 1,081 employees and 29 non-organic courses benefiting some 1,145 participants.

Finally, recognizing the need to have an effective management succession plan, PPA has been undertaking a screening of the current crop of division managers and section chiefs nationwide to assess their readiness to assume higher management responsibilities. The objective is to provide them with the necessary development interventions on succession management. HRMD identified a total of 73 Division Managers and 100 Sections Chiefs as qualified participants.

CARGO THROUGHPUT (in m.t.)

By Port District/Port Management Office
At Berth and Anchorage

PDO/PMO	2006			2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
PDO - MANILA/NORTHERN LUZON	**65,261,422**	**26,975,428**	**38,285,994**	**65,861,349**	**28,224,922**	**37,636,427**
North Harbor	16,723,148	13,766,511	2,956,637	16,192,794	13,191,003	3,001,791
South Harbor	12,940,052	6,885,423	6,054,629	13,696,464	7,931,814	5,764,650
MICT	14,489,198	924	14,488,274	14,851,220	2,894	14,848,326
Limay	18,726,745	6,156,379	12,570,366	17,508,682	6,762,887	10,745,795
San Fernando	2,382,279	166,191	2,216,088	3,612,189	336,324	3,275,865
PDO - SOUTHERN LUZON	**26,603,815**	**12,129,807**	**14,474,008**	**26,785,840**	**13,393,299**	**13,392,541**
Batangas	19,226,745	6,342,272	12,884,473	19,580,417	7,466,556	12,113,861
Calapan	1,560,919	1,560,919	0	1,615,519	1,615,519	0
Legazpi	3,551,339	3,264,179	287,160	3,566,560	3,355,273	211,287
Puerto Princesa	2,264,812	962,437	1,302,375	2,023,344	955,951	1,067,393
PDO - VISAYAS	**18,443,181**	**14,078,628**	**4,364,553**	**20,623,106**	**16,616,626**	**4,006,480**
Dumaguete	1,661,814	1,258,950	402,864	1,448,481	1,328,155	120,326
Iloilo	3,793,932	3,522,616	271,316	3,951,235	3,680,053	271,182
Ormoc	5,000,892	2,500,597	2,500,295	4,889,342	2,659,452	2,229,890
Pulupandan	4,674,411	4,242,072	432,339	4,173,303	3,733,987	439,316
Tacloban	1,194,470	1,044,828	149,642	3,478,912	3,216,889	262,023
Tagbilaran	2,117,662	1,509,565	608,097	2,681,833	1,998,090	683,743
PDO - NORTHERN MINDANAO	**30,186,739**	**11,259,485**	**18,927,254**	**28,445,763**	**13,279,643**	**15,166,120**
Cagayan de Oro	19,136,459	6,368,602	12,767,857	17,635,068	5,559,492	12,075,576
Iligan	3,103,007	1,620,008	1,482,999	3,926,141	2,757,209	1,168,932
Nasipit	1,702,884	1,462,074	240,810	1,549,888	1,517,574	32,314
Ozamiz	1,317,783	1,167,407	150,376	2,637,589	2,449,340	188,249
Surigao	4,926,606	641,394	4,285,212	2,697,077	996,028	1,701,049
PDO - SOUTHERN MINDANAO	**13,845,621**	**8,397,127**	**5,448,494**	**13,520,689**	**7,890,226**	**5,630,463**
Cotabato	101,661	101,661	0	87,397	87,397	0
Davao	8,475,482	3,959,496	4,515,986	8,204,825	3,676,140	4,528,685
General Santos	2,956,603	2,173,528	783,075	2,729,278	1,808,974	920,304
Zamboanga	2,311,875	2,162,442	149,433	2,499,189	2,317,715	181,474
GRAND TOTAL	**154,340,778**	**72,840,475**	**81,500,303**	**155,236,747**	**79,404,716**	**75,832,031**

NUMBER OF SHIPCALLS

By Port District/Port Management Office
At Berth and Anchorage

PDO/PMO	2006			2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
PDO - MANILA/NORTHERN LUZON	**24,406**	**19,326**	**5,080**	**27,049**	**21,740**	**5,309**
North Harbor	5,559	5,054	505	5,403	4,932	471
South Harbor	8,006	6,252	1,754	8,977	7,172	1,805
MICT	2,031	1	2,030	2,046	4	2,042
Limay	8,100	7,665	435	9,493	9,068	425
San Fernando	710	354	356	1,130	564	566
PDO - SOUTHERN LUZON	**78,778**	**77,692**	**1,086**	**80,061**	**78,938**	**1,123**
Batangas	36,670	35,788	882	37,121	36,148	973
Calapan	18,234	18,234	0	18,761	18,761	0
Legazpi	18,157	18,081	76	18,020	17,964	56
Puerto Princesa	5,717	5,589	128	6,159	6,065	94
PDO - VISAYAS	**109,483**	**108,941**	**542**	**108,839**	**108,339**	**500**
Dumaguete	35,957	35,908	49	29,698	29,648	50
Iloilo	18,493	18,395	98	20,006	19,942	64
Ormoc	11,051	10,829	222	10,582	10,371	211
Pulupandan	21,036	20,962	74	22,455	22,383	72
Tacloban	7,426	7,352	74	9,896	9,827	69
Tagbilaran	15,520	15,495	25	16,202	16,168	34
PDO - NORTHERN MINDANAO	**53,295**	**52,401**	**894**	**55,150**	**54,326**	**824**
Cagayan de Oro	15,151	14,594	557	15,892	15,348	544
Iligan	13,863	13,672	191	14,042	13,888	154
Nasipit	1,196	1,186	10	1,317	1,296	21
Ozamiz	14,923	14,896	27	14,951	14,900	51
Surigao	8,162	8,053	109	8,948	8,894	54
PDO - SOUTHERN MINDANAO	**40,145**	**37,987**	**2,158**	**48,665**	**46,513**	**2,152**
Cotabato	853	853	0	1,118	1,118	0
Davao	21,933	20,180	1,753	27,893	26,196	1,697
General Santos	1,431	1,126	305	1,525	1,186	339
Zamboanga	15,928	15,828	100	18,129	18,013	116
GRAND TOTAL	**306,107**	**296,347**	**9,760**	**319,764**	**309,856**	**9,908**

NO. OF CONTAINERS HANDLED (in T.E.U.)

By Port District/Port Management Office

PDO/PMO	2006			2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
PDO - MANILA/NORTHERN LUZON	**2,722,168**	**810,324**	**1,911,844**	**2,662,725**	**813,604**	**1,849,121**
North Harbor	608,017	608,017	0	578,621	578,621	0
South Harbor	916,277	199,970	716,307	873,284	232,222	641,062
MICT	1,195,023	42	1,194,981	1,208,232	216	1,208,016
Limay	2,851	2,295	556	2,588	2,545	43
San Fernando	0	0	0	0	0	0
PDO - SOUTHERN LUZON	**19,390**	**19,385**	**5**	**24,435**	**24,210**	**225**
Batangas	392	387	5	854	629	225
Calapan	1,030	1,030	0	1,174	1,174	0
Legazpi	1,671	1,671	0	2,625	2,625	0
Puerto Princesa	16,297	16,297	0	19,782	19,782	0
PDO - VISAYAS	**233,401**	**233,401**	**0**	**228,269**	**228,269**	**0**
Dumaguete	24,427	24,427	0	26,633	26,633	0
Iloilo	96,096	96,096	0	102,316	102,316	0
Ormoc	9,017	9,017	0	9,391	9,391	0
Pulupandan	83,441	83,441	0	63,366	63,366	0
Tacloban	5,804	5,804	0	9,388	9,388	0
Tagbilaran	14,616	14,616	0	17,175	17,175	0
PDO - NORTHERN MINDANAO	**331,425**	**294,540**	**36,885**	**337,420**	**296,677**	**40,743**
Cagayan de Oro	231,700	194,815	36,885	226,316	185,573	40,743
Iligan	24,499	24,499	0	24,953	24,953	0
Nasipit	34,000	34,000	0	42,349	42,349	0
Ozamiz	36,918	36,918	0	38,488	38,488	0
Surigao	4,308	4,308	0	5,314	5,314	0
PDO - SOUTHERN MINDANAO	**478,979**	**313,154**	**165,825**	**457,215**	**335,214**	**122,001**
Cotabato	0	0	0	0	0	0
Davao	309,594	167,509	142,085	270,512	171,936	98,576
General Santos	109,160	85,420	23,740	122,610	99,185	23,425
Zamboanga	60,225	60,225	0	64,093	64,093	0
GRAND TOTAL	**3,785,363**	**1,670,804**	**2,114,559**	**3,710,064**	**1,697,974**	**2,012,090**

PASSENGER TRAFFIC

By Port District/Port Management Office
At Berth and Anchorage

PDO/PMO	2006			2005		
	Total	Dissembarked	Embarked	Total	Dissembarked	Embarked
PDO - MANILA/NORTHERN LUZON	**3,197,927**	**1,653,960**	**1,543,967**	**4,058,822**	**2,087,630**	**1,971,192**
North Harbor	1,357,882	701,174	656,708	1,770,937	941,758	829,179
South Harbor	1,776,429	919,868	856,561	1,988,593	996,532	992,061
MICT	0	0	0	0	0	0
Limay	63,616	32,918	30,698	299,292	149,340	149,952
San Fernando	0	0	0	0	0	0
PDO - SOUTHERN LUZON	**10,969,029**	**5,198,109**	**5,770,920**	**10,929,443**	**5,651,845**	**5,277,598**
Batangas	4,602,680	2,079,256	2,523,424	3,903,252	2,113,866	1,789,386
Calapan	3,081,410	1,482,188	1,599,222	3,526,885	1,803,743	1,723,142
Legazpi	2,916,975	1,449,862	1,467,113	3,124,889	1,541,281	1,583,608
Puerto Princesa	367,964	186,803	181,161	374,417	192,955	181,462
PDO - VISAYAS	**14,982,135**	**7,604,548**	**7,377,587**	**16,820,257**	**8,480,319**	**8,339,938**
Dumaguete	2,771,706	1,401,595	1,370,111	2,757,047	1,390,848	1,366,199
Iloilo	2,480,910	1,280,558	1,200,352	3,037,755	1,518,369	1,519,386
Ormoc	1,915,717	959,592	956,125	2,079,937	1,043,832	1,036,105
Pulupandan	2,845,245	1,452,255	1,392,990	3,081,258	1,566,743	1,514,515
Tacloban	1,914,979	979,969	935,010	2,127,903	1,076,703	1,051,200
Tagbilaran	3,053,578	1,530,579	1,522,999	3,736,357	1,883,824	1,852,533
PDO - NORTHERN MINDANAO	**8,466,671**	**4,298,477**	**4,168,194**	**10,103,157**	**5,104,002**	**4,999,155**
Cagayan de Oro	1,807,267	898,191	909,076	2,176,330	1,092,377	1,083,953
Iligan	2,063,576	1,035,293	1,028,283	2,482,470	1,233,950	1,248,520
Nasipit	474,394	260,388	214,006	619,526	321,897	297,629
Ozamiz	2,862,394	1,447,680	1,414,714	3,375,410	1,704,547	1,670,863
Surigao	1,259,040	656,925	602,115	1,449,421	751,231	698,190
PDO - SOUTHERN MINDANAO	**4,940,243**	**2,497,243**	**2,443,000**	**6,740,683**	**3,411,797**	**3,328,886**
Cotabato	76,202	36,414	39,788	171,712	82,387	89,325
Davao	1,476,978	767,632	709,346	2,000,266	1,014,286	985,980
General Santos	178,532	88,924	89,608	194,232	96,407	97,825
Zamboanga	3,208,531	1,604,273	1,604,258	4,374,473	2,218,717	2,155,756
GRAND TOTAL	**42,556,005**	**21,252,337**	**21,303,668**	**48,652,362**	**24,735,593**	**23,916,769**

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

The Board of Directors
Philippine Ports Authority
Marsman Building, Gate I
Port Area, Manila

We have audited the accompanying balance sheet of the Philippine Ports Authority as of December 31, 2006, and the related statements of operations, changes in net worth and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Port infrastructures worth $45.660 million or approximately more than P2.345 billion constructed by the cargohandler operator at the South Harbor of Manila were not recorded in the books of the Authority due to varied interpretation of the contract provision thus, understating the Property and Equipment and other related accounts. In accordance with the provision of the agreement, these assets invested in consideration for the extension of the term of the exclusive cargohandling service contract at South Harbor, automatically belong to the Authority. With management's decision to defer in Year 2007 the recognition of the results of the appraisal conducted by the Royal Asia Appraisal Corporation, the Property and Equipment account as of December 31, 2006 is also understated with the unrecorded values of lands at different Terminal Management Offices of the Authority. Furthermore, the account is misstated with the P416.161 million cost of completed wharf recorded under the Fixed Asset In-Process account, as well as the inclusion of damaged and unserviceable assets of P18.538 million, and serviceable structures with unrealistic net carrying value of only P1.00 each totaling P18.490 million.

The accuracy of Port Revenues derived from the variable fees remitted by the cargohandlers ATI and the International Container Terminal Services Inc. (ICTSI), and the government share on pilotage fees remitted by Harbor Pilots Association cannot be ascertained. We were not able to verify and satisfy ourselves on the correctness of the amounts of remittances which are computed as certain percentage of their income from arrastre, stevedoring, and other sources in the absence of independent set of documents by which

their reported gross income could be counterchecked. Further, there is inconsistency in the measurements of dollar denominated collections of port revenues. The US dollar fixed fees collected from the cargohandlers are converted into pesos using the Bangko Sentral ng Pilipinas (BSP) spot or guiding rate prevailing at the time of payment whereas the computed BSP fifteen (15) day average rate is used in determining the peso equivalent of dockage, berthing fees, and anchorage fees collected in dollars from other port users. Band insufficiency and deficiencies in the computerized system under the MIS Computerization Project likewise resulted in unrecorded transactions of more than P5.35 million and inaccurate financial reports in pilot areas thereby casting doubts on the correctness of the reported revenues from operations.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary on the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Philippine Ports Authority as of December 31, 2006, and the results of its operation and its cash flows for the year ended in conformity with generally accepted state accounting principles in the Philippines.

As stated in Notes 4 and 12, lands in the total amount of P52.87 billion as at December 31, 2006 were recorded based on their appraised values. These properties were acquired either thru transfers by the National Government as capital contribution, purchase with or without the exercise of the power of eminent domain, or reclamation from the sea. Several court decisions have been issued on the ownership of reclaimed lands and lands of public dominion. These and the issuance of Executive Orders granting usufructuary rights to the Authority as administrator, create legal implications casting doubt on management's assertions on the Authority's ownership and rights over the recorded lands and the propriety of their valuation and presentation.

The Authority is a party litigant in several lawsuits, the ultimate outcome of which cannot presently be determined. The three pending cases disclosed in Note 34 could radically affect the Authority's financial position.

COMMISSION ON AUDIT

BY:

MA. CRISTINA DIZON-DIMAGIBA
Director IV

March 30, 2007

BALANCE SHEET

December 31, 2006
(With Comparative Figures as of December 31, 2005)

		2006		2005
ASSETS				
Current Assets				
Cash on Hand and in Banks (Note 5)	P	**894,380,167**	P	1,195,161,773
Accounts Receivable - Net (Note 6)		**437,305,609**		456,423,325
Notes Receivable (Note 7)		**1,830,386**		1,904,195
Other Receivables (Note 8)		**474,951,313**		422,389,396
Inventories (Note 9)		**121,767,331**		116,551,150
Prepayments (Note 10)		**905,739,086**		642,877,854
Other Current Assets (Note 11)		**7,869,621**		7,258,068
Total Current Assets		**2,843,843,513**		2,842,565,761
Non-Current Assets				
Property and Equipment - Net (Note 12)		**74,157,138,348**		72,538,298,242
Other Non-Current Assets (Note 13)		**4,120,608,851**		4,396,027,278
Total Non-Current Assets		**78,277,747,199**		76,934,325,520
		81,121,590,712		79,776,891,281
LIABILITIES AND NET WORTH				
Current Liabilities				
Accounts Payable (Note 14)		**1,717,791,590**		1,585,490,489
Other Current Liabilities (Note 15)		**419,515,487**		353,275,757
Current Portion of Public Debt-Foreign (Note 16)		**432,125,801**		493,635,745
Accrued Interest Payable		**4,900,303**		7,556,418
Total Current Liabilities		**2,574,333,181**		2,439,958,409
Non-Current Liabilities				
Public Debt - Foreign -Net of Current Portion (Note16)		**6,657,380,561**		6,804,700,402
Net Worth		**71,889,876,970**		70,532,232,470
	P	**81,121,590,712**	P	79,776,891,281

See accompanying Notes to Financial Statements.

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2006
(With Comparative Figures for the Year Ended December 31, 2005)

		2006		2005
REVENUE				
Fixed Fee - ICTSI (Note 22)	P	2,107,207,685	P	2,100,466,306
Wharfage Dues		1,205,868,313		1,212,839,623
Share in Arrastre/Stevedoring Income		1,043,409,215		939,436,132
Port Dues/Harbor Fees		300,421,488		306,399,231
Dockage - Berthing		280,905,183		285,238,346
Fund Management Income (Note 23)		246,014,864		264,315,252
Port Usage Fees		159,548,566		167,239,777
Storage Charges		151,883,324		152,919,273
Dockage-Anchorage		69,938,632		49,965,656
Pilotage		26,983,739		28,051,945
Lay up Fee		798,550		-
Other Income (Note 24)		425,235,949		413,488,797
		6,018,215,508		5,920,360,338
OPERATING EXPENSES (Schedule)				
Personal Services		955,286,393		928,004,591
Maintenance and Other Operating Expenses		2,277,180,919		2,189,063,200
		3,232,467,312		3,117,067,791
INCOME FROM OPERATIONS		2,785,748,196		2,803,292,547
OTHER GAINS (LOSSES)				
Gain (Loss) on Revaluation (Note 25)		193,757,488		784,861,339
Gain (Loss) on Foreign Exchange (Note 26)		(3,905,128)		34,559,153
Loss on Disposal of Assets (Note 32)		(4,684,251)		(26,817,174)
		185,168,109		792,603,318
INCOME BEFORE INCOME TAX		2,970,916,305		3,595,895,865
PROVISION FOR INCOME TAX		302,676,472		340,640,000
NET INCOME	P	2,668,239,833	P	3,255,255,865

See accompanying Notes to Financial Statements.

SCHEDULE OF OPERATING EXPENSES

For the Year Ended December 31, 2006
(With Comparative Figures for the Year Ended December 31, 2005)

		2006		2005
Personal Services				
Salaries and Wages	P	**433,780,009**	P	429,755,063
Other Staff Benefits (Note 27)		**453,795,195**		432,332,749
Social Security Premiums		**63,447,551**		63,729,490
Manpower Development		**3,399,464**		1,301,619
Professional Fees		**864,174**		885,670
		955,286,393		928,004,591
Maintenance and Other Operating Expenses				
Depreciation Charges		**810,299,918**		761,161,013
Repairs and Maintenance (Note 29)		**345,922,726**		152,652,101
Dredging (Note 28)		**260,172,397**		202,726,904
Interests and Bank Charges		**102,634,603**		223,765,404
Security Services		**149,663,959**		124,081,926
Light, Power and Water		**138,943,279**		142,027,947
Bad Debts (Note 30)		**73,943,731**		14,621,707
Auditing Services		**44,141,995**		40,158,004
Supplies and Materials		**20,880,651**		23,131,122
Maintenance of Motor Vehicles		**20,261,205**		16,592,118
Travelling Expenses		**19,832,539**		16,120,621
Communication Expenses		**19,046,490**		18,450,696
Taxes, Licenses and Fees		**18,927,880**		225,980,602
Representation and Transportation		**18,915,557**		18,929,282
Rent		**12,857,051**		12,264,455
Insurance		**9,234,886**		20,177,984
Discretionary Expenses/Intelligence Fund		**8,010,237**		8,000,000
Meeting and Conferences		**7,209,304**		6,416,154
Medical Expenses		**4,907,902**		12,068,894
Discretionary Expenses/Board		**3,686,346**		899,451
Grants, Subsidies, Contribution and etc.		**3,238,084**		12,245,343
Registration and Insurance of Motor Vehicles		**2,897,848**		1,265,977
Advertising and Promotions		**638,294**		561,751
Athletics and Cultural Expenses		**889,673**		86,327
Representation Expenses		**257,621**		273,486
Amortization Charges		**208,346**		10,790,752
Miscellaneous Expenses (Note 31)		**179,558,397**		123,613,179
		2,277,180,919		2,189,063,200
	P	**3,232,467,312**	P	3,117,067,791

See accompanying Notes to Financial Statements.

STATEMENT OF CHANGES IN NET WORTH

For the Year Ended December 31, 2006
(With Comparative Figures for the Year Ended December 31, 2005)

		2006		2005
CAPITAL CONTRIBUTION (Note 17)				
Balance at the Beginning of the Year	P	4,327,107,179	P	4,322,015,768
Donations Received from National Government		-		5,091,411
Transferred total cost of suspended projects to ARMM and Cebu Port Authority		(18,598,539)		-
		4,308,508,640		4,327,107,179
DONATED SURPLUS (Note 18)				
Balance at the Beginning of the Year		586,667,624		586,217,270
Donation Received from LGU & Other Entities		(27,120)		450,354
		586,640,504		586,667,624
APPRAISAL SURPLUS (Note 19)				
Balance at the Beginning of the Year		51,775,601,014		51,777,502,696
Adjustments in Assets Appraised Values		(5,787,754)		(1,901,682)
		51,769,813,260		51,775,601,014
SURPLUS RESERVE (Note 20)				
Balance at the Beginning of the Year		353,530,180		368,088,301
Payments of Retirement Gratuity		(19,190,036)		(14,558,121)
		334,340,144		353,530,180
RETAINED EARNINGS (Note 21)				
Balance at the Beginning of the Year		13,489,326,473		10,229,576,097
Net Income for the Year		2,668,239,833		3,255,255,865
Dividends Declared		(1,638,401,166)		(992,075,384)
Correction of prior years' errors		371,409,282		996,569,895
		14,890,574,422		13,489,326,473
	P	71,889,876,970	P	70,532,232,470

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006
(With Comparative Figures for the Year Ended December 31, 2005)

		2006		2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Collection of Port Revenues	P	**5,301,565,711**	P	5,133,115,662
Receipt of Other Income		**425,245,949**		413,408,734
Fund Management Income		**246,014,864**		264,315,252
Cash Paid for Operating Expenses		**(2,901,203,237)**		(2,621,538,717)
Net Cash Received (Paid) on Trust Liabilities		**48,908,924**		(54,482,652)
Cash (Paid) on Interest Expense		**(9,553,572)**		(1,997,154)
Net Cash Received (Paid) on Depository Liabilities		**15,055,841**		(506,110)
Net Cash Received (Paid) on Guaranty Deposits		**(611,553)**		(383,325)
Net Cash Received (Paid) on Miscellaneous Liabilities		**2,628,900**		5,505,523
Net cash from operating activities		**3,128,051,827**		3,137,437,213
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Proceeds (Investments)		**397,767,862**		169,035,554
Payments for Construction in Progress		**(2,060,848,152)**		(1,410,769,564)
Fixed Assets Acquisition		**(434,191,791)**		(759,150,441)
Net cash used in investing activities		**(2,097,272,081)**		(2,000,884,451)
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan Availments		**912,896,100**		992,979,533
Loan Repayments		**(493,635,745)**		(568,256,482)
Dividend Payments		**(1,638,401,166)**		(613,499,398)
Calamity Loans Granted		**(25,136,661)**		(144,077,616)
Net cash used in financing activities		**(1,244,277,472)**		(332,853,963)
EFFECT OF EXCHANGE RATE ON CASH		**(87,283,880)**		(43,747,113)
NET INCREASE (DECREASE) IN CASH		**(300,781,606)**		759,951,686
CASH AT BEGINNING OF THE YEAR		**1,195,161,773**		435,210,087
CASH AT END OF THE YEAR	P	**894,380,167**	P	1,195,161,773

See accompanying Notes to Financial Statements.

1. AGENCY BACKGROUND

The Philippine Ports Authority (PPA) was created by virtue of Presidential Decree (PD) No. 505 dated 11 July 1974, revised by substitution on 23 December 1975 by PD 857. Its functions are to coordinate, streamline, improve and optimize the planning, development, financing, construction, maintenance and operations of ports or port system for the entire country. Subsequent amendments under Executive Order (EO) Nos. 523 & 546, issued on 16 November 1978 and 23 July 1979, respectively, as well as Letter of Instruction (LOI) dated 11 April 1981 further enhanced PPA's corporate powers to be more responsive to the requirements of optimum port utilization, development and operation. In Executive Order No. 159 dated 13 April 1987, corporate autonomy was reverted to the PPA to insure the rapid development of port or the port system directly under it and authority was granted to execute port projects under its port program. The PPA is not exempted from payment of all taxes, duties, fees, imports and other charges imposed directly or indirectly by the Republic of the Philippines and its instrumentalities.

The PPA is a government-owned corporation attached to the Department of Transportation and Communications for policy and program coordination. The corporate powers of the Authority are vested to its Board of Directors composed of eleven (11) members. Its top management is headed by a General Manager and three (3) Assistant Managers, one each for Engineering Services, for Operations and for Finance and Administrative Services. Delivering the front line services are five (5) Port District Offices (PDOs) and twenty-three (23) Port Management Offices (PMOs) and about ninety-four (94) Terminals or Satellite ports. A Port District Manager heads each Port District Office, exercising supervision over Port Management Offices that are headed by PMO Managers.

2. NEW DEVELOPMENTS IN THE PPA ACCOUNTING SYSTEM

In CY 2002, the Corporation embarked into its Philippine Ports Authority Management Information System Computerization Project, otherwise known as the PROMPT (Providing Reliable Operations and Management of Ports Thru Technology). It covers the automation of all aspects of the business processes of the Corporation across functions, from the PMOs, PDOs and Head Office operations. One of its components is the Accounting and Financial Management System (AFMS) that deals with the accounting and financial management processes which currently are on pilot test at the Head Office, the two Port District Offices of Luzon, the Port Management Offices of North and South Harbors in Manila and PMO Batangas. In the process of implementation, changes or enhancements are made to meet the requirements of end-users.

3. THE NEW GOVERNMENT ACCOUNTING SYSTEM

COA Circular No. 2004-02 dated 29 April 2004 prescribed the Chart of Accounts under the New Government Accounting System (NGAS) that is required for adoption by Government Owned and Controlled Corporations (GOCCs) starting CY 2005. The PPA, however, has not yet converted the balances of its accounts as of 31 December 2006 awaiting approval of the proposed additional accounts and because of the following reasons:

a) Issues and concerns in the conversion of its accounts under the Accounting and Financial Management System (AFMS) have not yet been resolved. A proposed mapping of accounts using the account codes in the AFMS as originally developed was submitted to the GAFMIS in March 2005; and

b) Complete adoption of the accounts prescribed in the NGAS would entail changes in business processes particularly those affecting the PDO and PMO transactions. Illustrative entries were submitted for evaluation on 09 January 2006.

Separate NGAS-compliant financial statements were generated for submission to the GAFMIS by converting the traditional accounts in the Revised Accounting Manual of the PPA to their equivalent accounts in the NGAS. Significant accounting policies prescribed under the NGAS were complied with in the recording of PPA transactions and in the preparation of the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Philippine Ports Authority has adopted the 2005 Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS). The consolidated financial statements until December 31, 2005 were prepared in accordance with the Statements of Financial Accounting Standards (SFAS). Pursuant to its Charter and loan covenant with the World Bank, the commercial or accrual basis of accounting has been followed since Year 1987. Adoption of the PFRS did not result in substantial changes in PPA's accounting policies. The new standards applicable to the PPA, with some affecting the financial results, are as follows:

- PFRS 1 on First-Time Adoption of Philippine Financial Reporting Standards, which requires an entity to comply with PFRS effective at the reporting date for its first PFRS financial statements.
- PAS 1 on the Presentation of Financial Statements, which provides a framework within which an entity assesses how to present fairly the effects of transactions and other events.
- PAS 2 on Inventories, which provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value.
- PAS 16 on Property, Plant and Equipment, which provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment.
- PAS 21 on The Effects of Changes in Foreign Exchange Rates, which provides additional guidance on the translation method of foreign currency denominated accounts into the currency in which the financial statements are presented. It also prescribes the accounting treatment for the resulting differences.
- PAS 38 on Intangible Assets, which requires discontinuance of amortization of intangible assets with indefinite lives.

Basis of the Financial Statements

The Authority follows the commercial system of accounting for financial transactions. Branch accounting is maintained for its PDOs/PMOs. Financial statements are prepared periodically by the PDOs/PMOs and submitted to the Head Office for consolidation. At the PDOs/PMOs, the Head Office Clearing Account takes the place of the customary capital accounts. This is credited for cash, goods or services received from the Head Office and for profits resulting from PDOs/PMOs operations. The account is charged for remittances made by the PDOs/PMOs to the Head Office and for losses from operations. The Head Office, in turn keeps a reciprocal account called PDO/PMO Clearing Account. This account is charged for cash, goods or services transferred to the PDOs/PMOs and for profits; it is credited for remittances from the PDOs/PMOs and for losses. The PDO/PMO Clearing Account indicates the amount invested in the PDOs/PMOs.

Recognition of Income, Expense and Income Tax

The Authority recognizes income and expense using the accrual system of accounting. For income tax purposes, net income less tax credit on its investment on fixed assets is declared. The tax credit is allowed under Section 25 of PD 857 dated 28 December 1975.

Foreign Exchange Transactions

Transactions in foreign currencies are recorded using the exchange rate in effect at the date of the transaction. PPA Memorandum Circular No. 16 dated October 6, 2006 clarified that the 15 day average Bangko Sentral ng Pilipinas (BSP) guiding rates prevailing at the time of issuance of the invoice computed by the Commercial Services Department shall be used in determining the peso value of the dollar denominated port charges due to PPA. Meanwhile, the remittances of cargo handling operators are converted into pesos using the BSP guiding rate prevailing at the time of payment in conformity with the contract agreements with the PPA.

The monetary asset or depository account and liabilities denominated in foreign currencies are restated using the BSP guiding rate of exchange as of balance sheet date.

Foreign exchange differences are treated as follows:

a) For loans identified with completed projects and those used to acquire invoiced assets, the gain or loss is recognized in current year's income/loss.

b) For loans related to assets still in-progress, the foreign exchange difference is capitalized and included in the carrying amount of the Fixed Asset-In Process.

c) For other foreign currency transactions, i.e. deposits in foreign currency, the gain or loss in foreign exchange fluctuation is recognized in the income or loss for the current period similar to item a).

Provision for Doubtful Accounts

Receivables are valued at face amounts minus allowances set up for doubtful accounts and for any anticipated adjustments which, in the normal course of events, will reduce the amount receivable from the debtor to estimated realizable values.

PPA Finance Memorandum Order No. 11-2006 dated July 21, 2006 revoked PPA Finance Memorandum Circular No. 01-2003 dated 18 December 2003. The amended rates on provisions for doubtful accounts are as follows:

Age (Days) of A/R Trade	1-15	16-30	31-90	91-180	181-365	Over 365	Dormant w/ Nil Chance
Rate of Allowance	1%	5%	10%	20%	40%	60%	100%

Under the new policy, the allowance provided for "dormant accounts without chance of being collected which previously was determined at sixty percent (60%) was increased to a hundred percent (100%). An account is considered as such if it is over 365 days and that all collection efforts duly supported with documentary evidences failed.

The Memorandum Order requires annual re-computation and updating of the allowance and the difference between the updated amount and the balance shall be expense for the year.

Inventories

Inventories of spare parts, supplies and materials are valued at cost, net of Value-Added Tax (VAT), using the first-in, first-out (FIFO) method of pricing.

Pursuant to PPA Memorandum Circular No. 35-2003 dated 8 December 2003 spare parts on PPA Dredgers needed by the contractor F. F. Cruz should be sourced first from the stock pile of the Authority and shall be valued at the prevailing market price which should not be less than the actual purchase price per PPA inventory.

Investments

Investments in the form of Treasury Bills and Treasury Bonds and Land Bank of the Philippines-issued bonds are valued at cost including withholding taxes.

Property and Equipment

Property and equipment of the Authority are carried in the books at appraised value except for additions during the year which are recorded at acquisition cost net of Value Added Tax (VAT). Appraisal of the assets is done by an independent appraiser once every five years pursuant to its loan covenants with the World Bank.

Upon retirement or disposal, both the cost and appraisal increment and their related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized for the period.

Depreciation is computed based on the carrying values of the properties, net of ten percent (10%) residual value, using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years in accordance with PPA policy guided by the prescribed provisions of COA Circular No. 2003-007 dated December 11, 2003.

Infrastructure projects are valued following the Construction Period Theory. The costs of on-going projects are based on actual physical accomplishment reported by the Engineering Office. Unutilized funds allocated during the year are submitted for budget confirmation as continuing appropriations for the projects.

Extraordinary expenses for the repair and replacement of major parts of property and equipment which will improve their operational efficiency and lengthen/extend their economic serviceable lives are capitalized and treated as part of the cost of the assets.

Lands that form part of property and equipment are acquired either thru:

- Purchase
- Transfer (net of liabilities) as initial paid up capital of the National Government consistent with Section 30 and Section 10B (i) of PD 857.
- Reclamation of port areas pursuant to Section 6.b (x) of PD 857.

Lands purchased by the Authority are covered with Transfer Certificates of Title, while properties transferred from the National Government and lands reclaimed from the sea are covered by Executive Orders. To date, a total of 35 ports have been issued the covering Executive Orders granting PPA administrative jurisdiction over the properties. Executive Orders for 49 ports are for signature at the Office of the President, while 73 Executive Orders covering other Port Zone Delineation Projects of the Authority are for preparation and approval.

5. CASH ON HAND AND IN BANKS

The breakdown of this account is as follows:

		2006		2005
Cash in Banks	P	**824,990,101**	P	1,125,414,893
Cash with Collecting Officers		**25,363,262**		23,989,719
Cash with Disbursing Officers		**60,320**		164,039
Cash with Other Officers		**43,966,484**		45,593,122
	P	**894,380,167**	P	1,195,161,773

Cash with Other Officers includes cash advances granted for government projects, calamity loans and traveling expenses of officials and employees, for other corporate activities. The account also includes funds totalling P10.804 million issued in 1977 to accountable officers of the Department of Public Works and Highways. These have remained unsettled to date, and, together with other accounts, are covered by a request to the Commission on Audit for write off.

6. ACCOUNTS RECEIVABLE

This account refers to the amount due from port users/customers resulting from the trading or business operations of the Port Terminals and Port Management Offices under the supervision of the following Port District Offices and the Head Office:

		2006		2005
PDO Manila/Northern Luzon	P	**526,025,897**	P	500,133,141
PDO Visayas		**69,268,981**		44,469,756
PDO Southern Mindanao		**14,113,314**		12,737,343
PDO Southern Luzon		**7,904,666**		8,758,234
PDO Northern Mindanao		**2,460,843**		2,524,356
		1,112		-
		619,774,813		568,622,830
Allowance for Doubtful Accounts		**(182,469,204)**		(112,199,505)
	P	**437,305,609**	P	456,423,325

The breakdown of the Allowance for Doubtful Accounts provided on past due accounts follows:

No. of Days Past Due	Rate		Accounts Receivable		Provision
1 -15 days	1%	P	8,588,052	P	85,881
16 - 30 days	5%		7,708,616		385,431

No. of Days Past Due	Rate		Accounts Receivable		Provision
31 - 90 days	10%	P	11,290,418	P	1,129,042
91-180 days	20%		12,457,790		2,491,558
181- 365 days	40%		23,429,861		9,371,944
Over 365 days	60%		140,452,782		84,271,669
Dormant	100%		84,733,679		84,733,679
		P	288,661,198	P	182,469,204

The details of the amount of Bad debts taken up for the year are shown in Note 30.

7. NOTES RECEIVABLE

This account represents the realizable value of promissory notes issued by port users to cover the assessments made on their restructured accounts at the different Port District Offices, broken down as follows:

		2006		2005
PDO Manila/North Luzon	P	**1,510,827**	P	1,584,637
PDO Northern Mindanao		**283,845**		283,845
PDO Southern Mindanao		**35,714**		35,713
	P	**1,830,386**	P	1,904,195

8. OTHER RECEIVABLES

This account is composed of receivables from the following:

		2006		2005
Government Owned/Controlled Corporations (GOCCs)	P	**122,999,952**	P	126,323,228
Special Take-Over Units/ICTSI		**36,885,885**		41,464,651
Inter-PMTO/Head Office/PDO/PMO		**1,495,393**		1,312,203
Interest and Penalties		**1,035,437**		1,035,437
Local Government		**131,839**		131,838
National Government Agencies		**85,157**		254,876
Miscellaneous		**312,317,650**		251,867,163
	P	**474,951,313**	P	422,389,396

Accrued interests on investments in treasury bills largely account for the Receivables-GOCCs. Receivables from cargo handling companies for advances made by the Authority on past service benefits of port workers and calamity loans granted to PPA officers and employees comprised the Miscellaneous Receivables.

9. INVENTORIES

Breakdown of this account is as follows:

		2006		2005
Supplies & Materials	P	**121,762,266**	P	116,546,085
Miscellaneous		**5,065**		5,065
	P	**121,767,331**	P	116,551,150

Pursuant to COA Circular 2005-002 dated April 14, 2005, small items with estimated useful life of more than a year but small enough to be considered as property and equipment are considered part of the inventory upon acquisition. Items issued during the year are treated as expense, charged to income of the current year.

10. PREPAYMENTS

This account includes prepaid taxes, prepaid insurance and advance payments made to contractors for the cost of project mobilization as follows:

		2006		2005
Prepaid Taxes	P	**651,929,288**	P	498,127,768
Advance Payment (15%)		**241,017,894**		144,520,887
Prepaid Insurance		**12,791,904**		229,199
	P	**905,739,086**	P	642,877,854

Prepaid Taxes consist of the amounts of expanded or creditable withholding taxes deducted by port users from wharfage and rental of real properties and other port facilities. Section 76 of the National Internal Revenue Code allows cash refund of the amount withheld or the use of the covering tax credit certificates against future tax liabilities.

11. OTHER CURRENT ASSETS

This account is composed of:

		2006		2005
Guaranty Deposits	P	**7,827,622**	P	7,216,069
Deposits on Containers		**41,999**		41,999
	P	**7,869,621**	P	7,258,068

Guaranty Deposits consist of the amounts deposited with contractors/suppliers to guarantee performance of obligation, such as deposits with Meralco, PLDT, lessors of buildings occupied by the Authority, and others.

12. PROPERTY AND EQUIPMENT

This account (amounts in thousands) is composed of the following:

	Land	Land Improvements	Construction in Progress	Motor Vehicles	Machinery and Equipment	Office Equipment	Other Fixed Assets	TOTAL
At December 31, 2005								
Cost	52,596,514	24,799,671	7,139,806	131,831	305,804	395,735	917,507	86,286,868
Accumulated Depreciation	-	(12,580,825)	-	(52,499)	(143,020)	(280,238)	(691,988)	(13,748,570)
Net Book Value	52,596,514	12,218,846	7,139,806	79,332	162,784	115,497	225,519	72,538,298
Year Ended December 31, 2006								
Opening Book Value	52,596,514	12,218,846	7,139,806	79,332	162,784	115,497	225,519	72,538,298
Additions	275,212	1,205,370	2,280,007	1,433	21,111	201,436	33	3,984,602
Disposed/Retired Completed/Transferred	-	(63,565)	(1,510,581)	(3,180)	-	(30,018)	-	(1,607,344)
Depreciation for the Year	-	(706,339)	-	(14,563)	(18,025)	(38,130)	(33,243)	(810,300)
Adjustment on Prior Years' Depreciation	-	24,992	-	2,327	(3,149)	27,712	-	51,882
Closing Net Book Value	52,871,726	12,679,304	7,909,232	65,349	162,721	276,497	192,309	74,157,138
At December 31, 2006								
Cost	52,871,726	25,941,476	7,909,232	130,084	326,915	567,153	917,540	88,664,126
Accumulated Depreciation	-	(13,262,172	-	(64,735)	(164,194)	(290,656)	(725,231)	(14,506,988)
Net Book Value	**52,871,726**	**12,679,304**	**7,909,232**	**65,349**	**162,721**	**276,497**	**192,309**	**74,157,138**

Construction In Progress account includes the cost incurred relative to the Management Information System (MIS) Computerization Project and the Second Phase of the Batangas Port Development Project amounting to P513.185 million and P653.426 million, respectively, as of December 31, 2006. This account also includes the P109.582 million costs of the projects implemented by the Department of Public Works and Highways (DPWH) thru the issuance of Special Cash Advances by the PPA which has been dormant for more than ten years and is now the subject of management's request for approval from the Commission on Audit of its closure in the PPA books.

In conformity with the adopted policy to conduct appraisal of fixed assets once every five years, the independent appraiser Royal Asia Appraisal Corporation was hired during the year to conduct the appraisal of PPA property and equipment. However, the results or adjustments in the appraised values of the assets were not yet recorded in the books pending the acceptance of complete appraisal reports on the different Port District and Port Management Offices of the PPA nationwide.

13. OTHER NON-CURRENT ASSETS

This account consists of the following:

		2006		2005
Other Investments	P	**3,059,308,672**	P	3,596,805,846
Restricted Cash Deposits		**738,788,960**		730,498,449
Miscellaneous-Input VAT		**289,442,175**		30,955,140
Treasury/Current Deposits		**18,748,154**		18,748,054
Miscellaneous Assets and Deferred Charges		**14,180,130**		18,879,029
Stocks of Service Enterprises		**140,760**		140,760
	P	**4,120,608,851**	P	4,396,027,278

Other Investments pertain to the Investments in Treasury bills and bonds from the Land Bank of the Philippines and the Bureau of Treasury that are earmarked for projects and debt servicing. The holding period of the T-bills, with interest rates of 5.70% to 7.25%, ranges from 84 to 364 days. The Land Bank bonds consist of 25 year, 6% bonds that are tax-free. On the other hand, the Treasury bonds maturing in Year 2008 earns interest of 10.5% and are to be kept for 1,026 days.

Restricted Cash Deposits account pertains to the funds held in escrow which are either kept in TOP-Fixed Term Deposit at the Bangko Sentral ng Pilipinas or in Savings Account with the Land Bank of the Philippines. These funds, which are deposited in the name of the Authority or the Regional Trial Court, are earmarked for the partial settlement of Case No. 5447 concerning the Batangas land expropriation.

Miscellaneous –Input VAT pertains to the unapplied value added taxes which are to be carried over in the succeeding quarter.

Treasury/Current Deposits pertain to the balance of the Special Account kept with the Bureau of Treasury pursuant to the requirements of PD 1234. Collections remitted, as well as reimbursements of PPA advances for project expenditures financed by foreign loans, are deposited to this account through the then Central Bank of the Philippines. The use of this account was discontinued with the issuance of Executive Order No. 159. A request for the closure or write off of this account, which has been inactive for several years, was submitted to the Commission on Audit for approval.

14. ACCOUNTS PAYABLE

This account consists of:

		2006		2005
Trade or Business Payables	P	**1,086,927,235**	P	780,154,796
Payables to National Government Agencies		**362,389,302**		370,899,535
Payables to Local Government Units		**1,255,253**		198,201,203
Payables to Government Owned or Controlled Corporation		**6,123,590**		6,189,508
Accepted Purchase Orders		**49,303**		2,222,302
Miscellaneous		**261,046,907**		227,823,145
	P	**1,717,791,590**	P	1,585,490,489

The closing to Retained Earnings of prior year's provision for obligations on real estate taxes covering the Authority's warehouses and other similar structures that are classified under Category I materially decreased the balance of Payables to Local Government Units.

Provision for income tax of P302,676,472 substantially account for the Payables to National Government Agencies.

15. OTHER CURRENT LIABILITIES

This account consists of:

		2006		2005
Trust Liabilities	P	**323,523,331**	P	274,968,342
Depository Liabilities		**59,145,856**		44,090,015
Miscellaneous Liabilities		**36,846,300**		34,217,400
	P	**419,515,487**	P	353,275,757

Trust Liabilities consist of collections of mandatory deductions on salaries of personnel, such as GSIS, Pag-Ibig, and Medicare premiums, loan amortizations, as well as taxes withheld from salaries and from payments made to suppliers or contractors, retention fees and bid bonds withheld from suppliers and contractors, and funds for transfer to various PDOs/PMOs.

Depository Liabilities are deposits other than those required to guaranty the performance of contracts.

Miscellaneous Liabilities pertain to the advances received on leased properties, undistributed collections of one PDO/PMO for credit to the account of another PDO/PMO, and the amount of value added tax collected from port users for the rendition of taxable services.

16. PUBLIC DEBT - FOREIGN

Below is the breakdown of foreign loans acquired to finance PPA infrastructure projects:

Loan Account	Interest Rate %	No. of Years Maturity Date	Loan Amount	Outstanding Balance In Foreign Currency	Outstanding Balance In Peso 2006	Outstanding Balance In Peso 2005
				a)		
ADB-875	6.53	20.0 Oct. 2012	$ 43,083,327	¥ 2,417,830,294	**P 998,805,694**	P 1,215,958,776
IBRD-2823	7.76	15.0 June 2007	30,065,960	$ 1,038,460	**51,021,609**	160,254,902
JBIC-PH-P20-2	3.25	20.5 Nov. 2008	¥ 4,433,743,861	¥ 432,508,000	**178,669,055**	292,137,529
JBIC-PH-P40	3.00	20.5 June 2010	1,529,753,393	78,351,000	**32,366,798**	45,361,871
JBIC-PH-P61	3.00	20.5 Sept. 2013	169,794,479	57,960,000	**23,943,276**	29,827,872
JBIC-PH-P84	3.00	20.5 Jan. 2018	61,381,669	34,431,000	**14,223,446**	16,852,478
JBIC-PH-P91	3.00	20.5 Jan. 2018	169,158,544	94,852,000	**39,183,361**	46,425,930
JBIC-PH-P122	2.70	20.5 June 2021	5,497,049,624	3,888,117,000	**1,606,181,133**	1,871,565,229
JBIC-PH-P172	2.30	20.5 Mar. 2027	502,889,141	502,889,141	**207,743,504**	226,450,982
JBIC-PH-P187	2.20	20.0 Sept. 2028	13,788,000,000	8,523,028,149	**3,520,862,928**	3,029,346,369
JBIC-PH-P187A	2.20	31.0 Sept. 2038	767,000,000	806,239,889	**333,057,698**	258,726,928
KFW-D1-P1	2.00	20.0 June 2009	€ 3,579,043	€ 447,380	**28,902,428**	39,346,649
KFW-D1-P2	2.00	20.0 Dec. 2011	306,775	76,694	**4,954,699**	5,781,545
KFW-D2-P1	2.00	20.0 June 2009	1,431,617	178,952	**11,560,976**	15,738,663
KFW-D2-P2	2.00	20.0 Dec. 2011	2,388,410	588,662	**38,029,757**	44,560,424
					7,089,506,362	7,298,336,147
Current Portion					**(432,125,801)**	(493,635,745)
					P 6,657,380,561	P 6,804,700,402

a) equivalent to $ 22,238,327

17. CAPITAL CONTRIBUTION

Executive Order No. 513, amending PD 857, increased the authorized capital of the Authority from three billion to five billion pesos.

The initial paid up capital consisted of:

a) The value of assets (including port facilities, quays, wharves, and equipment) and such other properties, movable and immovable contributed or transferred by the Government and its agencies valued at the date of the contribution or transfer after deducting the loans and other liabilities of the Authority.

b) The initial cash appropriation of two (2) million pesos out of the funds of the National Treasury and further sums, including working capital contributed by the National Government.

18. DONATED SURPLUS

The account represents the amount of cash or properties received as donations from persons other than the National Government

19. APPRAISAL SURPLUS

Appraisal increase, which is the difference between historical cost and the appraised value of fixed assets, is added to the carrying value of the property and equipment. The excess of sound value over net book value, presented in Note 12, is credited to the Appraisal Surplus.

20. SURPLUS RESERVE

This account represents the accumulated amount of retained earnings earmarked for the retirement gratuities of PPA personnel.

21. RETAINED EARNINGS

Pursuant to Section 5 of RA 7656 dated 9 November 1993, the Authority declares and remits fifty percent (50%) of its annual earnings as dividends to the National Government.

22. FIXED-FEE – ICTSI

In 1988 the Authority entered into an agreement with the International Container Terminal Services, Inc. (ICTSI), a consortium of Andres Soriano Corporation (ANSOR), E. Razon, Inc. (ERI), and Sealand Orient International (SOI), for the management, operation and development of the Manila International Container Terminal (MICT) at the Port of Manila subject to the direct control and supervision of the Authority.

The contract provides that the contractor shall remit to the Authority in Philippine Pesos an amount equivalent to Three Hundred Thirteen Million Seven Hundred Fifty Six Thousand ($313,756,000) US Dollars in one hundred (100) quarterly installments, payable in advance not later than the fifth (5th) day of the first month of every quarter without the need for demand. The U.S. dollar equivalent of the Philippine peso shall be based on the reference rate of the Bankers Association of the Philippines or the equivalent reference rate at the time the payment is made.

In addition to the Fixed Fee, the contractor shall share with the Authority variable fee equivalent to 20% of its "GROSS REVENUE" which, as defined in the contract, shall include all income generated by the Contractor from the MICT from every source and on every account except interest income, whether collected or not, to include but not limited to Harbor Dues, Berthing Fees, Wharfage, Cargo Handling Revenues, Cranage Fees, Stripping/Stuffing Charges and all other revenues from Ancillary Services. "

23. FUND MANAGEMENT INCOME

This account consists mainly of interest earnings on matured investments in Treasury Bills and interests on bank depository accounts.

24. OTHER INCOME

Breakdown of this account is shown below:

		2006		2005
Traditional & Non-Traditional Income	P	**374,092,671**	P	369,932,204
Special Take-Over Units		**43,279,732**		41,825,326
Other Income		**7,863,546**		1,731,267
	P	**425,235,949**	P	413,488,797

Non-traditional Income is made up of rentals from leases of land and buildings, crane cargo handling equipment, sale of gate passes/stickers and income from Special Take-Over Units. On the other hand, Traditional Income consists of such income as regulatory fees, fines and penalties as well as interests on overdue accounts from various sources.

25. GAIN (LOSS) ON REVALUATION

This account pertains to the net amount of gains/(losses) on foreign exchange recognized in the revaluation of the balances of the foreign currency deposit and loans outstanding at year-end.

		2006		2005
Gain (Loss) on Foreign Exchange:				
Current year's revaluation of the outstanding balances of loans for completed projects and invoiced assets	P	**281,041,369**	P	828,608,452
Current year's revaluation of the balance of the foreign currency deposit accounts		**(87,283,881)**		(43,747,113)
Net Gain(Loss) on Revaluation	P	**193,757,488**	P	784,861,339

The following are the Bangko Sentral ng Pilipinas guiding rates as at balance sheet dates that were used in the revaluation of the outstanding balances of foreign loans:

Foreign Currency = Php 1.00

Currency	2006	2005	Inc./(Dec.)	%
United States Dollar ($)	49.1320	53.0670	(3.9350)	(7.42)
Japanese Yen (Y)	0.4131	0.4503	(0.0372)	(8.26)
European Euro	64.6040	62.8207	1.7833	2.84

26. GAIN (LOSS) ON FOREIGN EXCHANGE

Foreign exchange differences arising from the settlement of long-term foreign loans at exchange rates different from the booking rates used to record them are recognized as ordinary gains or losses and reported as income/expense for the period.

27. OTHER STAFF BENEFITS

This account is composed of the following:

		2006		2005
Bonus and Incentives	P	**286,989,381**	P	256,173,130
Additional Allowance		**43,076,210**		14,560,482
Overtime Pay/Night Shift Differential		**36,960,455**		31,312,915
Rice Allowance		**28,879,775**		29,037,539
Monetized Leave		**28,055,802**		73,081,753
Personnel Economic Relief Allowance		**14,552,518**		14,529,330
Uniform Allowance		**9,926,828**		9,318,341
Loyalty Award		**2,067,200**		1,078,000
Meal Subsidy		**2,000,504**		1,985,037
Children's Allowance		**1,094,182**		1,105,514
Hazard Pay		**144,465**		106,013
Longevity Pay		**47,875**		44,695
	P	**453,795,195**	P	432,332,749

28. DREDGING

This account represents expenses incurred in dredging the harbors to the required depth through removal of silts. It also includes expenses in the maintenance of basins and navigational channels, cost of minor repairs of dredging equipment, spare parts, salaries and wages of casual and contractual employees, incidental traveling expenses and other related costs.

On 15 October 2001, a contract was entered into by and between the PPA and F.F. Cruz & Co., Inc. (FFCCI) for the Rehabilitation, Operation and Maintenance of the PPA Dredging Fleet under the Rehabilitate and Maintain Scheme in the amount of P148.80 million. Under the contract, the private dredging contractor shall rehabilitate, operate, and maintain the six (6) dredge vessels (PHILPORTS D-I to D-VI) and the two (2) supply boats (PHILPORTS A-I and A-II) and shall undertake the maintenance dredging at various ports in the country that are included in the PPA Port System. The contract started on 6 November 2001 and shall be valid for ten (10) years. The Authority will pay FFCCI the cost of the actual volume dredged per year within the contract period. The contract has a guaranteed minimum annual dredging volume of 2,000,000 cubic meters.

Costs incurred in dredging activities undertaken in 2006 and 2005 and treated as expense for the year amounted to P 260.176 million and P 202.727 million, respectively.

29. REPAIRS AND MAINTENANCE

These are operating costs for the repair and maintenance of PPA structures and port facilities to restore the assets to normal condition.

		2006		2005
Port Facilities				
Head Office	P	**1,196,677**	P	20,103
PDO Manila/Northern Luzon		**120,876,113**		19,999,848
PDO Southern Luzon		**60,441,463**		30,549,777
PDO Visayas		**77,351,617**		28,074,092
PDO Northern Mindanao		**44,370,913**		16,050,020
PDO Southern Mindanao		**35,085,096**		50,364,272
		339,321,879		145,058,112
Buildings		**3,987,140**		5,075,496
Equipment		**2,613,707**		2,518,493
	P	**345,922,726**	P	152,652,101

30. BAD DEBTS

The breakdown by PPA offices of the accounts due from port users determined with reduced or without chance of getting collected is as follows:

		2006		2005
PDO Manila/Northern Luzon	P	**20,985,063**	P	12,025,509
PDO Visayas		**18,323,416**		20,257
Head Office		**18,000,000**		-
PDO Southern Luzon		**10,901,777**		1,736,443
PDO Southern Mindanao		**4,955,817**		793,417
PDO Northern Mindanao		**777,658**		46,081
	P	**73,943,731**	P	14,621,707

The adjustment on the rate of allowance for non-collectivity of dormant accounts from 60% to 100% accounted for the significant increase in Bad Debts Expense and Allowance for Doubtful Accounts.

31. MISCELLANEOUS EXPENSES

This account is composed of the following:

		2006		2005
Awards & Indemnities	P	**79,783,294**	P	76,447,000
Janitorial Services		**25,330,069**		20,007,668
Printing and Binding		**46,825,545**		13,391,381
Board Expenses		**7,797,492**		6,048,319
Contractual Services		**8,845,309**		4,510,751
Bond Premiums		**2,081,700**		2,097,921
Journal and Subscriptions		**524,566**		562,930
SSS Benefits and Other Claims		**700,000**		350,000
Laundry Services		**257,143**		197,209
Others		**7,413,279**		-
	P	**179,558,397**	P	123,613,179

32. LOSS ON DISPOSAL OF ASSETS

The account represents losses incurred in the disposal and demolition of unserviceable property and equipment of the Authority which are located in different Port District Offices as follows:

		2006		2005
Head Office	P	**3,797,889**	P	-
PDO Southern Luzon		**862,961**		526,933
PDO Manila/North Luzon		**18,630**		1,235,144
PDO Visayas		**4,771**		15,015,138
PDO Southern Mindanao		**-**		10,039,959
	P	**4,684,251**	P	26,817,174

33. CONTINGENT ACCOUNTS

In compliance with the provisions of PAS 37, Contingent Assets and its contra account Contingent Surplus were excluded among the accounts presented in the Balance Sheet. As of December 31, 2006, income or surplus that may be realized on contingent assets amounts to P757,417,704. The accounts are contested accounts receivable with expected income from increased rates on lease of land and other PPA port facilities. It is the policy of the Authority that rates are automatically adjusted based on the appraised value of the property. This adjusted rate on lease serves as the basis of computation of charge in the invoice issued to the lessee.

34. PENDING LAWSUITS

The Authority is involved as a party litigant in several lawsuits still pending for resolution that could materially affect its financial position. Among these lawsuits are the following:

a. PPA vs. Acosta, et al. Civil Case No. 5447 – Expropriation Case on the properties covered by the Batangas Port Development Project II. The Regional Trial Court handling the case established the fair market value of the properties at P5,500 per square meter or P55 million per hectare. The main case is pending before the Court of Appeals to determine the issue of just compensation. The PPA has filed a petition for certiorari before the Supreme Court to stop payments on the lawsuit involving a total of 128 hectares requiring a substantial amount of roughly seven billion pesos (P7,000,000,000).

b. MIPTI vs. PPA Civil Case No. 96-37673 – The operators of Manila International Port Terminal Incorporated (MIPTI) filed a case of damages against the Authority when the latter took over the operations of the Manila International Container Terminal. The Regional Trial Court ruled in favor of plaintiff and ordered the Authority to pay seven hundred fifty million pesos (P750,000,000). The case is now pending with the Court of Appeals.

c. Real Estate Tax Cases – The Supreme Court, in PPA versus the City of Iloilo, affirmed the assailed decision of the Court of Appeals and ruled that the Authority is liable for real property tax from the last quarter of 1984 up to December 1986. The decision may become a precedent and may involve the Authority in the litigation of realty tax cases on its properties nationwide that would require approximately nine billion and a half pesos (P9,500,000,000) as of December 31, 2006.

The Supreme Court though, in a similar tax case involving the Manila International Airport Authority (MIAA) and the local government of Parañaque City rendered a favorable decision exempting the MIAA from payment of real estate taxes which the PPA might use as basis to support its position.

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