

POSEF

PUBLIC OFFICERS SUPERANNUATION FUND



ANNUAL REPORT 2005

Mission

To protect and maximise the superannuation benefit for members of the Fund through prudent investment management.

Vision

To be the leading Superannuation Fund in PNG committed to building value and maintaining the highest level of benefits and quality of service for members

Corporate Values

Our corporate values guide our actions, shape our policies and reflect the respect we have for our members. A Core Values workshop was undertaken by Management and team leaders in 2005 to jointly develop and take ownership of the following corporate values:

Innovation To constantly seek new and better ways to manage our operations, develop our systems and meet member and customer needs.

Accountability Individually and as a team, we take full responsibility for our actions and all that we do.

Team Work We work together with enthusiasm in the understanding that the quality of our decisions is improved if we are able to consider the unique contribution that each of us can make.

Transparency Our decisions will be made in accordance with documented policies that are expressed in simple terms and communicated clearly to our members and stakeholders.

Professionalism We are committed to continuous improvement, constant learning, accuracy and search of best practice.

Integrity We hold dearly the fairness, honesty and respect for others and making sure we do as we said we would do.

In setting the Fund apart from its competitors and to ensure that it achieves its objectives; the Fund realigned its core competencies to assist in creating and maintaining its own purpose, direction and identity. The following key core competencies are the basis from which the Fund will continue to conduct business and effectively meet the challenges and opportunities that lie ahead.

Operational Competencies The ability to effectively manage and develop the Fund's system and processes, significant relationships, employees, and institutional knowledge.

Special Assets The physical and intangible assets which are (i) difficult to duplicate and (ii) provide a competitive advantage, Special Assets include the values that distinguish the identity and reputation of the Fund.

Change and Growth Supporting Competencies Creating operational conditions which are conducive to skills articulation in such areas as post-superannuation reform, organisational management, deal structuring involving multi-party entities or arrangements, risks and capital management.

Relationship Management Establishing strategic partnership with members and service providers to optimise growth opportunities and value adding to existing relationships to help facilitate entry into new areas that are compatible with the Fund's objectives.

Front Cover: POSF embraces Papua New Guinea's diverse cultures and traditions. Each has their own language, custom and artifacts. We are a symbol of our member's wealth and on the front cover to reflect that are the Kina and Toea shells and the Tabu. Once traditional forms of currency they are a symbol of wealth and pride, and the Kina and Toea are now the official currency of PNG.

2005 Highlights

FINANCIAL

- Actual Net Return of 32%
- Record interest rate of 20% credited to members.
- Net after tax profit of K330.4 million
- Healthy Reserves at 9% total assets
- Record net assets of K1.365 billion
- Management Expense Ratio of 1.4% (2004: 1.5%)
- Improved Debt Management with the State
- Recovery of eight years rent arrears for the Cairns Property.
- Investment strategy revised to reflect prevailing economic conditions

CUSTOMER SERVICES

- Roll out of Retirement Savings Account
- Launched Member Housing Investment Project
- Member Education Awareness Programs undertaken in 17 provinces
- Improved Contributor Service Delivery Standards
- Additional information kiosks to service members in seven provinces
- Retirement Counselling introduced
- Website Improvements

INTERNAL

- Developed new Corporate Core Values
- Developed 2005-2010 Strategic Plan
- Revised Organisation Structure

LEARNING AND GROWTH / NEW INITIATIVES

- Alliance syndicated investment loans to members
- Appointment of external Facility Manager and Project Manager

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Chairman's Statement

MAINTAINING COURSE

SIR NAGORA BOGAN, KBE
Chairman



MAINTAINING COURSE

I am pleased to report, on behalf of the Trustee and Board of the Public Officers Superannuation Fund (POSF) that the Fund - buoyed by strong economic growth, stable macro-economic conditions, adherence to prudential management practices and standards grew its investment portfolio by 32% or K330.8 million during 2005.

This outcome made it possible for all members accounts to be credited with yet another double digit interest rate of 20% out of the 2005 profits. The balance of the profits for the year will be reserved for future distribution or as a hedge against low or negative returns. The financial performance once again represents an unmatched track record of double digit interest returns to members for five years in succession.

The Board, in its deliberation, decided to take a responsible, prudent and realistic approach by not distributing all profits. It took into account the fact that the extraordinary high rate of return was driven by exceptional appreciation in listed shares which are substantially paper profits.

Throughout the year, maintaining course by getting the fundamentals correct and adopting a strategic process of business management served as the primary drivers of the Fund's business.

REBALANCING OF PORTFOLIO

The Fund proactively pursued the rebalancing of its assets consisting of five asset classes: Cash, Commercial equities Property, Fixed interest and International portfolio. This entailed maintaining course by continuing the initiatives of

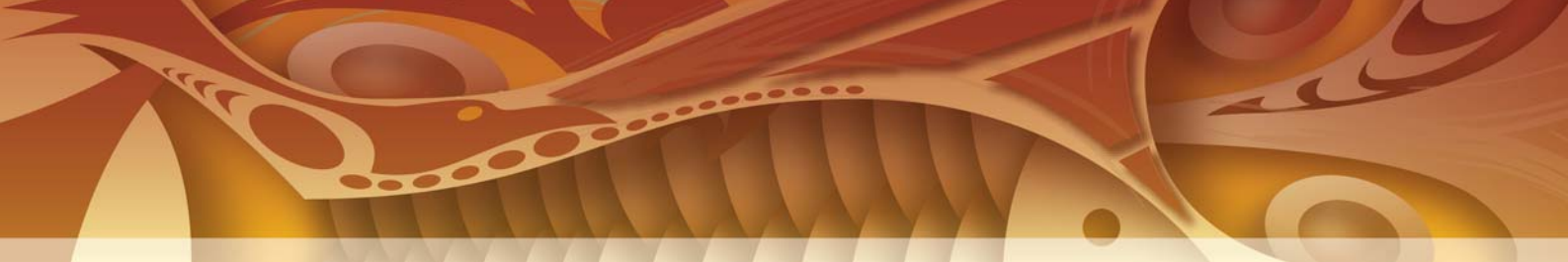
divestment of non-performing assets, recovery of bad loans, and introduction of strategic initiatives of tactical asset allocation between treasury bills and IBD's, and gradual diversification and growing of the international portfolio through investments in new opportunities and products. The Fund also devoted time and resources to improving revenue streams, meeting safety and health standards and moving to ensure that it becomes the landlord of choice.

Concurrent with the rebalancing initiative, the Fund also reviewed and updated its investment strategy by adopting a mix of growth and defensive assets to properly realign the strategy with prevailing market conditions and the needs and expectations of members.

STRATEGIC ROAD MAP

The Fund also maintained course in embracing and adopting strategic planning as a management tool to set the road map for the next 5 years and to wield together a unified, cohesive and resolute team of competent and professional staff that will take ownership and leadership of the Fund. In this new business matrix, the Board and Management have articulated and adopted a succinct Vision and Mission Statement for the Fund which is embodied in its strategic plan for 2005 to 2010.

From this modest start, Management and staff at all levels have worked as a team to generate a set of pragmatic corporate values that has grown from within to govern how the Fund does business. These home grown sets of values will also complement and buttress the Fund's vision and mission.



One immediate outcome of this process of continuous improvement and long term planning is a strategic initiative for re-branding of the Fund as a result of current reforms, shifts in industry demographics and change in the market place.

STRENGTHENING CORPORATE GOVERNANCE

As part of the process of continuous improvements in the Fund, internal governance will be further strengthened by the appointment of credible independent members with strong financial credentials to the Audit and Compliance Committee of the Fund. This makes this important committee independent from the Board and Management and further augments existing checks and balances as the Fund grows and expands into complex financial transactions.

MEMBER SERVICES

Member services have also been taken to a new level. In fact, direct interface with members have been stepped up during the year with seventeen provincial visits by teams from the Member Support and Marketing Division. These teams visited over twenty locations and had interactive discussions with approximately 8,000 members. The coverage was extended and supplemented with dissemination of leaflets and radio talk back shows broadcast on national radio stations and provincial radio stations in Rabaul, Lae, Kimbe and Kavieng. The scope and focus of member services also extends to assisting members acquire or construct an affordable home which has always been a major goal for the Fund. However, the way forward has been fraught with legacy issues and

development of sound and effective models to facilitate home ownership. The Fund commenced the process during the year by constructing twenty five houses, as a pilot project, on its vacant allotment at Garden Hills, Port Moresby at a cost of K1.3 million. The development includes service infrastructure, house, white goods. The houses will be sold by tender to Fund members. Drawing from hands on experience of this pilot project, the Fund will progressively extend the home ownership scheme to more members.

CONCLUSION

The Board and Management have consistently and diligently laid the foundation for the current and future growth of the Fund. The immediate challenge is to stay on course, but from time to time keep a close eye on local, regional and global market trends, demographic shifts and operating conditions.

I conclude by extending, on behalf of the Board, a hearty thank you and appreciation to the Management, all members of the staff, and other service partners and contractors for their unstinted work, support, and cooperation during the year.

SIR NAGORA BOGAN, KBE
Chairman

Board of Directors



CHAIRMAN - SIR NAGORA BOGAN (KBE) *Bachelor of Law from the University of PNG*

Sir Nagora was appointed to the Board in December 2002 by the Treasury Department. Sir Nagora served in Government for more than 24 years in various capacities including PNG Ambassador to the United States. He also served as the Commissioner General for the PNG Internal Revenue Commission.



DEPUTY CHAIRMAN - MR KERENGA KUA *Bachelor of Law Degree from the University of PNG*

Kerenga, a nominee of the previous Board, was appointed on the 18th December 2002. Kerenga is the Executive Partner in charge of Commercial Litigation of Posman Kua Aisi Lawyers. He is the President of the PNG Law Society and also has professional membership of the International Bar Association. Kerenga has been a lawyer of the PNG National Supreme Courts of Justice since 1987



DIRECTOR - MR GREG TAYLOR *Economics Degree (Hons) from the University of Adelaide Australia*

Greg was appointed to the Board in December 2002 as an independent, non-resident director. Greg has had wide experience in the Australian Treasury and other senior government posts, including periods at the Organisation for Economic Co-operation and Development and the International Monetary Fund. From 1997-2000 he was PNG's Executive Director at the International Monetary Fund. In 2001 he headed the Superannuation Task Force, responsible for bringing the superannuation reform legislation into operational effect.



DIRECTOR - MRS AIVU TAUVASA *Masters in Business Administration from Embry-Riddle Aeronautical University, Florida, USA*

Aivu was appointed to the Board in December 2002 as an independent Director. She is currently the Trade Commissioner - Pacific Islands Trade and Investment Commission based in Sydney, Australia. Prior to that she served as Managing Director of the PNG Investment Promotion Authority for five years.



DIRECTOR - MR RAVU VAGI *Masters of Development Administration; Australian National University Certificate in Human Resource; Victoria University of Manchester, UK and a Bachelor of Arts (Demography) from University PNG.*

Ravu was appointed to the Board in December 2002, as the representative of the Department of Personnel Management.



DIRECTOR - MR LEON BUSKENS *Masters in Finance, Royal Melbourne Institute of Technology Australia; Bachelor of Commerce from University of Technology PNG*

Leon was appointed to the Board in 2002. He was appointed Managing Director in June 2004. He has membership with the Australian Institute of Banking & Finance (Senior Associate).

Corporate Governance

The Board is committed to ensuring that the fund operates under a system of good governance, accountability and transparency. To adhere to this commitment, the following committees were created to assist in this process:

- I. Audit and Compliance Committee
- II. Membership Committee

AUDIT & COMPLIANCE COMMITTEE

The role of the Committee is to assist the Trustee objectively review the processes, systems of internal control and management of financial risks, audit process and the company's processes for monitoring compliance with laws and regulations and its code of business.

The Chairman is David Guinn while Sir Nagora Bogan is Deputy Chairman. The appointment of another independent member will be finalised early 2006.

MEMBERSHIP COMMITTEE

This Committee is made up of representatives from the union associations and two members of the Board. The Committee provides an avenue for members to contribute to the decision-making process of the Fund and

- Assists the Trustee in dealing with complaints or inquiries about the operation and management of the Fund;

- Provides an avenue for members to channel queries about and provide views on the Fund's operation and performance;
- Provides an avenue for members to set guidelines for member benefits from the Fund; and
- Advises the Trustee on the needs of members in terms of information support, publications and the general communication requirements of members.

RISK MANAGEMENT

The Board is committed to identifying and effectively managing the risks of the Fund. It initiated a new risks management platform in 2004 which was continued in 2005.

The risk framework meets the Australian & New Zealand Standard AS/NZ 4360:2004 and the Australian Prudential Regulatory Authority (APRA) guidance note SGN120.1.

A risk profile for the Fund was undertaken in the context of the changed regulatory environment and the need for good governance and the strategic direction of the Fund. Risk Treatment Plans were developed for all risks as required, following an assessment of the effectiveness of current controls.

THE MEMBERSHIP COMMITTEE COMPRISES OF THE FOLLOWING MEMBERS;



CHAIRMAN
Mr Kerenga Kua
(POSF nominee)



MEMBER
Mr Ravu Vagi
(POSF nominee)



MEMBER
Mr Lawrence Namaro
(PNG Nurses Association)



MEMBER
Mr Hubert Kapiwan
(PNG Firefighters Association)



MEMBER
Mr Tau Vali
(PEA Representative)



MEMBER
Mr Damien Ayebaibai
(CIS Representative)



MEMBER
Mr Martin Kenehe -
(PNG Teachers Association)



MEMBER
Mr Robert Ali
(PNG Police Association)



MEMBER
Mr Willie Kelis
(PNG Energy Workers Association)

STAFF REPORT

At the end of 2005, the Fund establishment was 85, of which eight are in managerial positions and the remainder in non-managerial positions. The Fund has continued to place great emphasis on Human Resource development and has maintained an annual training program. POSF recognises training in discipline which is essential for personal and professional career development.

During 2005, 85 training programs of various skills and disciplines were conducted to enhance staff performance and productivity. Programs included tertiary, management skills, supervisory skills, and communication. The focus was on computing skills, literacy skills, finance and investment, customer service and other areas.

As an example of the Funds diverse training below is an outline of various courses attended by employees in 2005:

- Tradesman Course
- Safe Housekeeping Practices (Ancillary Staff)
- Team Building (Team Leaders and Officers)
- BPNG course on the new Superannuation Act (Member Services)
- Safe Driving Skills (Drivers)
- Financial Counselling by the PNG Institute of Banking & Business Management (All Staff)
- Basic computing courses
- Accounting Diploma at ITI
- Associate Degree in Business (Accounting) at IBS
- In-house training for secretaries and receptionist
- Business English Course for report writing and secretarial skills (Secretaries)

STAFF LEVELS			
STAFF LEVEL	NATIONAL	EXPATRIATE	TOTAL
Fulltime	71	Nil	71
Contract	7	1	8
Casual	Nil	Nil	Nil
Unattached	6	Nil	6
TOTAL	84	1	85

REMUNERATION LEVELS	
SALARY RANGE	NUMBER OF EMPLOYEES
K9,000 - 20,000	39
K20,000 - 40,000	24
K40,000 - 60,000	14
K60,000 - 100,000	4
K100,000 and above	4
TOTAL	85

COMMUNITY SUPPORT

Under the Fund's donation policy a total of K86,531 (2004: K85,426) was donated to various community service related projects in 2005.

Managing Director's Statement

"GROWING & CONTINUOUSLY TRANSFORMING THE FUND TO SERVE MEMBERS INTERESTS"

LEON BUSKENS
Managing Director

Dear Members,

Your Fund continued its improving performance trend three years on from the 2002 legislative changes with another positive performance for the 2005 financial year. The investments of the Fund were able to deliver a record profit resulting in your combined retirement wealth reaching a new record total of K1.3 billion in net assets. However, we recognise that generating profits and building retirement wealth is a function of more fundamental drivers such as best practices in corporate governance and business management principles, in internal processes and procedures including policies such as our investment policy, world class member service delivery standards, and importantly an organisational structure with the relevant staff backing to deliver.

RATE OF RETURN

It has been another exceptional year for your Fund. The rate of net return on member's average balances in 2005 was 32% or after allowing for inflation was 27.4%.

This means that over the last three years, the Fund has enjoyed a cumulative rate of return of more than 54.5%, and after inflation of more than 39.1%. Together with members on-going contributions, this has seen the Fund nearly double in size.

RATE OF INTEREST ON MEMBERS ACCOUNT

In determining the value of the Fund each year, the Board is required to ensure that all assets are valued at market value:

- In the case of unlisted equities and property investments, valuation is done by independent experts, and certified by the Central Bank
- In the case of listed equities investments listed on the Port Moresby & Australian Stock Exchanges, the end of year closing share prices are taken to account. The Australian listed equities are further converted to Kina equivalent using the year end exchange rate.

In the latter instance, markets can be volatile, with up and down swings, and this can be an issue in the amount credited in any period to members accounts. Members need reasonable assurance that their accounts will not be unduly affected by future market volatility. In the current circumstances the Board considers that it would be most prudent to hold some of the exceptional returns achieved in 2005 in reserve.

Accordingly, management has obtained the agreement of the Central Bank to temporarily exceed the normal statutory maximum reserve by allocating about one third of the 2005 profits to reserves, with the reserves to return to the normal limit within the next three years.

Hence, the rate of interest to members accounts has been set at 20%, which is a record for the Fund. Over the past three years, interest credited to members has been as follows:

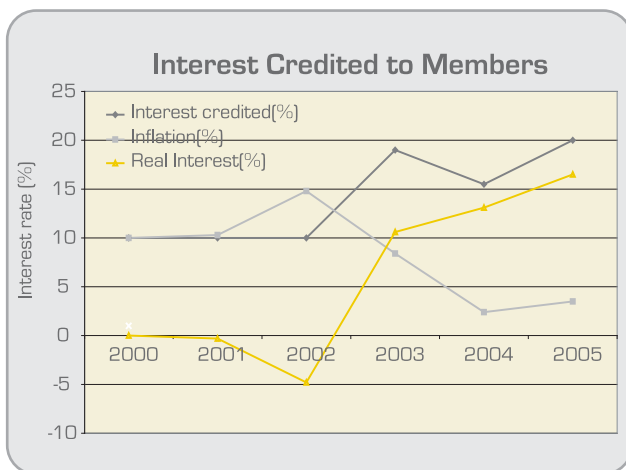
	2003	2004	2005	3 years cumulative
Nominal (%)	19%	15.5%	20%	65%
Real (%), after inflation	10.6%	13.1%	15.4%	44%

FUTURE PROSPECTS

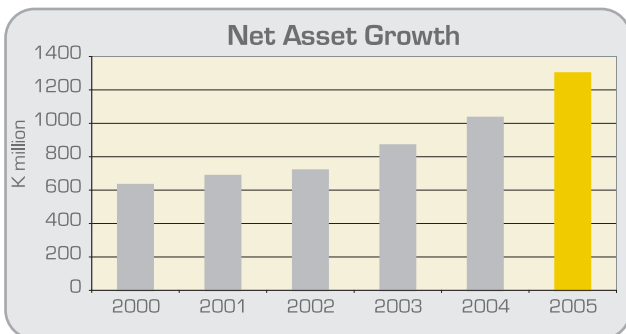
The rate of return over the three years has benefited indirectly from political and financial stability in PNG, and strong world economic growth. If this favourable environment can be maintained, further growth in the Fund and members balances will be underpinned. Nevertheless, members should not expect the exceptional growth rates of the past three years to be prolonged indefinitely. Our long term investment objective is to achieve an average after tax return of at least 2% above the headline inflation with negative real returns in no more than one year in five.

Managing Director's Statement

The graph below highlights interest credited to members accounts, headline inflation and real interest return to members after off-setting the effects of inflation for the years 2000 to 2005.



The net assets of the Fund have grown from K632.1 million in December 2000 to K1,364 million in December 2005, a growth of 106% while total membership has not changed significantly between year 2000 and 2005. This indicates that the Fund has generated real positive retirement wealth for its members.



One of the investment initiatives undertaken during the year was the development of one of the several parcels of vacant land that has been held by the Fund for many years by the construction of kit homes that will be offered to members at market prices. This initiative realizes value to all members of the Fund while at the same time offers members an opportunity of purchasing their own homes. Other parcels of vacant land are also planned to be developed and sold in the future.

PRIVATE SECTOR CONTRIBUTIONS/EXPANDING THE SUPERANNUATION BASE:

Reform of the superannuation industry gave employers and employees the choice of ASF. This is a critical element of restructuring the market. At the end of 2005 the Fund a growing base has 18 private sector employers contributing.

The Fund has promoted and encouraged the expansion of the superannuation base to make it possible for all potential and eligible workers to contribute towards their retirement. The percentage of workers contributing to superannuation is in PNG relatively small compared to other countries in the Pacific region. Especially those with a small population base compared to PNG.

The Fund is concerned that not all casuals and ancillary workers within the public service are contributing to their retirement despite its education and awareness drive during 2005. The Fund is currently pursuing, but also appealing to relevant Government agencies to meet their obligations under both the superannuation legislation and international labour convention (ILO) which our country is party to.

Also many small employers below the mandatory requirement to contribute (i.e. twenty or more employees) should start planning to contribute as the mandatory number will be reduced to fifteen in May 2007 and may reduce to ten in May 2008. Employers with less than twenty employees should also consider starting voluntary contributions.

The benefits of this are obviously clear to both the worker and the country.

SUPERANNUATION TASK FORCE REVIEW:

The reformed Superannuation Act came into force in May 2002. A Superannuation Task Force of Greg Taylor (Chair), Lady Mina Siaguru and Dr John Nonggor facilitated the implementation of the legislation.

In 2005 a reconstituted Superannuation Task Force was asked to review the effectiveness of the implementation of the Act and to advise on any legislative amendments or other modifications considered desirable in the light of experience since the inception of the reformed system. The Task Force was headed by Lady Mina Siaguru, with Greg Taylor of POSF, John Jeffery of Nasfund and Andrew Oaeko of Treasury Department as members.

Submissions were made by the Fund, our Investment Manager (Kina Funds Management Ltd) and Fund Administrator (Kina Investment and Superannuation Services Ltd) to the Task Force.

Recommendations of importance to POSF members include:

- Housing withdrawal for members - the removal of the principal place of residence restriction. The removal will allow greater housing access for our members including Teachers, Police, Corrective Institution Services and other members that occupy institutional houses throughout their working life and are subject to frequent change of residence
- Life Insurance - enabling the reintroduction of group life insurance which many members have expressed a need for
- Fees of the regulator - measures needed to avoid

overcharging the superannuation Industry. Fees are charged as a percentage of net assets of the individual Funds

- More secure arrangements for resolving entitlements where a member has failed to nominate a beneficiary
- Removal of delay in withdrawing funds in the case of permanent departure from PNG
- Permission for foreign currency risk cover by the Fund,
- Inspection powers where an employer is believed to be defaulting on their superannuation obligations
- Fines where an employer fails to provide member information in timely fashion to the Fund
- Rationalisation of the now redundant POSF Act, with residual provisions continuing as a Schedule to the Superannuation Act

The Taskforce made its joint submission to the Treasury Minister and Governor of the Central Bank in early 2006. POSF supports the adoption of these recommendations some of which has been sought by the industry association for some time. It is important now that the Government and the Central Bank act decisively and swiftly to ensure consideration, passage through Parliament and implementation of the recommendations as soon as possible.

RETIREMENT SAVINGS ACCOUNT (RSA):

The Fund proactively took the opportunity available under the enabling legislation to offer an RSA product to members. A growing number of members have opted to rollover a portion of their final entitlements into an RSA during the year. POSF is the first and only Fund to offer this product. It is not restricted to POSF members only but is accessible to exiting members of other Funds.

The advantages of an RSA are the continued security of funds in retirement and the ability to make regular withdrawals from the account in line with retirement needs. In addition, earnings on RSA balances will be tax-free. Member Funds that were rolled over under the RSA during the year will now be credited with 20% interest to their account balances. This compares well with any other savings or investment alternatives for the year.

The employment of a dedicated counseling officer during the year is the intended to strengthen awareness of post retirement issues as well as educate members on the advantages of the retirement savings account.

PENSIONS:

The Board had previously recognised the need to consider indexing the Pre-1991 pensions it administers and took decisions during the year for implementation. These changes will gradually be introduced in the first half of 2006.

RECOVERY OF CAIRNS INVESTMENT PROPERTY RENT:

The Fund was able to recover more than ten years of outstanding rent totaling K45 million during the year from the State under its head lease agreement for the Cairns Property. The head lease expired during the year. The Cairns property has improved its leasing profile and is close to 100% occupied by commercial tenants. The Board has started reviewing this investment to consider maximising its return.

MONITORING AND MAINTENANCE OF UNLISTED INVESTMENT ASSETS:

The Board, Investment Manager and Management have implemented mechanisms to ensure there is active engagement with investments in unlisted share equities and with property investments. POSF nominee Directors are actively engaged in the various Boards of all fully or partially owned POSF Ltd corporation to ensure our investment objectives are met. The net result was vastly improved a performances by many of the investee companies. Additionally the enabling business enabling business economic throughout 2005 was also a major boost as well.

The outsourcing business model was fully utilised in the property division during the year to add value, specialised technical skills and knowledge to commercial property management. The appointment, after a competitive tender process, of Ashton Brunswick, M & E mechanical engineers and Pacific Architects Consortium as facility managers and support was completed during the year. Outcomes achieved during the year included a full property condition and status audit report audit report and recommendations for each of the eight commercial properties. Several actions were started with the appointment of a steering committee to address the findings which covered safety and emergency, introduction of preventative and corrective maintenance programs, capital expenditure programs and improvement of service standards. We also recognised that the facility concept is new to the country and will require time and education to ensure all stakeholders are fully informed of the expectations and obligations of this expanded business activity.

Managing Director's Statement

MEMBER DATA:

Updating contributor personal information and nomination of beneficiaries did not meet our expected targets for the year. We discovered towards the end of last year that the new Government payroll system did not successfully provide members' bio-data as anticipated. We have re strategised a new program to tackle this issue which will involve working together and having common ownership with relevant Government Departments and a series of education and awareness programs for employers and members.

A large number of our members such as Teachers, Health workers, Corrective Institution officers and other members live and work in rural communities across the country, where there has been a low penetration in terms of information for education and awareness purposes. A target program has been devised to address this gap in the first half of 2006.

EMPLOYER FUNDING ARRANGEMENTS:

The Fund started employer contributions directly from January 2003 as a result of the legislative reforms. Prior to 2003, the Fund only received the 6% employee contribution, while the employers 8.4% contribution was paid as reimbursement on an emerging basis when a member left employment. The result of this is an ongoing liability from the State as the employer.

The Fund has received a total of K74.4million in the last three years by way of employer contributions. The obligations to contribute has been phased in with 25% of the 8.4% for years 2003 and 2004, 50% for 2005 and 2006, 75% for 2007 and 2008 and 100% from 2009 onwards.

Over the same three year period a total of K266.8 million was received from the State as reimbursement for funding for its share for members leaving employment.

SUMMARY:

Your Fund again grew in financial strength during the year which allowed it to credit another healthy interest rate towards your retirement wealth. A series of positive changes covering member services and products, in-house progress on processes and systems including staff development, also took place during the year.

We again stress caution that the financial result for the year has been a combination of both external circumstances, which are beyond the control of Board, Investment Manager and Management, and its own internal controls to steer the Fund forward.

The work of the Superannuation Task Force during the year should see some further refinements and benefits to all members.

The Board, Management and Staff are committed to ensuring members Funds are preserved, an appropriate level of service is continuously maintained and will work towards delivering real financial growth for your retirement.

LEON BUSKENS

Managing Director

Management Team



**MANAGING DIRECTOR:
LEON BUSKENS**

Masters in Finance - RMIT,
Australia; Bachelor of Commerce -
University of Technology PNG

Leon has over 17 years of working
experience within the
Superannuation industry at
the Fund



**GENERAL MANAGER FINANCE &
ADMINISTRATION:
ASI PAKO**

Asi holds a Bachelor of
Commerce Degree (UPNG)

She has over 23 years working
experience. 14 years in the
Savings & Loans Industry and 9
years with the Fund.



**GENERAL MANAGER
CORPORATE AFFAIRS:
WAYNE SMITH, CA**

Bachelor of Commerce
- New Zealand

Wayne has over 23 years working
experience, 19 years with IRC New
Zealand, Coopers & Lybrand,
Highlands Gold, Deloitte Touche

Tohmatsu and 4 years with the Fund.



**MANAGER MEMBER
SERVICING:
JOSEPH PUPUA**

Diploma in Business Studies -
Divine Word University

Joseph has over 12 years of work
experience in the Car Rental and
Real Estate Industry, working with
Century 21, Radtel and Avis Rent-

A-Car. Joseph joined the Fund in August 2004.



**MANAGER H.R &
ADMINISTRATION:
LOKA KULA**

Bachelor of Arts majoring
in Industrial Psychology
- University of PNG

Loka has over 14 years experience
in H.R and Administration. She has
been with the Fund for over 7 years

and was previously with Elcom & QBE.



**PROPERTY MANAGER:
YUANIMBA YINANGUIE**

Bachelor of Architecture & Building -
University of Technology (PNG)

Yuanimba has over 15 years
experience in Property
Management. He has been with
the Fund for over 4 years and has
previous experience with Rural

Bank, Bank South Pacific and ETS Group.



**MANAGER LEGAL SERVICES:
PATRICIA TAUREKA**

Bachelor of Law
- University of PNG

Patricia has over 16 years legal
experience. She has been with the
Fund for 4 years and has previous
experience with Orogen
Minerals Limited.



**MANAGER FINANCE:
HEARTLY KANAIAI**

Bachelor of Commerce
- University of Technology (PNG)

Heartly has worked in the Fund
Finance Department for over
15 years.

Comparative Statistics Summary

Balances are in K'000	2005	2004	2003	2002	2001	2000
BALANCE SHEET						
Net asset	1365.0	1034.2	869.2	718.7	686.2	632.1
Net asset growth	32%	19%	21%	5%	9%	4%
Reserves	134.6	32.1	37.0	76.3	83.9	78.3
MEMBERS						
Employees contributions	60.2	44.6	47.1	51.2	33.6	40.4
Employer contributions	36.4	34.1	15.2	0	0	0
Retirement savings account	0.9	-	-	-	-	-
Total exit gross payouts	104.4	74.2	64.0	89.3	76.8	52.17
Number of exit payments	2,496	2,314	3,854	4,905	3,693	3,233
Number of members	81,657	78,101	75,863	73,000	68,616	66,741
RETURN TO MEMBERS						
Interest credited to members	20%	15.5%	19%	10%	10%	10%
Headline inflation rates	4.6%	2.4%	8.4%	14.8%	10.3%	10%
Real return to members	15.4%	13.1%	10.6%	-4.8%	-0.30%	0.0%
PROFITS						
Surplus before tax	341.9	178.2	146.7	52.1	57.8	58.5
Surplus after tax	330.4	166.7	133.0	45.9	49.1	48.2
TRUSTEE EXPENSES						
Management expenses	16.3	14.4	10.1	9.2	9.8	9.8
Management expense ratio (MER)	1.4%	1.5%	1.3%	1.3%	1.5%	1.6%

The MER is an indication of the cost of managing the Fund expressed as a percentage and is calculated as management cost divided by the average net asset value of the Fund.

MER calculation excludes contributors life insurance provisions, certain other expenses but includes outsourcing expenses and BPNG licence fees.

Fund Administrator's Statement

■ KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED



A highlight in 2005 was the increase of private sector employers contributing to the Fund. Three new employers introduced over 1,200 new members and increased the number of private sector funds to 18. This trend reinforces the freedom of choice the superannuation reform has introduced and is creating incentives for superannuation funds to provide high quality customer service and product innovation through healthy competition.

The Retirement Savings Account, which was launched during the year, has attracted a lot of interest and enquiries. In 2005 some 20 retiring members elected to retain some or all of their superannuation benefit within the Fund. These members can now take comfort that their retirement savings are safe, earning high interest and accessible to fund their retirement income needs. More and more Superannuation Contributors looking to retire, or who are being retrenched, are realising the great advantages of leaving some or all of their funds with POSF in a Retirement Savings Account whilst planning their retirement.

With respect to Performance Standards, 2005 was a more consistent year however, the public service retrenchment exercise provided a challenge for payment of benefits.

Administration Operation results for 2005 were:

- 92% of member contributions processed within 2 days of receipt
- 86% of member benefits paid into bank accounts within 5 days of submission
- 99% of members benefits paid into bank accounts within 7 days of submission
- 2,496 benefit payments processed to the value of K98 million
- 3,006 contribution receipts processed to the value of K68 million
- Added 5,962 new members
- Fund size now over 81,000 members

One of the toughest challenges for 2005 was the improvement of member's details and the distribution of the 2004 Annual Statements. Both are inextricably linked because without correct and up to date member information, the distribution of account statements via mail is an almost futile exercise. In 2005, however we took a different approach. With the assistance of the Department of Personnel Management, CONCEPT payroll and MOORE Printing we endeavored to have the majority of Public Servants statements distributed via their pay slip distribution network. We sent over 45,000 statements this way and anticipate that many members, who for years may have not received statements, have now done so.

Our challenge for 2006 is improving member personal information. We are looking at a more hands-on involvement with government departments and personnel to assist in this project however; we still ask that any POSF member who has not received a recent statement contact us so that we may ensure they receive updated information more regularly.

STEPHEN BROWN

Kina Investment & Superannuation Services Limited

Fund Administrator's Report

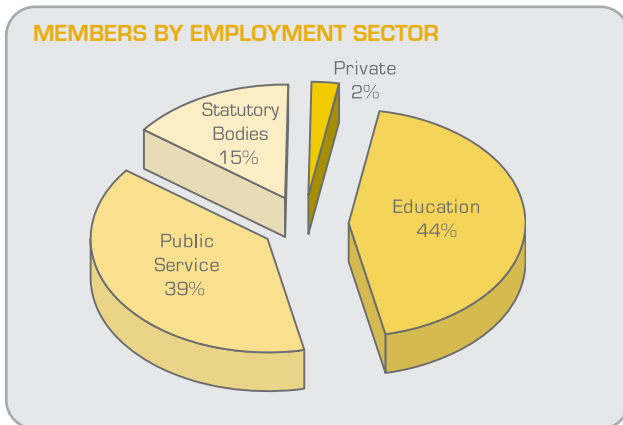
All amounts are expressed in K'000	2005	2004
CONTRIBUTIONS RECEIVED		
Member contributions	60.2	44.6
Employer contributions	36.4	34.1
BENEFIT PAYMENTS		
Retirement	45.5	27.4
Death	14.0	10.0
Retrenchment and Resignation	43.9	34.6
Total payments	103.4	72.0
HOUSING ADVANCE	11.3	1.8
MEMBERSHIP		
The membership statistics for the period are as follows;		
Members	81,657	78,101
Active:	71,810	69,262
Inactive:*	9,847	8,839
Nominated beneficiaries:	39,601	37,908
No Recorded DOB	33,286	30,845
RETIREMENT SAVINGS ACCOUNT		
Retirement savings account	0.89	0

* Inactive members are those who have not contributed for over 12 months within this reporting period.

Membership & Benefits

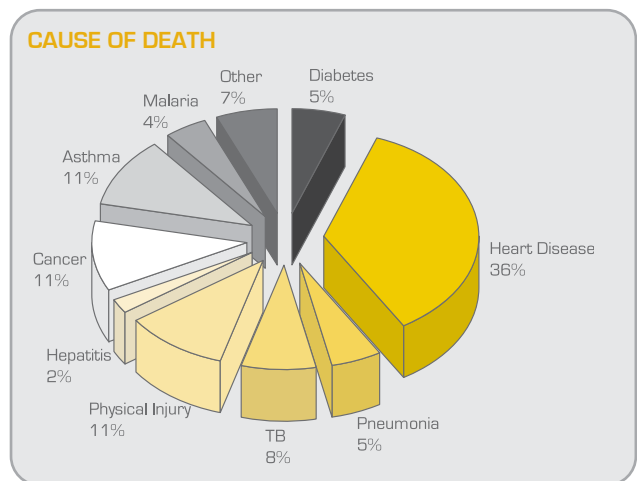
MEMBER DISTRIBUTION

In comparison to 2004 we have seen a rise in the private sector membership of around 1.5%, teachers representation increase by 2% and a drop in the public sector of approximately 4% due to the ongoing retrenchment program.



CAUSE OF DEATH DEMOGRAPHICS

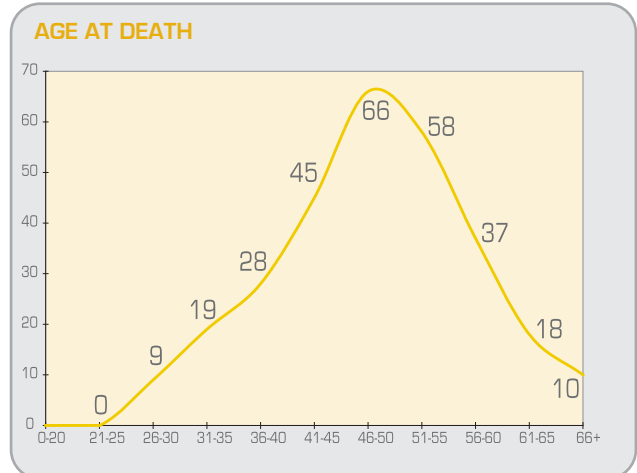
Heart disease still accounts for over one third of deaths; with cancer, asthma and physical injury representing other major causes. It can be construed that while other Funds report high volumes of HIV related cases, POSF memberships' socioeconomic and lifestyle differences reflect an older and more conservative demographic. Due to this, POSF members have a high representation of lifestyle diseases akin to more affluent community as opposed to communal diseases.



AGE DEMOGRAPHICS

AGE GROUP	2005	2004
0-20	139	40
21-25	770	610
26-30	3,830	3,604
31-35	7,142	7,396
36-40	8,950	8,772
41-45	10,247	10,069
46-50	9,174	8,607
51-55	5,616	5,010
56-60	2,357	1,866
61-65	638	583
66 >	32,704	31,544
Total	81,567	78,101

* Including those with no D.O.B



Investment Manager's Statement

■ KINA FUNDS MANAGEMENT LIMITED



The Fund experienced another record for the year 2005, earning total investment income of K338.5 million. The investment income includes fair value gain from revaluation of shares and properties.

The Fund's total investment portfolio grew from K1.02 billion in December 2004 to K1.5 billion in December 2005, an increase of K330 million. The increase resulted from:

- Good performance in domestic listed equities;
- Increase in the independent revaluation of unlisted equity and property portfolio;
- Growth in the international portfolio;
- Repayment of state debts;
- Additional funds from member contributions;
- Capitalization of interest earned.

During 2005, the Fund continued its 2004 investment strategy on international investment, remitting a further K95 million offshore as allowed under the Superannuation (General Provisions) Act 2000 and the investment strategy. This was done with the aim of:

- Providing a counterweight to the impact of the current low interest rates environment in Papua New Guinea on the Fund's earnings
- To secure greater investment opportunities; and
- To reduce the risk of over exposure to single asset class by providing greater diversity than is available in Papua New Guinea

To safeguard international investment, the Trustee executed a custodial agreement with an established commercial bank in Australia to hold custody of the international investments.

Towards the end of 2005, the investment strategy was reviewed to align it with the requirements of the Fund together with the investment climate in Papua New Guinea and overseas. As at 31 December 2005, all the asset classes except International [marginally lower] are within the sector range as specified in the investment strategy.

Kina Funds Management Limited (KFM) would like to stress that the positive result for 2005 would not have been possible without the commitment, sound investment strategy and prudential management practices maintained by the Trustee, its directors, POSF and KFM management and staff. 2006 will be a tough year to follow, however with the continued support and co-operation of POSF, KFM is committed to work within the framework of the investment strategy and the Superannuation Act, to enhance the return for POSF in what "will be a very challenging year 2006".

We take this opportunity to congratulate you all for this noteworthy achievement. POSF and KFM have built a strong partnership over the last two and half years and we look forward to maintaining and continuing our ongoing partnership in the years ahead for the benefit of the members.

KONG WONG

Kina Funds Management Limited

Investment Strategy

1. INVESTMENT STRATEGY

1.1 Investment Objectives

The primary purpose of the Fund is to preserve member contributions. The principal investment objective is to seek positive returns on funds invested without putting this basic purpose at risk.

Subject to on-going risk assessment, the investment objective is to seek an after tax return over time of at least 2% pa above CPI, with negative real returns in no more than one year in five.

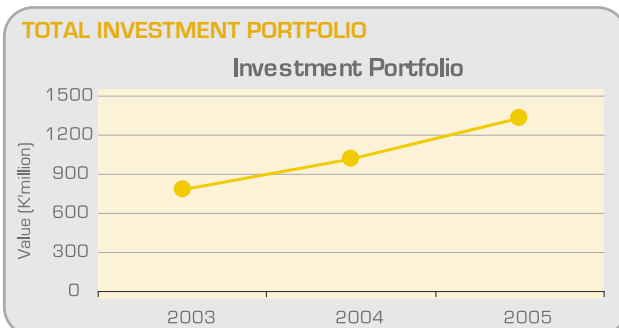
1.2 Risk Management

In developing the investment strategy, the Board in consultation with the Investment Manager analysed the risks of various forms of investment, and sought to devise means of mitigating the risk. This involves the exclusion of investment in asset forms considered to have an unacceptable level of risk, and limits on exposure to individual assets. More generally, asset diversification seeks to mitigate risk through diversifying investment across different asset sectors and different markets.

The specific determinations within which the Investment Manager is to operate are summarised in the table below.

Asset Class	Sector Range Low - High	Neutral Allocation
Cash	0-5%	2%
Fixed interest	15-35%	23%
Equity - Listed & Unlisted	30-50%	40%
Property	10-30%	15%
International	15-25%	20%

The graph below shows the total investment portfolio from 2003 to 2005

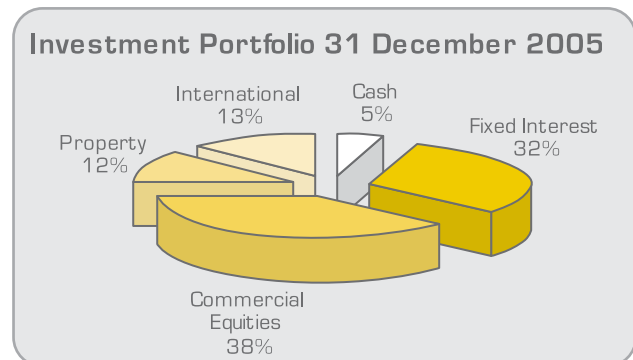


The composition of the investment portfolio by asset class at the end of 2005 compared to year end 2004 is as follows:

Asset Class	Portfolio Value (Km)		Sector Holdings [%]		Range Low-High %
	31-Dec 2005	31-Dec 2004	31-Dec 2005	31-Dec 2004	
Cash	61.2	168.7	4.8	16.6	0 - 5
Fixed Interest	439.7	345	31.6	33.9	15 - 35
Equities	573.1	274.8	38.6	27	30 - 50
Property	162.4	131.4	12	12.9	10 - 30
International	112.2	97.5	13	9.6	15 - 25
Total	1,348.6	1,017.3	100.00	100.00	

The allocation of the Fund's investment assets is further shown in the graph below:

2005 Asset Allocation



2. DOMESTIC INVESTMENT PORTFOLIO

2.1 Cash Portfolio

The Fund's cash portfolio comprises Interest Bearing Deposits (IBD) and Treasury Bills (TB) with maturity up to 90 days. In 2005, the Fund held a total of K61.2 million or 4.54% of the total asset portfolio which is within the sector range of 0 - 5%.

2.2 Fixed Interest

The Fixed Interest Portfolio comprises government, semi-government, corporate securities and debt including development loans beyond 90 days. This also includes TB and IBD with maturity of over 90 days. At the end of 2005, the Fund was holding K439.7 million or 32.61% of the total portfolio in Fixed Interest. This is within the sector range of 15 - 35%.

Investment Strategy

2.3 Commercial Equities

The equities portfolio consists of listed and unlisted shares. At the end of 2005, the Fund's equity portfolio was K573.1 million.

(a) Listed Shares

At the end of the year the listed portfolio carried a value of K410.4 million. The portfolio increased by K237.4 million for the year. This includes a fair value gain of K172 million

Listed Equity	Stock Exchange	Industry/Sector
Adelaide Bank Limited	ASX	Banking/Finance
Bank of South Pacific Limited	POMSOX	Banking/Finance
Bougainville Copper Limited	ASX	Mining
CBA Commonwealth Bank of Australia Limited	ASX	Banking/Finance
Credit Corporation Limited	POMSOX	Finance
Highlands Pacific Limited	POMSOX/ASX	Mining
Lihir Gold Limited	POMSOX/ASX	Mining
Macquarie Infrastructure Limited	ASX	Infrastructure
Macquarie Media Limited	ASX	Media
Mirvac Group Limited	ASX	Property
New Britain Palm Oil Limited	POMSOX	Agriculture
Oil Search Limited	POMSOX/ASX	Mining & Petroleum
Ramu Sugar Limited	POMSOX	Agriculture
TasGold Limited	ASX	Mining
Telstra Corporation Limited	ASX	Communications
QM Technologies Limited	ASX	Communications

(b) Unlisted Shares

Independent revaluation of the unlisted share portfolio was carried out by Deloitte Touche Tohmatsu at the end of 2005 which resulted in a fair value gain of K52.31 million or 32.36%. The portfolio was valued at K162.61 million in December 2005.

Income earned in this sector for the year was K64.39 million of which K12.08 million was received from dividends from unlisted companies.

To redress administration costs, some vacant land holding companies were amalgamated into the property portfolio.

(c) Unlisted Equity Securities

The table below details the relevant unlisted companies together with the percentage holding:

Unlisted Equity	Industry	Percentage Holding (%)
Alotau International Hotel Limited	Hospitality	33
Arnotts Biscuits Holding PNG Limited	Food & Snacks	17
Big Rooster PNG Limited	Fast Food	100
BPT PNG Limited - Ela Motors	Motor Vehicle	4
Brian Bell & Company Limited	Wholesale Retailing	34
Marsh Limited	Insurance Brokering	10
Hunter Pty Limited	Property	30
Kumul Hotels Limited	Tourism & Hospitality	55
Moki No.10 Limited	Real Estate	100
Nationwide Rent A Car Limited - Avis	Vehicle Hire	6
Pacific Capital Limited	Finance	9
South Pacific Post Limited	Media	21
PNG Water Limited	Utilities	30
SP Brewery Limited	Brewery	20
Tabubil Hotels Limited	Tourism & Hospitality	26
Westpac Bank Limited	Finance & Banking	7

Investment Strategy

2.4 Property Portfolio

The property portfolio of the Fund included commercial, residential, industrial and vacant land. Total portfolio was valued at K162.4 million, which constitutes 12.04% of total portfolio and is within the sector range of 10% - 30% as required in the investment strategy.

The property portfolio when compared to 2004 increased by K29.4 million or 22.49%.

This comprises of:

- K18.5 million fair value gain from the independent revaluation carried out at end of 2005;
- Amalgamation of vacant land holding companies from unlisted portfolio;
- Work in progress for the development of Garden Hill (member housing) and Konenamo land; and
- Disposal of several small non performing properties.

In 2005, the Fund took an initiative to start up a housing pilot project for its members at Garden Hill which consist of 25 houses of different sizes. The project is still ongoing and will be offered to eligible members to purchase once completed. This model of member housing will be extended to other POSF vacant land.

The Fund also implemented Facility Management for its commercial properties by appointing Facility Managers and Project Managers to carry out refurbishment to improve the conditions of the properties and thereby increasing returns.

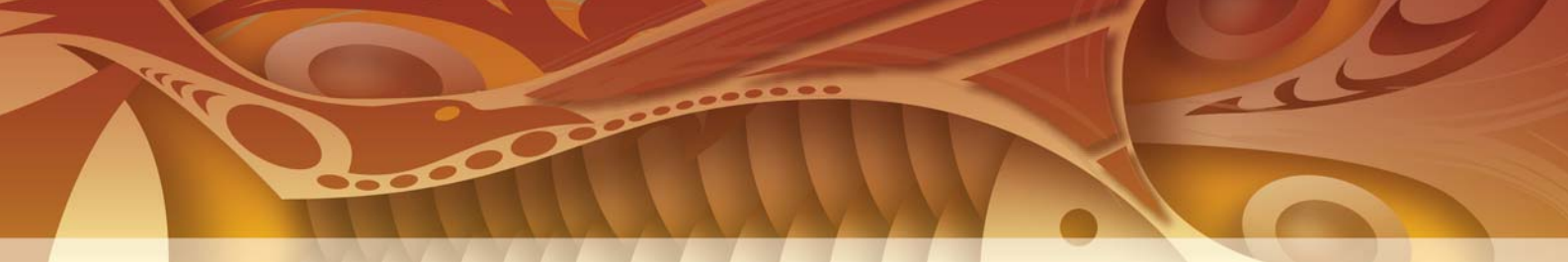
A number of redevelopment projects are also in the planning stage.

Commercial Office	Location
Revenue Haus	Port Moresby
Era Rumana	Port Moresby
Mogoru Moto	Port Moresby
Aopi Centre	Port Moresby
Vulupindi Haus	Port Moresby
Shirin Haus	Port Moresby
Taurama Squash Centre	Port Moresby
IPI Building	Lae
Vele Rumana	Lae
Lightfoot Arcade	Madang

Commercial - Residential	Location
Pacific Vista Apartments	Port Moresby
Touaguba Apartments	Port Moresby
Bayside Apartments	Port Moresby
Lawes Road Apartments	Port Moresby
Devon Lodge	Port Moresby
Portion 212	Lae

Industrial	Location
Bowmans (Gordons Industrial)	Port Moresby
PNG Motors (Eriku)	Lae
Madang Service Station (BP)	Madang
Angco Lot 1 Sec 5 (Banz)	Mt Hagen
Angco Lot 1 Sec 6 (Banz)	Mt Hagen
Angco Lot 2,3,5 Sec 6 (Banz)	Mt Hagen
Angco L5,6,19 & 20 & 34	Lae
Lae Warehouse	Lae





3. INTERNATIONAL INVESTMENT PORTFOLIO

The Fund call accounts and term deposits consisted of Managed Fund, Collateral Debt Obligations (CDO), Hybrid Securities and Listed equities. Holding in 2005 was K112.2 million or 12.56% of the total portfolio marginally lower than the sector range of 15% - 25%.



Independent Auditors Report



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Facsimile (675) 321 1428

Independent audit report to members of the
Public Officers Superannuation Fund ("POSF")

AUDIT OPINION

In our opinion,

- a) the financial report of the Public Officers Superannuation Fund ("POSF"):
- gives a true and fair view of the financial position of POSF ("the Fund") at 31 December 2005, and of its performance for the year ended on that date, and
 - is presented in accordance with the Superannuation (General Provisions) Act 2000, Companies Act 1997 and International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea
- b) proper accounting records have been kept by the Fund as far as appears from our examination of those records; and
- c) we have obtained all the information and explanations we have required.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and the trustee's and directors' responsibility

The financial report comprises the Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows, and the accompanying notes to the financial statements for the Fund for the year ended 31 December 2005.

The directors of POSF Limited, the Fund's Trustee, are responsible for the preparation and true and fair presentation of the financial report in accordance with the Superannuation (General Provisions) Act 2000 and the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Fund. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent

limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Superannuation (General Provisions) Act 2000, Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the Fund's financial position, and of its performance as represented by the total revenue less expenses and benefits paid after income tax and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of the Certified Practising Accountants Papua New Guinea and the Companies Act 1997.

PricewaterhouseCoopers
By: J C Seeto
Registered under the Accountants Act 1996
Port Moresby
31 March 2006



Financial Statements

AS AT 31st DECEMBER 2005

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Statement of net assets	24
Statement of cash flows	25
Notes to and forming part of the financial statements	26 - 39
Declaration by trustee and management	40

**STATEMENT OF CHANGES IN NET ASSETS
FOR YEAR ENDED 31ST DECEMBER 2005**

	Notes	2005 K	2004 K
REVENUE			
Investment income			
Interest	3(a)	50,220,078	53,804,037
Dividends	3(b)	21,533,138	20,021,955
Property rentals	3(c)	23,969,370	22,530,493
Net gain on financial assets at fair value	3(d)	242,795,580	57,050,714
		338,518,166	153,407,199
Contribution income			
Employer contributions	11(a)	36,431,322	34,089,125
Members' contributions	11(a)	60,171,820	44,614,797
		96,603,142	78,703,922
Other income	3(e)	2,963,796	6,912,595
Total		438,085,104	239,023,716
Less:			
EXPENSES			
General and administrative expenses	4(a)	30,782,218	20,434,615
Benefits paid (including housing withdrawals)		55,801,230	32,697,117
Direct investment expenses	4(b)	9,622,361	7,725,921
Total		96,205,809	60,857,203
Total revenue less expenses and benefits paid before income tax		341,879,295	178,257,063
Income tax expense	5(a)	11,509,748	11,475,823
Total revenue less expenses and benefits paid after income tax		330,369,547	166,781,240
Net assets available to pay benefits at the beginning of the year		1,034,155,370	867,464,680
Asset revaluation reserve	11(c)	491,383	-
NET ASSETS AVAILABLE TO PAY BENEFITS TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	11	1,365,016,300	1,034,155,370

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying notes to the financial statements

STATEMENT OF NET ASSETS
FOR YEAR ENDED 31ST DECEMBER 2005

	Notes	2005 K	2004 K
INVESTMENTS			
Held to maturity	6(a)	381,670,716	455,349,356
Other investments held to maturity	6(b)	197,660,838	100,681,641
Loans and debentures	6(c)	33,850,000	46,100,000
Financial assets at fair value	6(d-f)	735,380,900	421,937,654
Total investments		1,348,562,454	1,024,068,651
OTHER ASSETS			
Cash and cash equivalents	7	84,887,642	28,586,134
Trade receivables and other debtors	8	20,825,113	12,842,655
Property, plant and equipment	9	7,831,613	6,318,079
Total other assets		113,544,368	47,746,868
TOTAL ASSETS		1,462,106,822	1,071,815,519
<i>Less:</i>			
LIABILITIES			
Benefits payable		1,056,998	1,062,517
Trade and other creditors	10	89,652,328	26,756,061
Current income tax liabilities	5(b)	5,382,056	9,750,541
Deferred income tax liabilities	5(c)	999,140	91,030
TOTAL LIABILITIES		97,090,522	37,660,149
NET ASSETS AVAILABLE TO PAY BENEFITS	11	1,365,016,300	1,034,155,370

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31ST DECEMBER 2005

	Notes	2005 K	2004 K
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received on fixed interest securities		44,928,542	53,191,241
Interest received on state share receivables		-	50,703,927
Dividends received		21,533,138	20,021,955
Property rentals received		25,054,766	21,084,866
Employer contributions received		36,431,322	34,089,125
Member contributions received		60,171,820	44,614,797
State share of benefit payments received		125,343,576	117,921,397
Other income and receipts		1,348,241	5,511,663
General administration expenses paid		(37,783,756)	(16,176,502)
Fund share of benefits paid (incl. housing withdrawals)		(56,697,013)	(32,697,117)
State share of benefits paid		(57,093,876)	(42,418,163)
Income tax paid		(13,770,825)	(15,830,863)
Net cash provided by operating activities	15	149,465,935	240,016,326
CASH FLOW FROM INVESTING ACTIVITIES			
Receipt of development loan repayments		12,250,000	5,650,000
Proceeds on maturity of government securities		928,882,164	1,727,379,669
Purchase of government securities		(856,311,020)	(1,894,406,911)
Placement of other fixed interest securities – net		(96,979,196)	(47,052,157)
Acquisition of shares in listed equities		(66,695,029)	(14,366,845)
Acquisition of shares in unlisted equities		(1,079,458)	-
Proceeds on sale of shares in listed equities		1,294,015	7,745,974
Proceeds on sale of shares in unlisted equities		-	1,027,960
Payment for investment property development and acquisition		(3,757,740)	(27,233,770)
Investment property assets		(1,052,531)	(350,671)
Purchase of property, plant and equipment		(1,852,434)	(344,693)
Proceeds on sale of investment properties		1,427,041	1,351,841
Proceeds on sale of investment property assets		332,122	29,666
Proceeds on sale of property, plant and equipment		-	-
Direct investment expenses paid	4(b)	(9,622,361)	(7,725,921)
Net cash used in investing activities		(93,164,427)	(248,295,858)
Net increase / (decrease) in cash & cash equivalents held		56,301,508	(8,279,532)
Cash and cash equivalents at the beginning of the year		28,586,134	36,865,666
Cash and cash equivalents at the end of the year	7	84,887,642	28,586,134

The above Statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

1. GENERAL INFORMATION

Public Officers Superannuation Fund ("POSF" or "Fund") is an authorised fund under the Superannuation General Provisions Act 2000 ("Act"). The Fund is primarily a defined contribution (or accumulation) fund which provides benefits to its members in accordance with the Act. The majority of the contributors are from the public sector with the 'State' as the major employer, however since the introduction of superannuation reforms, membership now includes private sector organisations.

The Fund launched a new post employment product for exiting members in the form of a Retirement Savings Account. This facility allows members who exit the Fund to transfer all or part of their benefits to RSA. The advantages of RSA are the continued security of funds in retirement and the ability to make regular withdrawals from the account in line with retirement needs. The earnings on RSA balances are free of tax where statutory levels of withdrawals are not exceeded.

The Fund is governed by the board of directors of POSF Limited, the Fund's Corporate Trustee. POSF Limited is domiciled in PNG and the registered office is located at:

Level 6, Era Rumana
Champion Parade
PO Box 483
Port Moresby

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

These financial statements are presented in accordance with the requirements of the Act and the Papua New Guinea Companies Act 1997 and comply with generally accepted accounting practice, including applicable financial reporting standards approved for use in Papua New Guinea ("PNG") by the Accounting Standards Board ("ASB"). The ASB has approved all current International Financial Reporting Standards ("IFRS") as financial reporting standards.

All amounts are expressed in PNG Kina rounded to the nearest Kina.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the fair value adjustments to investments and other financial assets and liabilities at fair value through the Statement of Changes in Net Assets. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Some of the comparative information have been conformed for consistency with the current year presentation.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the accounting for pensioner funds and certain liabilities.

(b) Revenue recognition

Investment income, comprising interest on government securities, term deposits, debentures, loans and rental income, is brought to account on an accruals basis.

Dividends from shares are accounted for on a cash received basis. Changes in the net market value of assets are recognized in the statement of changes in net assets in the periods in which they occur. Transfers from other funds are brought to account when received. Contribution revenue is recognized upon receipt.

(c) Foreign currency translation

The financial statements are presented in PNG Kina, which is the Fund's functional and presentation currency. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Changes in Net Assets. Such balances are translated at year-end exchange rates at balance date. Translation differences on non-monetary items, such as equities held at fair value through the Statement of Changes in Net Assets, are reported as part of the fair value gain or loss.

(d) Property, plant and equipment

Property, plant and equipment comprise mainly residential and office buildings, and motor vehicles. All these assets are shown at cost, less subsequent depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Changes in Net Assets during the financial period in which they are incurred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Property, plant and equipment *(continued)*

Depreciation is provided on all property, plant and equipment so as to reduce such assets to their residual value at the end of their estimated lives. The Fund uses the reducing balance method. The principal annual rates are as follows:

Buildings	4.5%
Furniture & fittings	At rates varying from 11.25 % to 30.00 %.
Office equipment	At rates varying from 11.25 % to 30.00 %.
Motor vehicles	30%

(e) Investments

Assets of the Fund or plan assets that are treated as investments are recorded at fair value as at the reporting date and the changes in fair value are recognised in the Statement of Changes in Net Assets in the period in which they occur.

- Listed shares are valued at balance date by reference to their market value and in the case of foreign denominated shares, are translated using the closing rate on that date.
- Unlisted shares are valued at fair value at balance date, as determined by an independent professional valuer. The main factors used in determining fair value include a combination of dividend yield, net tangible asset backing and future maintainable earnings, as appropriate.
- Investment properties are valued at fair value at balance date, determined by qualified independent professional valuers. The methods used to determine fair value is mainly based on 'market value for existing use'.

The Fund's interest in controlled entities are treated as plan assets or investments of the Fund available for sale and therefore not consolidated in these financial statements.

(f) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is based on management's best estimates and is recognized in the Statement of Changes in Net Assets.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and where applicable, bank overdrafts.

(h) Income tax

Tax effect accounting procedures are followed using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Income tax on temporary differences is set aside to the deferred tax liability and deferred tax asset accounts at current enacted tax rates. Deferred tax assets relating to deductible temporary differences and tax losses are only carried forward as an asset to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

(i) Provisions

A provision is recognized when there is a present obligation to transfer economic benefits as a result of past events. The amount provided is the best estimate of the expenditure that would be required to settle the obligation that existed at the balance sheet date.

(j) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors and investments.

These instruments are generally carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

(k) Employee benefits

Liabilities for employees' entitlements to wages and salaries, annual leave, and other employee entitlements are accrued at nominal amounts calculated having regard to period of service, statutory obligations, and on the basis of current wage and salary rates.

(l) Trade and other creditors

Trade and other creditors represent liabilities for goods and services provided to the Fund prior to the end of the financial period and which are unpaid. The amounts are unsecured.

(m) Benefits payable

Benefits payable are benefits attributable to members but had not been paid by balance date.

(n) Liability for accrued benefits

The liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries, inclusive of any statutory reserves, and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of liabilities as at the reporting date.

This excludes any unfunded state share.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005**

	2005 K	2004 K
3. INCOME		
The following categories of income were credited to the Statement of Changes in Net Assets:		
INVESTMENT INCOME		
(a) Interest		
<i>Interest from:</i>		
Government securities	39,170,768	42,422,396
National government loan	1,467,000	1,471,019
Debentures and/or loans	2,874,365	4,286,818
Term deposits	6,707,945	5,623,804
	50,220,078	53,804,037
(b) Dividends from investments		
Shares in listed securities	9,452,749	4,305,145
Shares in unlisted securities	12,080,389	15,716,810
	21,533,138	20,021,955
(c) Property rental		
Gross rental income	23,969,370	22,530,493
(d) Changes recognised in relation to financial assets at fair value		
Shares in listed securities	171,967,145	36,210,010
Shares in unlisted securities	52,305,829	18,102,580
Investment properties	18,522,606	2,738,124
	242,795,580	57,050,714
TOTAL INVESTMENT INCOME	338,518,166	153,407,199
(e) Other Income		
Directors fees received	41,621	43,218
Loss on disposal of property, plant and equipment	(351,933)	(198,308)
Interest on state share receivable	-	3,695,739
Bad debt recovered	-	2,146,996
Gain on disposal of investments	1,128,308	-
Other income	2,145,800	1,224,950
	2,963,796	912,595

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005

	2005 K	2004 K
4. EXPENSES		
Expenses charged to the Statement of Net Assets comprised:		
(a) General and administrative expenses		
Management expenses		
Staff	5,377,913	4,295,252
Vehicles	168,560	174,133
Travel	44,299	97,512
Professional fees	1,089,105	587,807
Directors fees and expenses	480,358	352,417
Conferences	71,940	37,229
Office expenses	1,261,471	943,863
Staff housing	556,168	471,847
Office building expenses	166,734	160,895
	9,216,548	7,120,955
Outsourcing expenses		
Fund administration	1,447,148	1,392,758
Investment management	2,903,874	2,285,984
	4,351,022	3,678,742
BPNG license fees	1,243,017	2,319,754
Contributor expenses		
Contributor liaison	315,410	452,232
Life insurance expense	2,837,799	7,543,851
	3,153,209	7,996,083
Other expenses		
Bad debt written off	478,037	169,919
Depreciation of fixed assets	683,406	682,053
Loss/[gain] on foreign exchange	11,509,278	[1,533,341]
Investment monitoring expenses	147,701	-
	12,818,422	[681,369]
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	30,782,218	20,434,165
(b) Direct investment expenses		
Maintenance expenditure on investment properties	9,622,361	7,725,921

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005**

	2005 K	2004 K
5. INCOME TAX		
The income tax charged on total revenues less expenses and benefits paid is determined as follows:		
(a) Income tax expense		
Profit before tax	341,879,295	178,166,513
Prima facie tax at 25%	85,469,824	44,541,628
Permeant differences:		
Accounting profit on fair value changes in investment properties	(4,630,652)	(651,781)
Accounting profit on fair value changes in equity investments	(56,068,244)	(13,566,672)
Exchange losses on capital account	2,877,320	-
Section 216 dividend rebate	(5,383,285)	(4,711,464)
Tax depreciation on investment properties	(350,057)	(425,000)
Benefits paid to members	13,950,307	8,174,279
Employer contributions	(9,107,831)	(8,522,281)
Employee contributions	(15,042,955)	(11,153,699)
Others	(250,900)	(861,433)
Prior year adjustment	46,221	(1,347,754)
Income tax expense for the year	11,509,748	11,475,823
(b) Provision for income tax		
Prima facie tax payable at 25% (2004: 25%) on total revenues less expenses and benefits paid before income tax	85,469,824	44,541,629
Tax effect of permanent differences	(74,006,297)	(31,718,050)
Tax effect of temporary differences	(952,420)	12,685,860
Tax paid - credit for interest withholding tax	(5,878,758)	(8,184,070)
Tax paid	(9,000,834)	(7,646,793)
	(4,368,485)	9,678,575
Prior years income tax provision	9,750,541	71,966
	5,382,056	9,750,541
(c) Deferred tax liability		
Opening balance at the beginning of the year	91,030	12,817,466
Movement in year	952,420	(12,685,860)
Prior year	(44,308)	(40,576)
Closing balance at the end of the year	999,142	91,030
Comprising:		
Interest receivable	3,241,866	1,954,857
Rent receivable	886,338	1,173,651
Consumable stores	2,513	2,512
Depreciation	(271,785)	(98,328)
Less:		
Employee benefits	(464,587)	(293,176)
Doubtful debts	(504,553)	(525,736)
Doubtful loans	(268,048)	(268,048)
Insurance payments - death claims	(1,547,602)	(1,854,702)
Other accruals	(75,000)	-
Deferred taxation	999,142	91,030

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005

	2005 K	2004 K
6. INVESTMENTS		
Investments are made up as follows:		
(a) Held to maturity investments	381,670,716	455,349,356
(b) Others investments held to maturity		
Onshore term deposit	77,219,000	17,435,000
Less: Provision for doubtful deposit	(1,000,000)	(1,000,000)
	76,219,000	16,435,000
Offshore term deposit	90,730,939	8,680,035
Offshore fixed interest deposits	21,486,893	75,566,606
Institutional notes and bills	9,224,006	-
	197,660,838	100,681,641
(c) Loans and debentures		
<i>National Government</i>		
Balance at the beginning of the year	10,000,000	10,000,000
Payments received	-	-
Balance at the end of the year	10,000,000	10,000,000
<i>Companies</i>		
Balance at the beginning of the year	36,100,000	41,750,000
Payments received	(12,250,000)	(5,650,000)
Balance at the end of the year	23,850,000	36,100,000
	33,850,000	46,100,000
(d) Financial asset - unlisted shares		
Balance at the beginning of the year	114,613,583	97,213,003
Divestment of shares in Metals Refinery Holdings Ltd	-	(702,000)
<i>Investments during the year :-</i>		
Marsh Insurance Limited	1,079,458	-
<i>Reclassification to investment properties: -</i>		
Peachester Limited	(1,448,000)	-
PNG Bag Distributors Limited	(765,000)	-
Tanga Limited	(127,000)	-
Pacific Vista Apartments Limited	(3,046,000)	-
Net fair value gain (Refer note 3(d))	52,305,829	18,102,580
Balance at the end of the year	162,612,870	114,613,583
(e) Financial asset - listed shares		
Balance at the beginning of the year	172,959,495	128,311,883
<i>Divestments during the year: -</i>		
Bougainville Copper Ltd	(896,931)	(477,096)
Oil Search Limited	-	(5,452,147)
Tasgold Limited	(22,836)	-
Bank South Pacific	(319,188)	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005**

	2005 K	2004 K
6. INVESTMENTS <i>(continued)</i>		
<i>Investments during the year :-</i>		
Bank South Pacific (dividend reinvestment plan)	4,823,408	2,173,846
Ramu Sugar Limited	-	1,480,000
New Britain Palm Oil Limited	2,542,420	239,823
Mirvac Group Limited	-	453,769
AMP Capital – China Fund	-	1,039,273
Commonwealth Bank of Australia Limited	-	1,319,282
Telstra Corporation Limited	4,470,765	510,097
Tasgold Limited	-	76,952
Mahogany Capital Investment Limited	-	7,073,803
Highlands Pacific Limited	11,396,748	-
Multiplex S/Trust	6,835,719	-
Alpha Finance Product	4,539,265	-
Adelaide Bank Limited	1,191,784	-
Nexus Bond Limited	6,811,989	-
Macquarie Infrastructure Group	1,819,293	-
Allco Max Security & Mortgage	11,634,164	-
Allco Hybrid Investment Trust	2,125,217	-
QM Technologies	2,131,287	-
Macquarie Media Group	2,003,294	-
Babcock & Brown Limited	4,369,675	-
Net fair value gain (Refer note 3 (d))	171,967,145	36,210,010
Balance at the end of the year	410,382,713	172,959,495
(f) Investment properties		
<i>Land and buildings</i>		
Balance at the beginning of the year	128,539,489	97,069,060
Additions	2,024,905	29,473,365
Divestments during the year	(1,579,000)	(1,395,128)
Reclassification from property, plant and equipment	-	717,157
Re classification to property, plant and equipment	-	(63,089)
Reclassification from unlisted shares	5,386,000	-
Net fair value gain (Refer Note 3(d))	18,522,606	2,738,124
Balance at the end of the year	152,894,000	128,539,489
<i>Furniture & Fittings</i>		
Cost at the beginning of the year	5,693,356	5,588,664
Additions	318,170	132,954
Disposals	(341,250)	(28,263)
Cost at the end of the year	5,670,276	5,693,355
Accumulated depreciation	2,894,579	2,494,760
Depreciation charge for the year	378,603	411,491
Disposals	(169,749)	(11,675)
Balance at the end of the year	3,103,433	2,894,576
Net Book Value	2,566,843	2,798,779

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005

	2005 K	2004 K
6. INVESTMENTS <i>(continued)</i>		
(f) Financial asset - investment properties <i>(continued)</i>		
<i>Plant and equipment</i>		
Cost at the beginning of the year	3,648,166	3,466,573
Additions	734,307	217,717
Disposals	(195,875)	(36,124)
Cost at the end of the year	4,186,598	3,648,166
Accumulated depreciation	2,111,101	1,879,026
Depreciation charge for the year	257,808	244,390
Disposals	(157,335)	(12,316)
Balance at the end of the year	2,211,574	2,111,100
Net book amount	1,975,024	1,537,066
Total investment properties	157,435,867	132,875,334
Capital works in progress on investment properties	4,949,450	1,489,242
	162,385,317	134,364,576
Total - financial assets at fair value	735,380,900	421,937,654
TOTAL INVESTMENTS	1,348,562,454	1,024,068,651
7. CASH AND CASH EQUIVALENTS		
Bank balance	72,426,011	25,484,080
Cash in hand	2,259	1,885
Bank call deposit	12,459,372	3,100,169
	84,887,642	28,586,134
8. RECEIVABLES		
Rental debtors	3,545,349	4,715,478
Less: Provision for doubtful debts	(1,018,212)	(1,102,945)
	2,527,137	3,612,533
Staff housing scheme and advances	185,439	165,569
Loan debtors	6,151,794	4,923,438
Sundry debtors	1,861,144	1,453,307
Department of finance (state share)	2,237,739	-
Interest accruals	6,448,627	2,385,447
Associated funds	1,403,184	292,312
Other	10,049	10,049
	20,825,113	12,842,655

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

9. PROPERTY, PLANT AND EQUIPMENT

Non-investment fixed assets used in the operations of the Fund are included in Property, Plant and Equipment, as set out below. Property, Plant and Equipment associated with investment properties are included under Investments, note 6.

	HOUSING		OFFICE BUILDING			VEHICLES	Total
	Land & Building	Plant & Equipment	Land & Building	Furniture & Fittings	Plant & Equipment	Motor Vehicles	
COST							
At 1 January 2005	1,217,402	163,777	3,624,667	1,310,628	1,212,411	1,168,410	8,697,295
Additions	90,046	57,329	-	295,038	651,339	758,682	1,852,434
Revaluation surplus	147,049	-	344,333	-	-	-	491,382
Disposal	-	(1,123)	-	(46,034)	(55,460)	(612,866)	(715,483)
At 31 December 2005	1,454,497	219,983	3,969,000	1,559,632	1,808,290	1,314,226	10,325,628
DEPRECIATION							
At 1 January 2005	146,572	83,017	312,713	403,049	540,980	892,886	2,379,217
Depreciation	15,770	16,735	136,747	135,316	217,076	161,762	683,406
Disposals	-	(839)	-	(34,631)	(32,028)	(501,110)	(568,608)
At 31 December 2005	162,342	98,913	449,460	503,735	726,028	553,538	2,494,015
NET BOOK VALUE							
At 31 December 2005	1,292,155	121,070	3,519,540	1,055,898	1,082,262	760,688	7,831,613
At 31 December 2004	1,070,830	80,760	3,311,954	907,579	671,433	275,523	6,318,079

Properties held for own use were revalued as at 31 December 2005 by a qualified independent professional valuer. The method used to determine the revalued amount is mainly based on 'market value' for existing use, and resulted in a surplus of K491,382.

10. TRADE AND OTHER CREDITORS

	2005 K	2004 K
Trade creditors	5,682,116	4,093,148
Interest payable	1,186,671	-
Rental bond fees	1,400,238	1,230,034
Member insurance payable	6,190,407	7,418,807
Net state-share received in advance*	68,692,988	5,997,618
State pension liability	4,641,562	6,720,000
Employee provisions	1,858,346	1,296,454
	89,652,328	26,756,061

*Additional notes

State share received in advance comprised of:

- K 48.8 million - State's share of retrenchment under the 2004 and 2005 retrenchment program.
- K 19.9 million - State's share under section 45A benefits

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

11. LIABILITY FOR ACCRUED BENEFITS AND RESERVES

Liability for accrued benefits is represented by contributor funds, contributor housing withdrawals and pensioner funds. Contributor funds are credited with contributions on a cash received basis due to the practical difficulties in determining accrued contributions. For 2005, interest allocated to contributor funds was determined on member balances at a rate of 20% on (2004: 15.5%) on a time weighted basis.

Contributor housing withdrawals comprise withdrawals from contributor funds, which are repaid by way of additional contributions at a minimum rate of 2% of the members normal gross salary.

	2005 K	2004 K
LIABILITY FOR ACCRUED BENEFITS		
(a) Contributor funds		
Balance at the beginning of the year	949,222,028	779,117,868
<i>Add:</i>		
Members contributions received during the year	60,171,820	44,614,797
Employer contributions received during the year	36,431,322	34,089,125
Interest allocation	184,918,397	122,260,500
	1,230,743,567	980,082,290
<i>Deduct:</i>		
Member benefits paid during the year	(44,518,714)	[30,860,262]
Members' funds transferred to Retirement Savings Account	(895,782)	-
Balance at the end of the year	1,185,329,071	949,222,028
(b) Contributor housing withdrawals		
Balance at the beginning of the year	(14,203,353)	(12,451,700)
Advances or member withdrawals	(12,985,297)	(3,202,476)
Repayments	1,702,778	1,450,823
Balance at the end of the year	(25,485,872)	(14,203,353)
(c) Pensioner funds		
Balance at the beginning of the year	66,331,648	64,777,000
Allocated during the year	3,316,583	1,554,648
Balance at the end of the year	69,648,231	66,331,648
(d) Retirement savings account		
Funds transferred from the contributor funds	895,782	-
LIABILITY FOR ACCRUED BENEFITS	1,230,387,212	1,001,350,323
RESERVE		
SECTION 35 (2) (c) Reserve	21,278,097	21,278,097
General Reserve	112,859,608	11,526,950
Fixed Asset Revaluation Reserve	491,383	-
TOTAL LIABILITY FOR ACCRUED BENEFITS AND RESERVES	1,365,016,300	1,034,155,370

Additional note on reserves:

- (i) Section 35 (2) (c) - this is the residual balance after the allocation of the former fund net assets in 1991. The net assets were allocated to member balances (being contributions and an agreed interest rate) and also to an actuarially determined balance to fund pensions - the resulting surplus balance of net assets was allocated to a reserve as required by this section.
- (ii) Fixed asset revaluation reserve - this represents the increment in the valuation of properties that are used as administration offices and property used to accommodate senior managers and staff.
- (iii) Given the significant proportion of unrealized gains for the year the Directors determined it prudent not to fully allocate the net investment return for the year. The Bank of Papua New Guinea has consequently fixed the maximum level of general reserves at 10% of assets for the purposes of section 71A of the Superannuation (General Provisions) Act 2000, to be progressively reduced over the next 3 years back to 2% of total assets. As at 31 December 2005 the balance of general reserves of K134.14m represented 9.2% of total assets (9.8% net assets).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

12. FUNDING ARRANGEMENTS

(a) Exited members

Before 2003, employer obligations, being obligations of the State of PNG, were met on an emerging basis. As members exited from the Fund, the State was legally obliged to match the benefit accruing to the member from the member's contributions in the ratio of 8.4% to 6%. The total benefit was paid to the member by the Fund, with the State reimbursing the Fund for its share.

At the end of 2005 the potential liability of the State to members was estimated to be K1,483 million. (2004: K1,271 million)

(b) Employer contributions

From 2003, employers commenced remitting directly to the Fund the full 8.4% employer contributions on behalf of their members. The State is only required to contribute 25% of the 8.4% employer contribution for 2003 and 2004, 50% for 2005 and 2006, 75% for 2007 and 2008 and 100% from 2009 onwards. As contributions are only recognised on a cash basis, the total amount owing by the State is not recognised in the Fund's Statement of Net Assets.

13. FINANCIAL INSTRUMENTS

The investments of the Fund (other than cash held for liquidity purposes) are managed on behalf of the trustee by Kina Funds Management Limited ("KFM"). The investment manager is required to invest the assets managed by it in accordance with the terms of a written investment mandate. The trustee has determined that appointment of this manager is appropriate for the Fund and is in accordance with the Fund's investment strategy. The trustee obtains regular reports from the investment manager on the nature of the investments made on its behalf and the associated risks.

(a) Use of derivative financial instruments

The Fund's investment manager generally does not use derivative financial instruments to reduce risks in the share and currency markets and to increase or decrease the Fund's exposure to particular investment classes or markets.

(b) Credit risk exposures

The Fund has no significant concentrations of credit risk. It has policies in place to ensure that there is an appropriate spread of risk. The Fund does not have any significant exposure to any individual counterparty or industry.

(c) Interest rate risk exposures

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

(d) Currency risk exposures

The Fund is exposed to foreign exchange rate movements on international investments. It does not have any specific hedging policies to mitigate against this risk but the Fund does monitor the impact of this risk on an ongoing basis.

(e) Net fair values of financial assets and liabilities

The Fund's financial assets and liabilities, including derivative instruments, are included in the Statement of net assets at amounts that approximate net fair value.

14. EVENTS SUBSEQUENT TO STATEMENT OF ASSETS DATE

On the 13th January 2006 fire destroyed the ground floor of Era Rumana, the official location of POSF Limited. This resulted in the temporary relocation of the entire operations of the Trustee to the nearby Mogoru Moto Building. Board and management were pleased to note the swift action by staff in the relocation process only resulted in a one day "down time".

The operations relocated back to Era Rumana on the 10th February 2006 and the insurance process in respect of the fire is still in progress.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2005**

	2005 K	2004 K
15. NOTES TO THE STATEMENT OF CASH FLOWS		
Cash and cash equivalents		
For the purpose of this Statement of Cash Flows, Cash includes cash on hand, and on call deposits with banks and is net of bank overdrafts. Cash as at the end of the year as shown in the statement of Cash Flows is reconciled to the related item in the Statement of Assets as follows:		
Cash on hand	2,259	1,885
At call deposits	12,459,372	3,100,169
Balance at bank	72,426,011	25,484,080
	84,887,642	28,586,134
Reconciliation of Cash Flow from operations with total revenues less expenses and benefits paid		
Total revenues less expenses and benefits paid after income tax	330,369,547	166,690,690
Add/(less) non-cash items:		
Depreciation on property, plant and equipment	683,406	682,053
Depreciation on investment property assets	636,412	655,881
Loss on disposal of property, plant and equipment	351,933	58,286
Loss on disposal of investment property assets	199,976	10,730
Loss on disposal of investment property	151,957	43,284
Profit on sale of shares in listed equities	(1,124,241)	(1,816,731)
Profit on sale of shares in unlisted equities	(360,000)	(325,960)
Direct investment expenses	9,622,360	7,725,921
Fair value gain arising from changes in net market value of investments	(242,795,580)	(57,050,714)
Other non cash items	282,250	-
Net cash provided by operating activities before change in assets and liabilities	98,018,020	116,673,440
Changes in assets and liabilities during the year:		
(Increase)/decrease in receivables	(7,982,458)	115,909,304
Increase/(decrease) in benefits payable	(5,519)	(270,387)
Increase/(decrease) in trade and other creditors	62,896,267	12,059,009
Increase/(decrease) in current income tax liabilities	(4,368,485)	8,371,396
Increase/(decrease) in deferred income tax liabilities	908,110	(12,726,436)
Cash flow from operating activities	149,465,935	240,016,326

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

16. RELATED PARTY DISCLOSURES

- (a) The Trustee of the Fund throughout the year was POSF Limited. The names of persons who were directors of the trustee company at any time during the financial year are:
- | | |
|-----------------------|------------------|
| Sir Nagora Bogan, KBE | Mr Kerenga Kua |
| Mr Ravu Vagi | Mrs Aivu Tauvasa |
| Mr Greg Taylor | Mr Leon Buskens |
- (b) During the financial year the Fund earned interest on term deposits of K 91,999 (2004: K354,172) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager Kina Funds Management Limited. As at 31 December 2005, the term deposits placed with Kina Finance Limited was K 4.7 million (2004: K3.3 million). These transactions were carried out on commercial terms and market rates.
- (c) During the financial year the Fund charged its wholly owned unlisted investment, Moki No.10 Limited interest of K1,225,000 (2004: K1,228,256) at a annual rate of 10% for the loan given to this investment. As at 31 December 2005, the loan receivable from this investment is K12,500,000.(2004: K12,500,000).
- (d) Big Rooster (PNG) Limited is a wholly owned investment of POSF. As at 31 December 2005 Big Rooster owed POSF a sum of K7,923 which is included under debtors.

17. CONTINGENT LIABILITIES

(a) Related interest on pensions over-invoiced to the State

The Fund over-invoiced the Independent State of Papua New Guinea ("the State") for its share of pension payments and therefore a provision based on management's best estimates of K6.72 million was made as at 31 December 2003. As at 31 December 2005 an amount of K2.1 million of recoverable State was offset against the initial provision, reducing the balance to K4.6 million.

The Fund has a present obligation to repay the State the related interest that has been earned by it, arising from its over-invoicing of the pension payments. As the amount of the interest earned by the Fund from over-invoicing the State can only be determined subsequent to a full review of all pension payments received from the State, no further provision has been made as at balance sheet date.

(b) Litigation Claims

The Fund received a number of litigation claims, including claiming damages for unfair rental lease cancellation, claims relating to member withdrawals and post employment benefit claims. The board of directors has reviewed these cases and will take the appropriate course of action to vigorously defend against these claims. In the Board's view, none of these claims are expected to result in significant losses to the Fund.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

18. DIRECTORS DISCLOSURE

Name	Nature of Interest	Companies
Sir Nagora Bogan	Director	Coprez Holdings Limited, Inventive Nook Limited, Coprez Communications Limited, Wazman 2000 Limited
	Director/CEO	Impact Media Communication Limited
	Manager	FM Morobe Limited
	Director as POSF nominee	Bank South Pacific
Kerenga Kua	Director	Endeyauo Limited, Fikor Limited, Kurada 31 Limited, Yuwai 66 Limited, Finance Corporation Limited
	Partner	Posman Kua Aisi Lawyers
	Provision of legal services	POSF Limited, Kina Funds Management Limited, Pacific Equities & Investment Limited, ANZ Bank (PNG) Limited, QBE Insurance (PNG) Limited
	Director as POSF nominee	Big Rooster (PNG) Limited
Gregory Taylor	Director	TFG International Ltd (Australia)
	Director as POSF nominee	Kumul Hotels Limited, Marsh Limited
Ravu Vagi	Director as POSF nominee	Big Rooster (PNG) Limited
Leon Buskens	Shareholder	Bambi Elementary School
	Director as POSF nominee	Big Rooster (PNG) Limited, Brian Bell & Company Limited, Moki No.10 Limited, Alotau Internation Hotel, SP Brewery Limited, Credit Corporation Limited
	Independent Director	Telikom Ltd, Transparency International (PNG), PNG Institute of Directors

DIRECTORS REMUNERATION

Name of director	Total remuneration	Board meetings attended	Audit & Risk Committee meetings attended	Membership Committee meetings attended
Sir Nagora Bogan	K38,000	4/4	4/4	-
Kerenga Kua	K29,000	4/4	-	3/3
Aivu Tauvasa	K24,651	3/4	-	-
Greg Taylor	K70,135	4/4	-	-
Ravu Vagi	K25,000	4/4	-	3/3

19. SENIOR MANAGEMENT DISCLOSURE

The remuneration package for the managing director is determined by the Board of Directors while senior management packages are determined by the Managing Director in comparison with industry wide and current market trend.

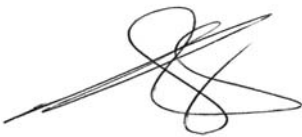
Name	Nature of Interest	Company
Wayne Smith	Director as POSF nominee	Kumul Hotels Limited
		Hunter Limited
		Big Rooster (PNG) Limited
		Brian Bell & Company Limited
		Moki No.10 Limited
Asi Pako	Director as POSF nominee	Kumul Hotels Limited
		Hunter Limited
Patricia Taureka	Director as POSF nominee	Arnotts Biscuits Holdings (PNG) Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2005

DECLARATION BY TRUSTEE

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows, together with the Notes to and forming part of the accounts, have been properly drawn up so as to respectively exhibit a true and fair view of state of affairs of the Fund as at 31 December 2005 and its performance for the year then ended.

For and on behalf of the Board of Directors of the Trustee.



SIR NAGORA BOGAN
Chairman of Board



KERENGA KUA
Deputy Chairman of Board

DECLARATION BY MANAGEMENT

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows, together with the Notes to and forming part of the accounts, have been properly drawn up so as to respectively exhibit a true and fair state of affairs of the Fund as at 31 December 2005, and its performance for the year then ended.

We are of the opinion that:

- (a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- (b) no circumstances have arisen which would render any amount shown in the Statements misleading;
- (c) the current assets of the Fund, including debtors, are expected to realize in the ordinary course of business at least the value at which they are included in the Statement;
- (d) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due.



LEON BUSKENS
Managing Director



ASI PAKO
General Manager Finance & Administration

31 March 2006

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General Manager Finance	Asi Pako	Telephone: 3095 206	apako@posf.com.pg
General Manager Corporate Affairs	Wayne Smith	Telephone: 309 5204	wsmith@posf.com.pg
Manager Member Services	Joseph Pupua	Telephone: 309 5245	jpupua@posf.com.pg
Manager Finance	Heartly Kanaiat	Telephone: 309 5229	heartlyk@posf.com.pg
Manager HR & Administration	Loka Kula	Telephone: 309 5210	lkula@posf.com.pg
Manager Property	Yuanimba Yinanguie	Telephone: 309 5254	yy@posf.com.pg
Manager Legal Services	Patricia Taureka	Telephone: 309 5209	ptaureka@posf.com.pg

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HIGHLANDS REGION - MT HAGEN - Allan Titip

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NEW GUINEA ISLANDS REGION - RABAUL - Senny Lukara

Tropicana House, Sec 6 Lot 19, Kokopo PO Box 608, Rabaul, East New Britain Province
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FUND ADMINISTRATOR - Stephen Brown / Margaret Mairi

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INVESTMENT MANAGER - Kong E. Wong / Gadisa Igah

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