



Nambawan *Super*



2008
ANNUAL REPORT

2008 Highlights

Financial

- After tax profit of K150.4 million
- Net Assets increased by 15.8% or K361 million representing a growth from K2.261 billion to K2.622 billion
- Member Accounts including accounts of retired members under the Retirement Savings Account ("RSA") credited with an interest rate of 11.5%
- An interim interest rate of 4% for members exiting in 2009
- Reserves of K66.64 million set aside, well within the reserving limit set by Bank of PNG
- Received K190 million lump sum on account of the State's unfunded employer superannuation obligations over and above mandatory contributions provided for in the 2008 National Budget
- Pension payments adjusted with 11.2% CPI adjustment from the beginning of 2009
- Average wealth per member increased to K26,626

Member Services

- Conducted regional employer-targeted conferences & public open days (368 attendees plus 2,000 visitors on open days)
- Intensified marketing and awareness of the RSA product resulting in RSA members increasing to 836 from 512 in December 2007
- Developed additional awareness/promotional materials for Voluntary Contribution and the RSA product
- Member Service Centre in Era Rumana officially opened
- Redesigned Website for members
- Visited and made targeted presentations to 36 employers – 1,700 members
- Completed a six-month Mobile Phone Giveaway promotional campaign creating awareness on the value of member data updates
- Welcomed 22 new employers from the private sector
- Malolo Estate Housing Project in Port Moresby officially commissioned

Internal

- New appointments in new General Managers for Finance & Administration and Member Services and an Audit Manager

Initiating New and Growth Opportunities

- Coastwatchers Court Limited executive apartments fully tenanted
- Pacific Building Services Management Limited fully operational in providing lift and elevator services

FRONT COVER:

Young Papua New Guineans parading their colourful bilas.

Vision

As the leading Superannuation Fund in Papua New Guinea, continuously building value and maintaining the highest level of benefits and quality of service for members.

Mission

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

Corporate Values

Our corporate values shape our policies, guide our actions and underpin our respect for our members'.

- Innovation** - Constantly seeking out new and innovative ways to manage our operations and fully meet members' needs.
- Accountability** - Taking responsibility for what we do and say.
- Team Work** - Working together in the knowledge and understanding that collectively our decisions and actions can make a difference.
- Transparency** - Ensuring that our decisions are guided by policies fully endorsed and accepted by our members.
- Professionalism** - Committing to continuously improving, learning and applying world's best practice in whatever we do.
- Integrity** - Engendering fairness, honesty and respect for others and upholding the principles of good governance.

Our Key Competencies are:

- Operational** - Effectively planning, managing, implementing and monitoring the Fund's internal and external processes and systems including our business relationships.
- Special Assets** - Maximising the value of our tangible and non tangible assets to provide a competitive advantage including adding value to the overall performance of the Fund.
- Supporting Change & Growth** - Adopting organisational management principles which are conducive to improved skills articulation for niche growth opportunities.
- Relationship Management** - Maintaining strong strategic partnerships to optimise growth opportunities, including challenges to pursue long term objectives of the Fund.

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Chairman's Statement

SIR NAGORA BOGAN, KBE
Chairman



I take this opportunity, on behalf of the Board and Trustees of Nambawan Super Ltd to announce the 2008 financial results.

After the record year in 2007, and despite the volatile market conditions, the Fund posted another very respectable financial result.

After tax profit for 2008 was K150.4m. Interest of 11.5% has been credited to member accounts including the accounts of retired members under the Retirement Savings Account ("RSA").

The interest rate of 11.5% is marginally higher than the 2008 headline inflation rate of 11.2%. Thus, 2008 was the sixth consecutive year in which the Fund has delivered positive real returns on members' contributions.

The Board also approved an interim interest rate of 4% for members exiting in 2009. These interest rates are considered prudent based on the 2008 audited financial statements and proper consideration of all prudential requirements and accounting standards.

The Board maintained reserves at K66.64m, representing 2.54% of net assets. This level is within the current reserving limits set by the Bank of Papua New Guinea. During 2008, net assets of the Fund grew by 15.8%, an increase of K361m from K2.261b to K2.622b and includes K190m lump sum on account of the State's unfunded employer superannuation obligations.

The RSA product continued a solid growth in membership by over 49% from 425 members in 2007 to 836 in 2008 with the balance of funds now over K24m.

I am pleased that there was a small further fall in the Fund's management expense ratio to 1.0%. The MER is an indicator of efficiency, the lower the rate, the more efficient the organisation.

The positive result was substantially derived in the first half of 2008. This has been attributed to many factors including robust macro economic growth, political stability,

management and operational efficiencies, and a strong financial sector that was not overly exposed to the international sub prime crisis.

At the operational level, diverse spread of the Fund's portfolio in accordance with the Investment Strategy enabled the Fund to derive solid net gains from its local investments which comprised, property, cash, listed and unlisted equities.

This solid base of domestic portfolio compensated and rebalanced the Fund's exposure to international investments that were severely hit on two fronts due to the global economic performance. The movement in the value of the Fund's listed equities on the stock markets and the exchange rate were exposed to the growing vagaries and volatility of market forces. As a consequence, the Fund suffered losses from the sharp declines in international listed and unlisted shares accentuated by declines from the exchange rate movements due to the stronger Kina, particularly against the Australian dollar.

In spite of those losses, the Fund posted a positive overall financial result, aided particularly by the strength of its unlisted domestic equity and property investments.

MEMBER SERVICES

Core function of member services was also substantially upgraded with the relocation of Port Moresby Member Service to a newly renovated shopfront on the Ground Floor of Era Rumana. This unit is more ergonomic, customer friendly and easily accessible. Similar member service units will be rolled out to regional centres to bring services closer and easily accessible to members.

During the year the member service team visited and made presentations to 1,700 members and 36 employers throughout the country. The team also conducted four regional conferences and public open days.

A WORD OF CAUTION

In the context of the pervasive and far reaching impact of the global economic turbulence, members are reminded not to expect double digit interest to be sustained, most likely not in 2009. For the past 5 years to 2008, members of the Fund enjoyed the unmatched privilege of double digit interest with an average interest rate of 19%.

While the Fund has had a good run, members must acknowledge the real possibility of interest rates reaching a low single digit or even the prospect of negative returns in a worst case scenario.

RISK MITIGATION

The Board recognises the inherent risks that may adversely affect the Fund and has taken steps to protect and preserve the value of the Fund.

It has acknowledged that in times of crisis, it is not prudent to remain passive and expect the problems to blow over. It must also not be averse to risks. For that reason the Fund has employed multiple strategies to maintain and sustain its core business and position the Fund to capitalise on opportunities that may arise from the economic crisis. These multiple strategies are broadly summarised to assure members that the Board and Management are taking steps to ensure that the Fund remains viable, fit and robust.

Firstly, the Fund has used independent professional valuers who have adopted a prudent but fair value approach to value its investments. This valuation has also been reviewed and tested by the external auditor consistent with prudent and responsible valuation methodologies.

Secondly, the Fund has set aside reserves of K66.64m, slightly above the minimum required by the regulator to cushion any subsequent negative swing.

Thirdly, risk mitigation is a high priority and entails a vigilant watch of market and global economic trends.

Fourthly, the Fund is undergoing both organic and market driven growth with increasing complexity and sophistication. In keeping pace with this dynamic growth, the Board has undertaken constant strategic re-evaluation of all aspects of its business and has already put in motion plans to independently evaluate performance of the Board, management and all service providers.

And, last but very importantly, taking a long term perspective in managing the various investment portfolios.

Going forward, the major challenges will be to develop risk mitigating strategies, strategic placement and better spreading of risks into more secure and low risk investments, and consistently implementing the core strategic competencies.

Finally, I take this opportunity to recognise and acknowledge the contribution of Mr. Ravu Vagi who stepped down as Director in mid 2008. I also wish to acknowledge the unstinted efforts of fellow Directors, members of the various Board Committees, management and staff, and all service providers for their contributions in 2008. I look forward to all of us continuing to work together to serve the best interests of members.



SIR NAGORA BOGAN, KBE
Chairman

Board of Directors



Sir Nagora Bogan, KBE
Chairman
(Bachelor of Law, University of PNG)

Sir Nagora, a former Commissioner for PNG Internal Revenue Commission and PNG's Ambassador to the USA, is serving his second term since being appointed in 2002.



Mr Kerenga Kua
Deputy Chairman
(Bachelor of Law, University of PNG)

Mr Kua, an executive partner with Posman Kua Aisi Lawyers is serving his second term on the Board. Mr Kua was appointed to the Board in 2002.



Mr Greg Taylor
Director
(Bachelor of Economics(Hons),
University of Adelaide, Australia)

Reappointed for the second time as nonresident Director, Mr Taylor serves with vast experience gained from serving in the Australian Treasury and other senior posts in Australia and various international organisations. Appointed in 2002



Mrs Aivu Tauvasa
Director
(Masters, Business Admin,
Embry- Riddle Aeronautical University,
Florida, USA)

Serving her second term as an independent Director, Mrs Tauvasa brings to the Board her management experiences, having served as Managing Director of Investment Promotion Authority and the Trade Commissioner- Pacific Islands. Appointed to the Board in 2002.



Mr Ravu Vagi
Director
(Masters in Development Admin,
Australian National University, BA
(Demography) University of PNG)

In his second term on the Board, Mr Vagi brings to the Board his public sector experiences in various senior management positions in the Department of Personnel Management. Appointed to the Board in 2002.



Mr Leon Buskens
Director
(Masters in Finance, Royal Melbourne
Institute of Technology Aust, Bachelor
of Commerce, University of
Technology PNG)

Mr Buskens has served the fund for over 20 years and has been Managing Director since 2002.

Corporate Governance

Nambawan Superannuation Fund ("the Fund"), is a defined contribution fund (or accumulation fund) authorised under the Superannuation (General Provisions) Act 2000. The fund is governed by Nambawan Super Limited ("the Trustee"), the Fund's Corporate Trustee.

The Trustee is responsible to members to ensure that the Fund is run according to the principles of good corporate governance. This means that concepts such as a clear definition of roles, strategic direction, performance monitoring and risk management to name a few have been considered by the Trustee Board of Directors and appropriate strategies have been put in place. The Trustee recognises the fact that the Fund exists to invest amounts contributed by or on behalf of members for their retirement and that the Trustee Company has no intrinsic purposes other than to serve its members interests as a whole.

COMPLIANCE

The Fund is generally managed and administered under its Trust Deed in accordance with the Superannuation (General Provisions) Act 2000, the Companies Act 1997, The Constitution of the Trustee Company, the Income Tax Act and other relevant legislation and regulations.

THE BOARD

The Board of Directors of the Trustee comprises the Chairman, Sir Nagora Bogan KBE, who is the nominee of the Treasury Department Secretary and the Deputy Chairman, Mr Kerenga Kua, an independent Director. Two other independent directors are Mr Greg Taylor (international non-resident) and Mrs Aivu Tauvasa. The Managing Director of the Trustee Company, Mr Leon Buskens is also a director together with a nominee of the Department of Personnel Management ("DPM").

All directors are appointed for a minimum term of two years after which they automatically retire and are eligible for reappointment. In 2008 Mr Hansel Kakimo was nominated by DPM to replace Mr Ravu Vagi as its nominee. This will be effected in early 2009 after the finalisation of the instruments and formalities and the fit and proper persons tests.

All directors have a responsibility to comply with the specific requirements of the Companies Act 1997 and the Superannuation (General Provisions) Act 2000 and other requirements.

The Board ensures that the Fund operates in a financially responsible manner that is consistent with its objectives, its vision and governing legislation. To assist in this process the Board established three independent sub committees, Audit & Risk, Membership and Remuneration & Nomination.

Audit & Risk Committee

This Committee functions as an independent reviewer, working for the Board and the stakeholders to provide an objective appraisal of the financial and operational activities of the Fund.

The role of the Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including oversight of:

- 1) The integrity of the Trustee's external financial reporting and financial statements;
- 2) The appointment, remuneration, independence and competence of the external auditors;
- 3) The review of audit and performance of internal and external audit functions;
- 4) The effectiveness of the Trustee's system of risk management and internal controls; and
- 5) The Trustee's systems and procedures for compliance with applicable legal and regulatory requirements including:
 - Ensuring the Trustee complies with superannuation standards set by the Bank of Papua New Guinea
 - Ensuring proper governance of assets where the Trustee has majority or substantial minority ownership
 - Ensuring the Fund Administrator and Investment Manager operate within the confines of the signed Agreement with the Trustee
 - Ensuring financial and administrative procurement procedures are followed by the Trustee when engaging major contractors

The Committee comprises David Guinn OBE as Chairman and Sir Nagora Bogan KBE and Johnson Kalo as Committee members.

Membership Committee

This Committee consists of representatives from union associations and a major company from the private sector who complement each other's background and expertise and who are independent of management and the Trustee. As determined by the Board, one member of the Committee is a nominee of the Department of Personnel Management. Currently, this position is vacant pending the finalisation of the appointment of Mr Hansel Kakimo to replace Mr Ravu Vagi.

Delegating these functions to the Membership Committee does not relieve the Board of its duties and responsibilities but merely assists it in carrying out these responsibilities.

Corporate Governance

The function of the Membership Committee is as follows:

- Assist the Trustee in dealing with complaints or inquiries about the operation and management of the Fund;
- Provide an avenue for Committee members to enquire about and provide views on the Fund's operation and performance;
- Provide an avenue for members to propose guidelines for benefits under the Fund;
- Advise the Trustee on the information and communication needs of the members;
- Perform any functions conferred upon it by the Trustees License, Constitution and the Superannuation (General Provisions) Act 2000.

The Membership Committee comprises:

| | |
|-------------------|--|
| Mr Kerenga Kua | (Chairman) - Independent |
| Mrs Eimi Kaptigau | (Member) - President of PNG Nurses Association |
| Mr Gabriel Paulus | (Member) - President of Fire Fighters Association |
| Mr Tau Vali | (Member) - PEA Representative |
| Mr Peter Luga | (Member) - President (Correctional Institute Services) |
| Mr Martin Kenehe | (Member) - Vice President (PNG Teachers Association) |
| Mr Robert Ali | (Member) - President Police Association |
| Mr Willie Kelis | (Member) - President PNG Energy Workers |
| Ms Eunice Isom | (Member) - Papindo Trading Representative |
| Mrs Helen Are'e | (Member) - President Amalgamated General Workers Union |



Martin Kenehe, Gabriel Paulus, Peter Luga and Robert Ali Helen Are're, Eunice Isom, Eimi Kaptigau and Kerenga Kua (Chairman) Absent: Tau Vali and Willie Kellis.

Remuneration and Nomination Committee

- 1) Assist the Board in establishing coherent remuneration policies and practices that will enable the Fund to :
 - Attract, retain and motivate management and staff who will create value for members; and
 - Fairly and responsibly reward management and staff having regard for the overall performances of the Fund, the performance of the executives and the general pay environment
- 2) Determine a list of nominees of Directors for election to fill vacancies for Class A & Class B Directors
- 3) Identify suitable candidates for Class C Directors or Managing Director to fill vacancies
- 4) To recommend individuals to the Board for nomination as members of Standing Committees to be on the Board (other than this Committee)

The R & N Committee comprises:

| | |
|-------------------|----------------------|
| Lady Aivu Tauvasa | - Chairperson |
| Mr Greg Taylor | - Deputy Chairperson |
| Vacant | - Independent Member |

INVESTMENT COMMITTEE

Previously investment activity was considered through the Joint Investment Manager Committee and in addition to the Investment Manager included representatives of the Board and Management.

With the increased level of both potential and actual investment activity, the Board and Investment Manager replaced this committee with an Investment Committee that meets fortnightly. In addition to the Investment Manager, the Chairman, Managing Director and non resident Director participate in the committee together with representatives from executive management.

The committee actively considers the merits of new and developing domestic investment proposals and reviews the activity of the offshore manager. In addition, the committee reviews the ongoing investment strategy as required and develops strategies for various investment streams from time to time.

CODE OF CONDUCT

Nambawan Super has a Code of Conduct for all staff and a separate Code of Conduct for Directors and Executive Management. Both codes of conduct emphasise that everyone must at all times recognise the overriding responsibility to act honestly, with integrity, diligently and in accordance with the laws of PNG in serving the interest of the members and other stakeholders.

Corporate Governance

RISK MANAGEMENT

Risk is the chance of something happening that will have a material impact on the value and returns of the portfolio. The Fund has a long term perspective, given its predominantly long term obligations to members. However, the annual balance date crediting to members' accounts and the progressive exit of members from the Fund means the Trustee must take account of the full range of short term risks to the value of the portfolio. Risk can arise from a variety of sources, including:

- periodic instability in listed asset valuation
- changes in the level of inflation, and in the level of interest rates
- country risk
- sovereign risk
- exchange rate risk
- asset selection and asset management risk
- corporate governance

The Board is responsible for establishing a framework of prudent and effective controls which enables risks to be assessed and managed. The Trustee recognises that risk management is an integral part of the operation of a superannuation fund and has established a sound system of risk identification, assessment, mitigation and internal control.

Investments with potential adverse consequences as a result of the global credit crisis need careful and specific attention as to their potential negative impact on the Fund. The Investment Manager will avoid such assets within this category until the global credit environment becomes less volatile.

The process of identifying risk categories and associated risks is ongoing as the Fund moves through its business life cycles and as key strategic changes warrant same.

Management is currently reviewing the validity of controls it has installed as part of bedding down a framework for overall Risk Management portfolio. Resources including staff have been assigned to manage this process.

COMMUNITY SUPPORT

In its effort to remain a responsible corporate citizen, the Fund contributed to various charitable organisations, sporting bodies as well as education and community awareness campaigns. A total amount of K81,940 was donated during the year. Recipients included Transparency International, the Sir Buri Kidu Heart Foundation, PNG Netball Federation, Simbu Children Fund and Port Moresby Rotary Club.

ADVERTISING

The major Member Awareness exercise during the year was the staging of 4 Regional Conferences in Port Moresby, Lae, Kokopo and Mt Hagen with a total of over 2,300 participants attending the conferences and open days.

A Mobile Phone Giveaway Promotion conducted during the year encouraged members to update their records. The joint arrangement with Air Niugini for up to 45% discount to RSA members received a positive response. The RSA product and the Malolo Housing Estate Scheme were extensively advertised. All forms of media were used.

Advertising and promotional activities during the year cost K795,366.

Human Resources Initiatives

The Trustee recognises that its employees are its greatest asset. The Fund would be unable to achieve its objectives without the experience, dedication, and enthusiasm of all staff. Maintaining a high quality, trained, highly skilled, productive and motivated workforce and providing the environment to support them is priority. There are a number of strategies the Trustee has undertaken to achieve this.

Employee Motivation and Recognition

The Trustee strives to keep staff motivated by acknowledging and rewarding their accomplishments. Career aspirations of staff are captured in the Annual Performance Appraisal Assessment and followed through via training and development activities. The Trustee has a Bonus Policy where officers are awarded a merit based annual bonus which is directly tied to their performance.

The Trustee is also committed to ensuring that staff are fairly and appropriately remunerated. During the year, the Fund engaged an external consultant to review the remuneration policy and rates particularly in comparison with other participants in the industry. The results and recommendations are with the Board of Directors via the Remuneration and Nominations Committee for their perusal and deliberation.

Training & Development

The Trustee continues to invest in staff development and fosters a culture of continuous learning that is accepting of and responsive to change. Training activities included both in-house and external training.

In-house training included leadership workshops for team leaders and their officers, coaching & mentoring classes for managers and team leaders, Occupational Health & Safety Awareness Training and Business Plan Reviews.

External Training saw staff members undertake a variety of courses and programs at a number of educational establishments in the country and abroad.

Professional Membership

Staff are encouraged to join membership in professional bodies to enhance their professional well-being. Professional affiliations of staff included membership to, among others, CPA (PNG), Institute of Internal Auditors (PNG Chapter), Accountants Board of PNG, PNG Human Resources Institute, PNG Institute of Directors, Australian Institute of Directors, Australian Superannuation Funds Association, and Australian Institute of Superannuation Trustees.

Well Being Programs

The Trustee recognises the importance of staff having a balanced work and personal life. A fit and healthy worker is a productive worker. In this regard, the Trustee has initiated non-monetary, quality of work life incentives that maintain a highly motivated workforce. Various lunch time presentations were organised and promoted topics and issues ranging from simple financial budgeting, dangers of borrowing from loan sharks and HIV Aids.

Staff also participated in sporting initiatives including netball, corporate rugby 9s, canoeing, lawn bowls, mixed netball, corporate soccer challenge and PNG Corporate Games.

The Fund understands that lifestyle diseases such as heart diseases are a major cause of death in PNG and continues to educate staff on the benefits of living a healthy and balanced lifestyle. The objective is to, in the longer term, get this "healthy living" message to the members and the wider community.

| Staff level | National | Expatriate | Total |
|-------------|----------|------------|-------|
| Fulltime | 71 | Nil | 71 |
| Contract | 24 | 1 | 25 |
| Total | 95 | 1 | 96 |

EMPLOYEE REMUNERATION

The number of employees of the Trustee company whose remuneration, allowances and benefits exceeded K100,000 are listed below. Remuneration includes salary, housing allowance/benefit and employer superannuation.

| Salary Range | No. of employees |
|-------------------|------------------|
| 150,000 – 159,999 | 1 |
| 170,000 – 179,999 | 3 |
| 210,000 – 219,999 | 1 |
| 280,000 – 289,999 | 1 |
| 630,000 – 639,999 | 1 |
| 840,000 – 849,999 | 1 |
| Total | 8 |

Managing Director's Statement

LEON BUSKENS
Managing Director



Dear Members

I have the pleasure in reporting to you the 2008 results, the second annual report under the Nambawan Super brand. The year brought many challenges to the Fund, and like many other investors, the core challenge being the financial meltdown triggered by the sub-prime financial crises in the USA and its devastating effects throughout global markets.

As a direct consequence of the financial crises, our international investments (listed and unlisted) were negatively impacted on two fronts. Firstly, we experienced significant decline in values and secondly, we also experienced material unrealised currency losses because of the unprecedented strengthening of the Kina in 2008. These losses were somewhat cushioned by the performance of our domestic investments and the relatively limited exposure to international investments.

International investments represented, prior to the crises, only around 16% of the total investment portfolio. The major portion of the portfolio is in domestic investments with large exposures to the unlisted equity and property portfolios. The domestic portfolio was able to absorb the losses from the international investments and still provide the Fund with a positive return to members. Although 2008 has been a difficult year, the real challenge will be in 2009 and onwards as the domestic economy starts to experience the lag effects of the global financial crises. The flow on slow down in business activity domestically will have a significant impact on domestic investments. In fact statistics from first quarter 2009 are already showing further down turn in the values of listed investments on the Port Moresby Stock Exchange.

The Board, Management & Staff and our core service providers have again responded to the challenges and accordingly have delivered a very relatively respectable result when considering the negative returns by many superannuation funds around the world. The collective roadmap of our 5 year strategic plan and annual business plan was the platform by which we were able to meet these challenges.

The results are attributed to a number of factors, including the benefit of five years of world economic growth that has fuelled national economic growth. We have further benefited from stability in the domestic, political and financial environments. At the macro level, this enabling environment has provided the platform from which we have been able to generate strong results. Credit must also go to the Superannuation reforms, the legislative changes, and to the Bank of Papua New Guinea for its on-going efforts in prudential supervision of the superannuation industry and the banking and finance sector. Also within the Nambawan Super team, the Board & its sub-committees, management & staff, including strategic partners, have lifted the overall governance and performance of the Fund, focusing on the objective of building and protecting your retirement wealth.

Given the global backdrop of a swiftly receding and depressed economic landscape, the Fund still managed to achieve strong returns, maintained double digit percentage asset growth, and also maintained another positive interest crediting rate to members balances. We must be mindful that we are part of the global economy and hence susceptible to the wider risk implications of world economic market cycles and political forces. The economic meltdown that quickly devastated global markets has now flowed on and affected our local economy as we see massive declines in the prices of our commodities and the subsequent negative flow on effects on Government tax revenues, and general slow down in business activity.

Accordingly, we strongly caution all members to be prepared to expect interest at nominal rates or in a worst case scenario a negative return in 2009 or 2010 before the world economy rebounds.

Managing Director's Statement

FINANCIAL RESULTS

The Fund achieved a relatively modest growth of 15.8% per annum in total net assets compared to the prior year, with after tax returns also declining from the exceptional prior year levels.

The Fund earned an after tax profit of K150.4m (2007: K489.8m) from its operations. This has enabled the Fund to credit all Members including Retirement Savings Account (RSA) Members with an 11.5% final interest rate, leaving reserves of K66.64m or 2.54% of net assets. It is important to note that K90m was allocated from prior year reserves in determining the final crediting rate. Members should also be aware that, of total income earned for the year of K215.6m (2007:K525.9m), a total of K74.2m (2007:K422.4m) was net value gains from the market revaluation of listed and unlisted equity together with valuation growth in property investments. Some of the declines in Fund asset values were due in part to declines in:

- the PNG listed shares and overseas shares listed on the Australian Stock Exchange
- Unlisted alternative international investments spread over several continents and industries managed by Access Capital Advisors

Interest credited to Members (2000 - 2008)

| Year | '08 | '07 | '06 | '05 | '04 | '03 | '02 | '01 | '00 | 9 year |
|--------------------------------|------|------|------|------|------|------|------|------|------|---------|
| | % | % | % | % | % | % | % | % | % | average |
| Gross Interest | 11.5 | 32.0 | 16.0 | 20.0 | 15.5 | 19.0 | 10.0 | 10.0 | 10.0 | 16.0 |
| Headline Inflation | 11.2 | 3.2 | 1.6 | 4.6 | 2.4 | 8.4 | 14.8 | 10.3 | 10.0 | 7.4 |
| Real rate of return to members | 0.3 | 28.8 | 14.4 | 15.4 | 13.1 | 10.6 | -4.8 | -0.3 | 0 | 8.6 |

The long term investment objective is to achieve an average after tax return on the portfolio of at least 3% above the headline inflation rate with negative real returns in no more than one year in five. For the first time since the reforms in 2003, the real return credited to members accounts has been below the targeted 3%. Considering the practical realities of the impact of the global financial crisis and the negative real returns being experienced around the world as part of the current economic cycle, a 0.3% real return is respectable. Furthermore, on the average of nine years from year 2000 the Fund has credited real return to members at 8.6%.

STRATEGIC FOCUS

The major challenge for the Fund is to continuously fine tune and make relevant its strategic plan and its business model to serve the members best interests always. The Board and senior management sets time aside each year to review and make relevant its strategic plan to prevailing conditions. A number of key strategic actions were taken during the year to identify areas of weaknesses for improvement and actions to further strengthen the Fund operations which included;

- a professional and independent assessment of the Board performance by the Australian Institute of Superannuation Trustees
- a professional and independent review of the performance of its Investment Manager (Kina Funds Management) and its processes and systems
- an internal review of the organisation structure, its remuneration policy and performance management system
- Review of member services and products, continued ground work on developing a Savings and Loans Society, review of Life Insurance products, and expanding our presence/visibility throughout the country
- The Fund's efforts in influencing policy and legislative changes to enable currency hedging so as to manage currency risks made some ground with the regulator now to issue the prudential standard. A challenge will be in actual implementation due to the lack of market depth within the banking sector to offer this new facility. The Fund and its investment manager will continue to work on this in 2009.

NATIONAL REPRESENTATION THROUGH KIOSKS

There are now fourteen (14) kiosks installed throughout the country. During the year kiosks were installed in; Madang, Manus, Vanimo, Kiunga and Popondetta. The other kiosks are located in Alotau, Wewak, Kavieng, Goroka, Kimbe, Lae, Kokopo and two in Port Moresby. The kiosks are located in most centres where Nambawan Super has no office and this arrangement has made it possible for Members to get their year-to-date statements, product information and provide updates of their bio-data details.

WEB ENABLEMENT (1,700% INCREASE IN HITS)

For a growing pool of members with internet access, the web enablement service developed using Acurity Software is a first for PNG Superannuation. Nambawan Super is currently the only fund providing this facility. It allows members to access statements and other pertinent information over the Internet. Members can get 'real-time' information at anytime from anywhere in the world via the Nambawan Super website: www.nambawansuper.com.pg Registration and a user guide are also available online via the website.

Managing Director's Statement

RETIREMENT SAVINGS ACCOUNT (RSA)

The Board and management acknowledge that RSA is quickly evolving into a very important product that is growing from strength to strength. Nambawan Super broadened its counselling services for retirees in 2008 resulting in the number of RSA account holders almost doubling to 836 at the end of December 2008. The monetary value of RSA has also grown and now exceeds K24m. Our aim of educating our retirees to leave their hard-earned savings in the superannuation environment so it can work to take care of them for the long term seems to be bearing fruit.

We have also invested in issuing RSA Members gold identification cards and have started to form alliances with service providers to provide discounts to these senior citizens. We are very thankful to our national airline, Air Niugini for approving up to 45% discount on airline travel with additional 10kg baggage at check in for RSA members.

PRIVATE SECTOR MEMBERS, CASUALS AND ANCILLARY WORKERS

Nambawan Super now has 65 contributing private sector employers as at the end of 2008 as a result of 22 joining during the year. We also saw an increase in casual and ancillary workers of the public sector starting to contribute as a result of our on-going efforts in dialogue and stakeholder engagement with the relevant government departments. We also acknowledge that a further 11,000 casuals on the Government payroll will have started contributing in pay (4) 2009.

EMPLOYER CONFERENCES AND PUBLIC OPEN DAYS

As part of our ongoing awareness and education campaigns, we organised four regional conferences during the year in - Port Moresby (Southern); Lae (Momase); Kokopo (New Guinea Islands) and Mt Hagen (Highlands). The two-day conferences were specifically targeted at human resource and payroll officers.

An added feature of the conference was an Open Day which was open to the public to attend and to speak to Nambawan Super staff, as well as with our allied entities.

The awareness and education focused on the long term preservation principal of retirement savings, savings culture in general and on the changes from the superannuation reforms and how they affect members. Benefits processing and information on how members' funds are invested are also a source of much interest.

K190 MILLION RECEIVED / UNFUNDED STATE'S FUTURE LIABILITY

The high interest crediting rate of the Fund over the last 5 years has also substantially increased the State's future liability as the State matches every Kina in interest credited to members by 1.4 times.

We are pleased that the Government elected to repay K190m of its employer obligations at the end of the year, over and above its legislative requirement and in addition to the K250m received in 2007. While there was no further amount provided for in the 2009 budget, we note that the 2009 budget included K2m for specific consultancy work in relation to the unfunded liability. Based on continuing dialogue with the State, we plan, for our mutual benefit to achieve a clearer commitment over the medium term to work towards clearing the unfunded liability. While the State unfunded future superannuation liability is estimated at over K1.87b as at the end of 2008, the rate of increase in the State's unfunded position will slow down as the snowballing effect ceases from 2009 onwards with the state contributing in full its 8.4% employer contributions in line with legislative requirements.

MEMBER HOUSING

The Board and management recognise the critical need to be part of a housing solution that helps address housing needs of members and the country as a whole without comprising the basic charter of the Fund as a superannuation vehicle.

The Fund has been in dialogue with the National Government and several key national institutions with a view to working in a collaborative partnership arrangement and also in the development of an overarching integrated national housing policy that should clearly address many of the stress points that impede access to affordable and quality homes, such as high building and construction costs, high infrastructure costs and our land and relevant administrative management systems.

In direct participation, we have progressed with Malolo Estate at 8 mile, drawing on the experience from our pilot project and plan to build over 220 houses. Construction of the first 62 houses was close to completion towards the end of 2008 with the balance continuing on in 2009. The Fund also owns 340 hectares of land at Nine (9) Mile, enough for an estimated 4,000 plus housing blocks and a further 120 subdivided and titled vacant blocks at Bautama. These two areas will be considered for housing projects for the National Capital District while other main centres of the country will also be considered on the basis of availability of properly titled land.

Also, through the members housing withdrawals assistance scheme, the Fund advanced a total of K9.2m to 961 members during the year under the legislative provisions guidelines. For the eight years ending 2008 the Fund has paid out a total of K82.4m to over 6,000 members to assist with housing.

Managing Director's Statement

ON-GOING CHALLENGES

- Managing member expectations from the nine years of double digit interest rate has been clearly identified and the Board, management and staff are fully aware of this challenge. In fact this is a matter for the superannuation industry and its key relevant stakeholders as a whole, which needs to be managed carefully given the current prevailing depressed economic conditions. Members need to know and prepare for the real possibility of nominal interest rates or in a worse case scenario negative returns.
- Member bio-data quality is an on-going challenge. We ask members and especially the State as the principal employer, to assist us as we work through dealing with this issue in the coming years. While efforts made during the year saw some positive results, we still have a long way to go in improving overall membership data quality.
- We have lifted again member education and awareness, both within the Fund as well in the general public of the culture and philosophy of retirement savings. This will continue to be a priority as we look at making further inroads in this area.
- The roll out of our Savings and Loans Vehicle, member life insurance products and extending our over the counter physical presence throughout the country will place some initial stress on the organisation.
- The flip side to the current global financial crises are long term opportunities. As the Fund is a long term investor, the need to be vigilant and proactive in these times is just as important.

SUMMARY

Once again members will be pleased with another double digit annual interest crediting rate that is also just ahead of inflation. A real return to members, net of inflation, was able to be maintained in a difficult year. While the international investments of the Fund were severely affected by the global financial crises, the Fund's significantly heavier exposure in domestic unlisted investments was able to absorb and cushion the international downturn at the end of last year. Our real test and challenge will be in 2009 as the global financial crises impacts our domestic economy further.

I wish to sincerely thank the Board for its guidance, counsel, open and committed leadership. In addition, I wish to thank our Board committees, Audit & Risk, Membership and Remuneration and Nominations for their contribution and support. Also a thank you to our core service providers and partners, Kina Funds Management, Kina Investment and Superannuation Services, and property facility management team (Ashton Brunswick, M&E Partnership, and Pacific Architects Consortium) for their support and commitment during the year.

Lastly, the people behind the organisation, our staff. Despite some emerging stress due to the departure of two key General Managers at critical times of the year and on-going organisational changes, we were able to hold through these challenges. I take this opportunity to acknowledge the contributions of Ms Asi Pako former General Manager Finance & Administration and Mr John Auna – former General Manager Member Services. Finally, I look forward to working with you all as we strive to lift our collective performance levels in serving our members best interest, our community and society, and the country as a whole.



LEON BUSKENS
Managing Director

Management Team



**MANAGING DIRECTOR
LEON BUSKENS**

Masters in Finance - RMIT, Australia, Bachelor of Commerce - University of Technology PNG. Leon has served over 20 years with the Fund. He has been in the Managing Director role since 2002.



**GENERAL MANAGER -
FINANCE & ADMINISTRATION
PAUL YANGEN**

Masters in Business Administration (UPNG), CPA (PNG), Bachelor of Commerce (Sydney University of Technology). Paul has over 15 years of working experience. He joined the fund in early 2009.



**GENERAL MANAGER - COMMERCIAL
WAYNE SMITH**

Bachelor of Commerce - New Zealand. Wayne has over 26 years working experience, 19 years with IRC New Zealand, Coopers & Lybrand, Highlands Gold, Deloitte Touché Tohmatsu and 7 years with the Fund.



**GENERAL MANAGER - MEMBER SERVICES
AUGUSTINE BIRIE**

Masters in Business Studies (Banking) from Massey University, NZ, Bachelor of Economics (Hons) UPNG. Augustine has extensive experience in Banking, Corporate Affairs, regulating and human resources. He joined the Fund in 2008.



**MANAGER - HR & ADMINISTRATION
LOKA KULA**

Bachelor of Arts majoring in Industrial Psychology (UPNG) Loka has over 17 years experience in HR & Administration. She was previously with Elcom & QBE and has been with the Fund for over 10 years



**MANAGER - FINANCE
HEARTLY KANAIAI**

Bachelor of Commerce from University of Technology, PNG. Heartly has worked in the Fund's Finance Department for over 18 years.



**MANAGER- LEGAL & COMPLIANCE
AND COMPANY SECRETARY
PATRICIA TAUREKA**

Bachelor of Law (UPNG). Patricia has over 19 years legal experience including several years with Oregon Minerals Ltd. She has been with the Fund for 7 years.



**MANAGER - MEMBER SERVICES
JOSEPH PUPUA**

Diploma in Business Studies - DWU. Joseph has over 15 years of work experience, including with Century 21, Radtel, Avis Rent-A-Car. He joined the fund in 2004.



**MANAGER - PROPERTY
ANDREW ARUA**

Bachelor of Property Management & Valuation (University of Technology, PNG). He previously served with Air Niugini and the Australian High Commission as Property Manager before joining the Fund in 2008.



**MANAGER - INFORMATION TECHNOLOGY
DICKSON EVERAVE**

Bachelor of Science in Computer Science from University of Technology, PNG. He has over 8 years working experience and joined the Fund in 2005.



**MANAGER - AUDITS
RUSSEL TATO**

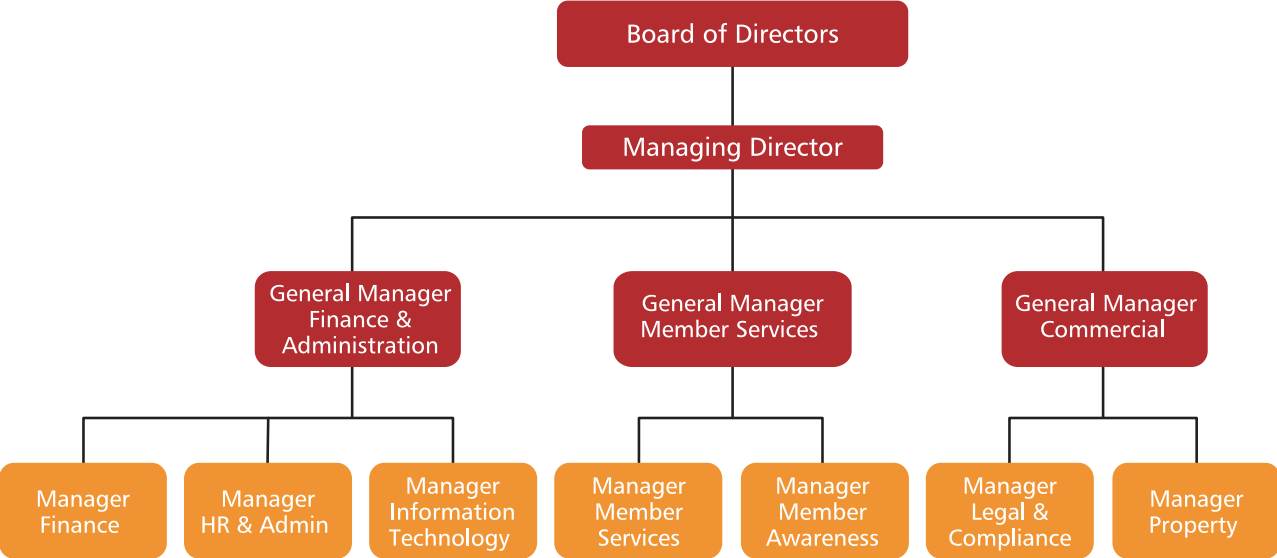
Bachelor Degree in Accounting (University of Technology, PNG). He has served with the Department of Finance, Teachers Savings and Loan Society before joining the Fund in 2008.



**MANAGER - MEMBER AWARENESS,
EURALIA PAINE**

Masters Business Admin, University of South Pacific, Bachelor of Social Sciences, University of Waikato, NZ Served in various private sector companies before joining the Fund in 2007.

Management Team Structure



Comparative Statistics Summary

| | | 2008 | 2007 | 2006 | 2005 | 2004 |
|------------------------------|------|----------|----------|----------|----------|----------|
| BALANCE SHEET | | | | | | |
| Net assets | K(m) | 2,622.00 | 2,260.60 | 1,516.40 | 1,365.00 | 1,034.20 |
| Net asset growth | % | 15.8 | 49.1 | 11.1 | 32.0 | 19.0 |
| Reserves | K(m) | 66.6 | 149.3 | 100.2 | 134.6 | 32.1 |
| MEMBERS | | | | | | |
| Employee contributions | K(m) | 69.5 | 62.3 | 63.0 | 60.2 | 44.6 |
| Employer contributions | K(m) | 235.8 | 286.8 | 29.0 | 36.4 | 34.1 |
| Retirement savings account | K(m) | 24.2 | 11.9 | 7.1 | 0.9 | - |
| Total exit gross payouts | K(m) | 203.3 | 166.2 | 165.1 | 03.4 | 74.2 |
| Number of exit payments | | 3,732 | 3,220 | 3,548 | 2,908 | 2,314 |
| Total pension payments | K(m) | 3.5 | 7.1 | 5.5 | 2.1 | 2.2 |
| Avg number of pensioners | | 722 | 670 | 1190 | 1,261 | 1,304 |
| Number of RSA members | | 836 | 512 | 218 | 19 | - |
| Total number of members | | 98,475 | 90,996 | 85,939 | 80,020 | 78,101 |
| Avg wealth per member | K | 26,626 | 24,851 | 17,645 | 17,058 | 13,241 |
| RETURN TO MEMBERS | | | | | | |
| Interest credited to members | % | 11.5 | 32.0 | 16.0 | 20.0 | 15.5 |
| Headline inflation rate | % | 11.2 | 3.2 | 1.6 | 4.6 | 2.4 |
| Real return to members | % | 0.3 | 28.8 | 14.4 | 15.4 | 13.1 |
| INCOME | | | | | | |
| Total income before tax | K(m) | 165.0 | 500.8 | 160.6 | 301.1 | 132.1 |
| Net income after tax | K(m) | 150.4 | 489.8 | 154.3 | 289.6 | 120.6 |
| TRUSTEE EXPENSES | | | | | | |
| Management expenses | K(m) | 24.7 | 21.2 | 18.4 | 16.3 | 14.4 |
| Management expense ratio | % | 1.0 | 1.2 | 1.4 | 1.4 | 1.5 |

K(m) = Kina (million)

Fund Administrator's Statement

■ KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED

As the Fund Administrator, Kina Investment & Superannuation Services Limited (KISS) is pleased to provide to the Board of Nambawan Super Limited (NSL) the administration report for the 2008 Financial Year.

YEAR IN REVIEW

The year in review was a divided one, with the aberrant change in sentiment in the local market. The results of the first half of the year indicated the start of another successful year for Papua New Guinea and membership reflected this prosperity, growing at twice the pace. However, by the third quarter of 2008 to the end of the 2008 financial year, the nation's economic pace slowed to mirror the trend but not the intensity of the global economic impact. The looming global recession and the higher cost of living experienced in Papua New Guinea saw organisations tighten on new employment, which transfers through and can be attributed to the decrease in the number of new members during this period.

MEMBERSHIP

Despite the economic down-turn, we are pleased to report that the overall membership still proved to be robust with a 7.50% increase to 98,475 members. Further, there continues to be strong growth in the number of new private sector companies and individuals joining the Fund, which is a testament to Nambawan Super's evolving reputation and the services KISS provide as the Fund Administrator.

CUSTOMER SERVICE

In reflection, 2008 will be looked at as a year of great challenge and contrast, precipitated by the dramatic collapse of the global economy. The one constant is that quality customer service continues to be our key focus at KISS, and we pride ourselves to meet the needs of the members of Nambawan Super as professionally and expeditiously as possible. We continued to benchmark ourselves against world class standards and our range of communication options has meant that Nambawan Super members can always contact us with regards to their membership.

As information technology becomes more prevalent throughout Papua New Guinea, we must remain abreast of this technological advancement. We will continue to look at ways to enhance our communication with members to ensure they are adequately informed about changes to their entitlements in a timely manner and to utilise this technology to tighten security for the protection of members' superannuation. There is no greater evidence to support further investment into technology other than the phenomenal increase in the number of hits received on the membership website. This number grew exponentially from 3,000 in 2007 (when it was launched) to over 55,000 in its first year.

RETIREMENT SAVINGS ACCOUNT

It is also encouraging to note that an increasing number of members eligible to collect their benefit are opting to leave a portion of their benefit with the Fund in the Retirement Savings Account (RSA) to insure they have money to utilise in their latter years of retirement. The value transferred to RSA in 2008 was K20.4 million which is more than double the inflows into RSA from the previous year. The growth of the flow of money in the RSA is a reflection of trust that retiring Papua New Guineans have with NSL to manage their money for greater financial security past retirement. Unfortunately, but inevitably, the increased cost of living has resulted in a greater number of retirees needing to access a further portion of their money held in retirement saving account toward the second half of the year.

We are also pleased to report that K9.3 million was paid to 879 members who applied and were eligible for a housing advance for the purpose of a new dwelling or improving or extending an existing dwelling on either urban or customary land.

PERFORMANCE

The overall performance of KISS was sound, with all pensioners receiving their pension on time every fortnight and nearly all contributions and benefit payments processed to standard.



CONTRIBUTIONS

Contributions receipts processed for the year totalled K307.1 million (Employee K70.2, Employer K236.6). The Fund received a further K190 million on account of the State's unfunded liability for non-remittance of the employer superannuation obligation.

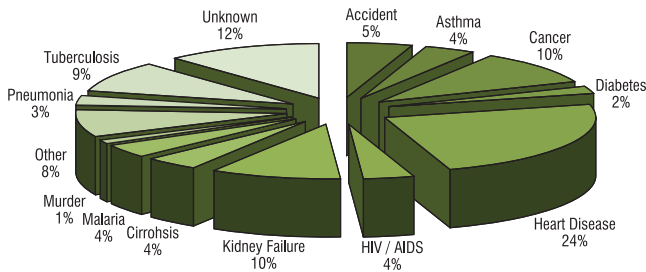
BENEFITS PAYMENTS

The total number of benefit payments for 2008 exceeded K163.7 million with 98% of all benefit payments being paid within five business days.

| Exit Type | No. Members | Amount |
|--------------|-------------|----------------|
| Resignation | 2,026 | K25.6 Million |
| Retrenchment | 534 | K16.6 Million |
| Retirement | 1,227 | K100.1 Million |
| Death | 67 | K20.2 Million |
| Unemployment | 196 | K1.2 Million |

The above amounts continue to reflect the State share portion that was paid by the Fund and invoiced to the state.

Heart disease is still the largest cause of death amongst members which is why Nambawan Super continues to support charities promoting healthy living.



2008 HIGHLIGHTS

- An increase of 7.50% to 98,475 members by year end
- 98% of all benefit payments being paid within five business days.
- 722 pensioners receiving pension on time every fortnight K9.3 million in payments to 879 members for housing advances
- K20.4 million value transfer to RSA
- Over 55,000 hits on the Fund website, an increase of over 1,700%.

2009 FORECAST

We are expecting the trend of the last quarter to continue through 2009 with new members attributed to organic growth to be slow but KISS will assist Nambawan Super to encourage new organisations to contribute to the fund by showcasing superior service and technology.

KISS realises that members more so than ever need to feel that their retirement savings are held in a secure environment by an approachable organisation they can trust, which is why KISS will continue to support Nambawan Super at regional conferences around the country to abate any member concerns.

The historical shortfall in up-to-date membership data continues to be a focal point but with the assistance of Nambawan Super's project team we will continue to make huge inroads into resolving this issue.

KISS is committed to supporting Nambawan Super to be the most successful and respected superannuation fund in Papua New Guinea by offering superior customer service, driven by integrity and innovation to ensure our members are our number one priority.

SEAN YOUNG
Fund Administration Manager
Kina Investment & Superannuation Services

Investment Manager's Statement

■ KINA FUNDS MANAGEMENT LIMITED



As the Investment Manager of Nambawan Super Limited (NSL), we provide the annual report on the performance of the Fund's investments for the year ending 31 December 2008.

The year 2008 will go down in history as the year that markets throughout the globe dropped to their lowest performances to levels not seen in many years, making positive growth in managed funds an extremely difficult task.

Towards the latter half of 2008 most advanced economies have entered into or are nearing recession due to the US mortgage fall out. Fortunately, Papua New Guinea's real economy has remained relatively sheltered due to the strong performances in its commodities sector, combined with stable monetary, fiscal regimes and strong optimism regarding the development progress of the coming LNG project. The property market during the year in review has been very strong and the construction industry was one of the main driving forces of the economy.

The Port Moresby Stock Exchange (POMSoX) on the other hand has conveyed the sentiments of the global economic slowdown registering losses in most of its listed equities. The main indicator of POMSoX market performance - Kina Securities Index (KSI) plunged 19.4 percent to close the year at 4560 points compared to the previous year closure at 5661 points.

Despite these unforeseen and dramatic market failures, the Fund total portfolio managed to achieve positive growth of K361 million from K2.26 billion in 2007 to K2.62 billion in 2008. The gain in portfolio value was attributed to the positive performance of the domestic listed and unlisted equities and capital gain from the properties portfolio. The gains registered in unlisted equities and properties are the result of the revaluation programs carried out by independent valuers. The State repayment of K190 million as part of its unfunded liability at the end of the year also attributed to the growth.

Despite the Fund's performance ending the year on a lower note compared to the previous year, it still managed to record investment income of K210 million. This is in spite of the global economic slump, POMSoX downturn towards the latter half of the year and significant Kina appreciation against world major currencies which adversely affected the value of the Fund's foreign investments. It is important to note that the performance of the portfolio exceeded the benchmarks set in the investment strategy for all asset classes.

While the major economies of the world are loosening their credit belt to ride out the global financial storm, the Bank of PNG on the other hand has tightened its monetary policy to curb growing inflation resulting in increases in interest rates offered by the Central Bank, commercial banks and financial institutions. The move has benefited the Fund as over 16% of the Fund's portfolio is held under cash while 14% of the portfolio is held under Fixed Interest.

To align the Fund strategy of reducing the exposure of some of the listed stocks in POMSoX, KFM has systematically

reduced the Fund exposure in this sector, especially its over-exposure to Bank of South Pacific. The Fund also participated in the New Britain Palm Oil takeover offer made to Ramu Agri Industries (RAMU) and disposed off its entire holding in RAMU.

In the unlisted equity sector domiciled in PNG, the eligibility criteria for investments were refined placing more emphasis on larger investments, solid earnings, good cash flow, quality management and a visible exit mechanism. This strategy saw the disposal of a number of the smaller investments and investments with deteriorating profitability and the acquisition of a 5 percent stake in B mobile.

The Fund strategy to intensify its investment in property development, which began in 2007, has continued into 2008 in response to the overall shortage in property supply and upcoming increase in demand brought about by the LNG project. Aside from Port Moresby, the strategy has extended into Lae and other regions, covering industrial, residential and commercial type properties. Significant investments in this sector has seen acquisition of land in Lae and Kokopo, construction of residential, commercial, warehouse and hotels in Port Moresby, Lae and Kokopo.

In the International sector, the engagement of Access Capital Advisors to invest and manage a portfolio of alternative investments is continuing while a number of other investment products and avenues are also being explored. The alternative investments, as part of international sector, have been affected by the global crisis and have not performed as expected. With the global stock exchanges in distressed condition, opportunity within large capitalised stocks with solid earnings history and sound growth potential, good cash flow, and quality management are being sought after in Australia and other regions. An established global custodian, NCS, was appointed during the year to take custody over the foreign investments from the previous custodian due to the increase in size and diversity of this sector.

The present investment philosophy is to enhance capital preservation features, maintain growth momentum, promote diversification and reduce volatility of movement in the investment portfolio. It has proven its worth in yielding positive growth in the overall fund portfolio and we believe the investment platform has now been solidly set for the continued growth of NSL in the years to come. These principals will continue to form the tenet upon which future investment strategies will be charted.

Finally, we like to thank the support of the Board, management and staff of NSL in 2008, and look forward to continuing to work together for the benefit of NSL and its members.

Kong Wong
Kina Funds Management Limited

2008 Investment Report

1. INVESTMENT STRATEGY

1.1 Investment Objective

The primary purpose of the Fund is the preservation of members' contributions.

The principal investment objective is to seek positive returns on funds invested without putting this basic purpose at risk. Subject to an ongoing risk assessment, the investment objective is to seek over time an after tax return of at least 3% pa above CPI with negative returns in no more than one in five.

1.2 Risk Management

In developing the investment strategy, the Board in consultation with the Investment Manager, has analysed the risks of various forms of investment and developed a means of mitigating the risk. This involves the exclusion of investment in asset forms considered to have unacceptable levels 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.

2. INVESTMENT PORTFOLIO PERFORMANCE

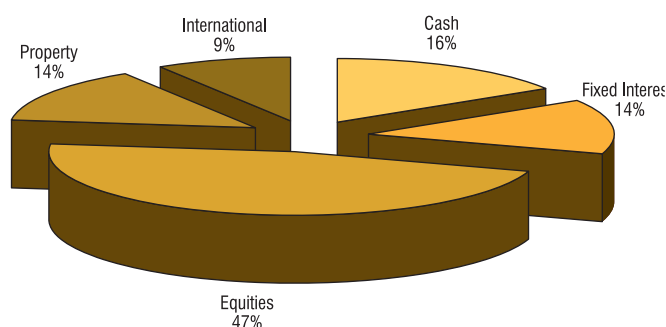
2.1 Fund Growth

Total investment portfolio as at 31 December 2008 has grown by K361 million to K2.62 billion during the year (2007:K2.26 billion). Its performance for all asset classes exceeded the performance measurement benchmarks set in investment strategy and has delivered income of K210 million.

2.2 Overall Portfolio Composition

The composition of the investment portfolio by asset class at the end of 2008 compared to year end 2007 is as follows:

| Asset Class | Portfolio Value (Km) | | % Holdings | |
|----------------|----------------------|--------------|-------------|-------------|
| | 31 Dec 2008 | 31 Dec 2007 | 31 Dec 2008 | 31 Dec 2007 |
| Cash | 428 | 303 | 16 | 14 |
| Fixed Interest | 370 | 259 | 14 | 12 |
| Equities | 1,209 | 1,083 | 47 | 48 |
| Property | 351 | 248 | 14 | 11 |
| International | 243 | 330 | 9 | 15 |
| Total | 2,601 | 2,223 | 100 | 100 |



2.3 Cash Portfolio

The Fund's cash portfolio comprises Interest Bearing Deposits (IBD) and Treasury Bills (TB) with maturities up to 90 days. The Fund held a total of K428 million in this sector or 16% of the total asset portfolio.

The cash portfolio grew further after the receipt of K190 million cash in payment of the unfunded liability from the state at the end of year.

2.4 Fixed Interest

The Fixed Interest Portfolio comprises government, semi government, corporate securities and debt including development loans beyond 90 days. It also includes TB and IBD with maturity of over 90 days.

The Fund was holding K370 million or 14% of the total portfolio in Fixed Interest at the end of 2008.

2.5 Equities

The equities portfolio consists of listed and unlisted equities. At the end of 2008, the Fund's equity portfolio was K1,209 million. This represents an increase of K126 million or 12% from K1,083 million at the beginning of 2008.

2.5.1 Listed Equities

At the end of the year the listed equity portfolio was valued at K750 million. The portfolio increased by K25 million for the year. This sector generated income of K111 million, K95 million in capital gains and K16 million in dividends.

The table below shows the Fund equity holdings listed on the Port Moresby Stock Exchange (POMSoX) and dual listed shares in both POMSoX and Australian Stock Exchange (ASX):

| Listed equities | Stock exchange | Industry/sector |
|--------------------------|----------------|------------------|
| Bank South Pacific Ltd | POMSoX | Banking/Finance |
| Credit Corporation Ltd | POMSoX | Finance/Property |
| Highlands Pacific Ltd | POMSoX/ASX | Mining |
| Lihir Gold Ltd | POMSoX/ASX | Mining |
| Marengo Mining Ltd | POMSoX/ASX | Mining |
| New Britain Palm Oil Ltd | POMSoX | Agriculture |
| Oil Search Ltd | POMSoX/ASX | Oil & Gas |

2008 Investment Report

2.5.2 Unlisted Equities

The portfolio increased from K358 million ending 2007 to K459 million ending December 2008, resulting from capital growth from valuations and additional investment of K13 million representing a 5% stake in B mobile through Capital Way Holdings Limited and acquisition of Morobe Front Holding Limited for K3 million. The revaluation of the portfolio was carried out by an independent valuer.

Income generated in this sector for the year is K117 million comprising K29 million as dividend received and K88 million achieved through revaluation.

A new unlisted investment strategy and comprehensive investment selection criteria was adopted during the year to enable the assessing and undertaking of unlisted investments. These criteria emphasise various sound business benchmarks including solid earnings, good cash flow, quality management, good corporate governance. Minimum entry level, visibility of exit and community and social impact are also included as added desirable features of preferred investments.

The table below details the unlisted companies that the Fund holds together with the percentage holding:

| Unlisted equities | Industry | % holding |
|--|------------------------|-----------|
| Alotau International Hotel Ltd | Hospitality/tourism | 33 |
| Nationwide Rent A Car Ltd | Motor Vehicle Hire | 6 |
| Big Rooster (PNG) Ltd | Fast Food | 100 |
| Brian Bell & Co. Ltd | Wholesale Retailing | 34 |
| Coastwatchers Court Ltd | Property – residential | 65 |
| Capital Way Holding Ltd | Telecommunication | 10 |
| Gazelle International Hotel Ltd | Hospitality | 65 |
| Hunter Ltd | Property – commercial | 30 |
| Kumul Hotels Ltd | Tourism & Hospitality | 55 |
| Marsh Ltd | Insurance Broker | 10 |
| Moki No.10 Ltd | Property-commercial | 100 |
| PNG Water Ltd | Utilities | 30 |
| Pacific Building Services Management Ltd | Lift Service | 50 |
| Paradise Foods Ltd | Food & Snacks | 85 |
| Post Courier Ltd | Media | 21 |
| SP Brewery Ltd | Manufacturing | 20 |
| Toyota Tsusho (PNG) Ltd | Motor Vehicle | 4 |
| Westpac Bank Ltd | Banking & Finance | 7 |
| Morobe Front Holdings Ltd | Property - Development | 100 |

2.6 Property

The property portfolio of the Fund comprises commercial, residential, industrial and vacant land. The portfolio was valued at K351 million, which constitutes 14% of the total investment portfolio.

In light of the prevailing elevated demand for premium commercial and residential properties, a significant effort by KFM, NSL and its facility managers to improve the portfolio has seen significant improvements in both the physical condition and financial results together with savings in outgoings in most of the properties.

The NSL Property Portfolio in 2008 saw major new projects undertaken and continuation of projects that were on-going. KFM is working closely with NSL and other reputable consultants to develop existing commercial properties in Port Moresby, Lae and Kokopo.

The major new developments included the commencement of construction of the new multi storey development at Hunter Street in March 2008 and sixty-two (62) low-set residential houses at Malolo Estate, 8 Mile. The development of 4 apartments in L22 S43 on Touaguba Hill and a commercial building at L2 S45 Taurama are in documentation stage while the redevelopment of former IPI Building in Lae is in tendering stage for construction.

NSL has also acquired a number of properties in Lae and Kokopo as diversification from Port Moresby portfolio.

The following table shows the property portfolio as at 31 December 2008:

| Properties | Location |
|---|--------------|
| COMMERCIAL | |
| Aopi Centre | Port Moresby |
| Burns House | Port Moresby |
| L34 S25 (Hunter Street) | Port Moresby |
| Era Rumana | Port Moresby |
| L1 S387 (4 Mile) | Port Moresby |
| L35 S25 (Hunter Street) | Port Moresby |
| L20 S21 (Kasangten Road) | Madang |
| Mogoru Moto | Port Moresby |
| Revenue Haus | Port Moresby |
| Vele Rumana | Lae |
| Vulupindi Haus | Port Moresby |
| INDUSTRIAL | |
| Angco L5,6,19 & 20 S34 (Macdhui street) | Lae |
| L15,16 & 17 S64 (Hohola) | Port Moresby |
| L1 S5 (Banz) | Mt Hagen |
| L2,3&5 S6 (Banz) | Mt Hagen |
| L23 S50 (Milford Haven Road) | Lae |
| L64 S41 (Huon Road) | Lae |
| L24 S7 (Bataden Road) | Madang |

2008 Investment Report

| Properties | Location |
|---|--------------|
| RESIDENTIAL | |
| Bayside Apartments | Port Moresby |
| Lawes Road | Port Moresby |
| Pacific Vista | Port Moresby |
| Portion 212 | Lae |
| Webb St. | Port Moresby |
| LAND | |
| Portion 989, 1568, 2124 & 2156 to 2159 (9 Mile) | Port Moresby |
| L20 S3 (Hunter Street) | Port Moresby |
| L6 S41 (POM) | Port Moresby |
| L3 to 7 S 49 (Lae) | Lae |
| L 2 S 45 (Taurama) | Port Moresby |
| Portion 1539 (Ela Makana Street) | Port Moresby |
| L3 S 82 (Elizabeth Street) | Goroka |
| L22 S63 (Touaguba Hill) | Port Moresby |
| L123 S145 to 152 (8 mile) | Port Moresby |

2.7 International Investment

This consists of call accounts, term deposits, listed and unlisted Managed Funds, listed and unlisted Collateral Debt Obligations, listed Hybrid Securities and listed and unlisted Equities. The holding at year end was K243 million or 9% of the total portfolio. There was unrealised decrease in value in this sector of K86 million. This attributed to the combined effects of the global financial meltdown and the significant appreciation of Kina against foreign currencies. However as a consequence of the increase in size and diversity of this sector, an established global custodian, NCS, was appointed to take over from the previous custodian.

Table below shows Fund holdings listed on the Australian Stock Exchange (ASX):

| Listed equities | Industry/sector |
|---------------------------------------|---------------------|
| Allco Max Securities & Mortgage Trust | Managed Income Note |
| Alpha Financial Products Ltd | Managed Income Note |
| Babcock & Brown Ltd | Debt Securities |
| Bendigo & Adelaide Bank Ltd | Banking/Finance |
| Bougainville Copper Ltd | Mining |
| Commonwealth Bank of Australia | Banking/Finance |
| Macquarie Infrastructure Group | Infrastructure |
| Macquarie Media Group | Communication |
| Mahogany Capital Ltd | Managed Income Note |
| Multiplex Sites Trust | Property Trust |
| RiverCity Motorway Group | Infrastructure |
| Transurban Group | Infrastructure |
| Telstra Corporation Ltd | Communication |

Table below shows international unlisted investments of the Fund:

| Unlisted equities | Industry |
|---------------------------------------|-----------------------|
| ABN AMRO Social Infrastructure Trust | Social Infrastructure |
| AMP Capital China Fund | Equities Fund |
| Callable Accrual Range Securities | Managed Income Note |
| Corsair (Jersey) No.2 Limited | Managed Income Note |
| Cypress Tree Synthetic CDO Limited II | Managed Income Note |
| Herald Limited Series 24 | Managed Income Note |

The following unlisted alternative investments with a total portfolio value of K134.92 million were undertaken and managed by Access Capital Advisors; an investment manager based in Australia specialising in investing and managing alternative investments.

| Unlisted | Industry |
|-----------------------------|--------------------------------------|
| Carrix Inc | Container -Maritime – US |
| FKP Core Plus Fund 1 | Property Trust – Australia |
| FKP Core Plus Trust 2 | Property Trust – Australia |
| Inglewood Farm | Agriculture – Australia |
| Isle of Man Steam Packet | Sea Transport – UK |
| Smarte Carte | Carte Hire – US |
| Southern Water | Infrastructure, Water, Sewerage – UK |
| Spirit Finance Corporation | Property / Finance – US |
| Tata Realty Investment Fund | Property Trust – India |

Independent Auditor's Report



To the members of Nambawan Super

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nambawan Super which comprise the statement of net assets as at 31 December 2008 and the statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of Nambawan Super Limited, being the Fund's Trustees, are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, other generally accepted accounting practice in Papua New Guinea and with the Superannuation ("General Provisions") Act 2000 requirements and Papua New Guinea Companies Act 1997. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

PricewaterhouseCoopers
6th Floor Credit House
Cuthbertson Street
PO Box 484
PORT MORESBY
PAPUA NEW GUINEA
Website: www.pwc.com.pg
Telephone (675) 321 1500
Facsimile (675) 321 1428

accounting estimates made by management and the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation ("General Provisions") Act 2000 and other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i) in our opinion proper accounting records have been kept by the Fund, so far as appears from our examination of those records;
- ii) we have obtained all the information and explanations we have required; and
- iii) in conducting our audit we followed applicable independence requirements of CPA Papua New Guinea.

PricewaterhouseCoopers

By: J C Seeto

Registered under the Accountants Act 1996

Port Moresby
17 April 2009

Financial Statements

31st DECEMBER 2008

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STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | 2008 K | 2007 K |
|--|-------|---------------|---------------|
| REVENUE | | | |
| Investment income | | | |
| Interest | 3(a) | 46,024,907 | 33,352,498 |
| Dividends | 3(b) | 57,021,723 | 39,686,326 |
| Property rentals | 3(c) | 43,982,532 | 36,210,608 |
| Net gain on financial assets at fair value | 3(d) | 74,249,515 | 422,441,048 |
| Less: Direct investment expenses | 4(b) | (11,178,994) | (10,308,927) |
| | | 210,099,683 | 521,381,553 |
| Contribution income | | | |
| Employer contributions | | 235,830,421 | 286,577,071 |
| Members' contributions | | 69,475,904 | 62,132,477 |
| Transfers from other funds | | 1,842,045 | 438,838 |
| | 11(a) | 307,148,369 | 349,148,386 |
| Other income | | | |
| | 3(e) | 5,509,663 | 4,492,855 |
| | | 5,509,663 | 4,492,855 |
| Total | | 522,757,715 | 875,022,794 |
| LESS: EXPENSES | | | |
| General and administrative expenses | 4(a) | 24,710,889 | 21,370,951 |
| Foreign exchange losses | | 25,922,421 | 3,722,123 |
| Benefits paid (including housing withdrawals) | | 110,090,655 | 100,654,138 |
| Total | | 160,723,966 | 125,747,212 |
| Total revenue less expenses and benefits paid before income tax | | 362,033,749 | 749,275,582 |
| Income tax expense | 5(a) | 14,531,087 | 10,985,299 |
| Total revenue less expenses and benefits paid after income tax | | 347,502,662 | 738,290,283 |
| Changes in revaluation reserve | 9 | 1,795,000 | 1,049,277 |
| Changes in Retirement Savings Account | 11(d) | 12,246,206 | 4,806,064 |
| | | 361,543,869 | 744,145,624 |
| Net assets available to pay benefits at the beginning of the year | | 2,260,574,590 | 1,516,428,966 |
| NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR | 11 | 2,622,118,459 | 2,260,574,590 |

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
AS AT 31 DECEMBER 2008

| | Notes | 2008 K | 2007 K |
|---|--------|----------------------|----------------------|
| INVESTMENTS | | | |
| Held to maturity (government stocks) | 6(a) | 333,331,029 | 235,230,206 |
| Other investments held to maturity | 6(b) | 85,751,511 | 81,791,443 |
| Loans and debentures | 6(c) | 36,528,557 | 24,300,000 |
| Financial assets at fair value | 6(d-f) | 1,366,332,956 | 1,331,163,290 |
| Investment properties | 6(g) | 351,214,186 | 247,572,392 |
| Total investments | | 2,173,158,239 | 1,920,057,331 |
| OTHER ASSETS | | | |
| Cash and cash equivalents | 7 | 428,364,763 | 302,814,595 |
| Trade receivables & other debtors | 8 | 41,966,904 | 50,200,452 |
| Current income tax refundable | 5(b) | 13,503,102 | 19,840,575 |
| Property, plant and equipment | 9 | 11,015,314 | 9,674,299 |
| Total other assets | | 494,850,083 | 382,529,921 |
| TOTAL ASSETS | | 2,668,008,322 | 2,302,587,252 |
| LESS: LIABILITIES | | | |
| Benefits payable | | 1,468,542 | 1,483,479 |
| Trade and other creditors | 10 | 39,580,801 | 37,235,793 |
| Deferred income tax liabilities | 5(c) | 4,840,520 | 3,293,390 |
| TOTAL LIABILITIES | | 45,889,863 | 42,012,662 |
| NET ASSETS AVAILABLE TO PAY BENEFITS | 11 | 2,622,118,459 | 2,260,574,590 |

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

For and on behalf of the Board



SIR NAGORA BOGAN, KBE
Chairman of Board



LEON BUSKENS
Managing Director

Dated: 31 March 2009

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008**

| | Notes | 2008 K | 2007 K |
|--|-----------|----------------------|----------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Interest received | | 47,387,211 | 43,342,189 |
| Dividends received | 3(b) | 57,021,723 | 39,686,326 |
| Property rentals received | | 43,539,947 | 28,901,549 |
| Employer contributions received | | 235,830,421 | 286,833,060 |
| Member contributions received | | 71,317,949 | 62,315,326 |
| State share of benefit payments received | | 99,516,560 | 84,803,946 |
| Other income and receipts | | 390,489 | 6,628,244 |
| General administration expenses paid | | (32,302,185) | (25,121,056) |
| Payments to suppliers and employees | | - | (6,238,248) |
| Fund share of benefits paid (including housing withdrawals) | | (110,090,655) | (100,654,138) |
| State share of benefits paid | | (99,995,313) | (102,100,279) |
| Income tax paid | 5(b) | - | (34,101,322) |
| Net cash provided by operating activities | 15 | 312,616,147 | 284,295,597 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Receipt of loan repayments | | 6,600,000 | 17,250,000 |
| Loans advanced | | (18,123,411) | (17,700,000) |
| Proceeds on maturity of Government securities | | 188,597,881 | 82,352,777 |
| Payment for purchase of Government securities | | (293,466,171) | (59,504,388) |
| Proceeds or (Payments) from other fixed interest deposits – net | | (3,960,068) | 50,288,613 |
| Payment for acquisition of shares in listed equities | | (18,862,809) | (24,407,402) |
| Payment for acquisition of shares in unlisted equities | | (17,220,926) | (57,672,954) |
| Payment for acquisition on shares in unlisted equities - offshore | | (32,926,847) | (130,729,179) |
| Proceeds on sale of shares in listed equities | | 33,930,471 | 10,700,365 |
| Proceeds on sale of shares in unlisted equities - onshore | | 19,495,457 | - |
| Payment for investment property development & acquisition | | (48,103,907) | (33,747,946) |
| Payment for property, plant and equipment | | (578,289) | (1,429,275) |
| Proceeds on sale of investment properties | | 4,245,705 | - |
| Proceeds on sale of property, plant and equipment | | 413,689 | - |
| Proceeds from Retirement Savings Account | | 12,246,206 | 4,806,064 |
| Direct investment expenses paid | | (19,352,959) | (10,308,927) |
| Net cash provided by / (used in) investing activities | | (187,065,979) | (170,102,252) |
| Net increase / (decrease) in cash & cash equivalents held | | 125,550,168 | 114,193,345 |
| Cash and cash equivalents at the beginning of the year | | 302,814,595 | 188,621,250 |
| Cash and cash equivalents at the end of the year | | 428,364,763 | 302,814,595 |

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 THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL INFORMATION

Nambawan Super is an approved 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 the Superannuation reforms, membership now includes private sector organisations.

In 2005, the Fund launched a new post employment product for exiting members in the form of Retirement Savings Accounts. This facility allows members who exit the Fund to transfer all or part of their benefits to an RSA. The advantages of an RSA are the continued security of funds in retirement, the ability to make regular withdrawals from the account in line with retirement needs and earnings on RSA balances are free of tax where statutory levels of withdrawals are not exceeded.

The Fund is governed by a board of directors, pursuant to their responsibilities to Nambawan Super Limited ("NSL"), the Fund's Corporate Trustee.

NSL is domiciled in PNG and the registered office is:

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 the applicable 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.

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/unfunded liability and market value of investments.

(b) Revenue recognition

Investment income, comprising of 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 recognised 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 recognised 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 are reported as part the fair value gain or loss in the profit and loss statement.

(d) Property, plant and equipment

Land and buildings (except for investment properties) - refer to note 1 (e) are shown at fair value based on annual valuations by external independent registered valuers (Kelep Valuation Services & Property Consultant Ltd ("KVS&PC")), less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less 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 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 cost are charged to the Statement of Changes in Net Assets during the period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognised in the Statement of Changes in Net Assets, the increase is first recognised in the Statement of Changes in Net Assets. Decreases that reverse previous increases of the same asset are first charged against the revaluation reserve in equity to the extent of the remaining reserve attributable to the asset, all other decreases are charged to the Statement of Changes in Net Assets.

Land is not depreciated. Depreciation on other assets is calculated using the reducing balance method over the estimated useful life, 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% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the Statement of Changes in Net Assets.

(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 spot market rates on that date. The rates used as at 31 December 2008 were :

AUD 0.5617 (2007: 0.4311)

USD 0.3952 (2007: 0.3781)

GBP 0.2652 (2007: 0.1895)

Unlisted shares are valued at fair value at balance date, as determined by registered independent professional valuer (Pacific Capital Ltd). The main factors used in determining fair value include a combination of dividend yield, net tangible asset backing and future maintainable earnings as appropriate. Changes in fair values are recorded in the Statement of Changes in Net Assets as part of the movements in fair value.

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 'the market value for highest and best use'. Savills (NSW) Pty Limited and KVS&PC were engaged to undertake the valuation exercise in December 2008. Changes in fair value are recorded in the Statement of Changes in Net Assets as part of the fair value movements.

The Fund's interest in controlled entities are treated as plan assets or investments of the Fund and these investments are measured at fair value.

(f) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and a default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is recognised in the Statement of Changes in Net Assets in other expenses.

(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 utilised.

The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Provisions

A provision is recognised 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. They are 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 and are usually paid within 30 days of recognition.

(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. It excludes the state's unfunded liability.

(o) Comparative figures

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 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 | 23,037,397 | 17,263,192 |
| National Government loan | 1,712,467 | 1,670,501 |
| Debentures and/or loans | 461,428 | 2,733,000 |
| Term deposits | 20,813,615 | 11,685,805 |
| | 46,024,907 | 33,352,498 |
| (b) Dividends from investments | | |
| Shares in listed equities | 19,962,085 | 16,084,492 |
| Shares in unlisted equities | 37,059,638 | 23,601,834 |
| | 57,021,723 | 39,686,326 |
| (c) Property rental | | |
| Gross rental income | 43,982,532 | 36,210,608 |
| (d) Changes recognised in relation to Financial Assets at fair value through Changes in Net Assets | | |
| Shares in listed equities | (7,956,838) | 300,722,932 |
| Shares in unlisted equities | 22,422,764 | 86,375,475 |
| Investment properties | 59,783,589 | 35,342,641 |
| | 74,249,515 | 422,441,048 |
| Total investment income | 221,278,677 | 531,690,480 |
| (e) Other income | | |
| Directors fees received | 78,463 | 100,847 |
| Management fees | 142,521 | 110,117 |
| Gain on asset disposal | 5,127,069 | 3,272,116 |
| Other income | 161,609 | 1,009,775 |
| | 5,509,663 | 4,492,855 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K |
|--|------------|------------|
| 4. EXPENSES | | |
| Expenses charged to the Statement of Net Assets comprises: | | |
| (a) General and administrative expenses | | |
| Management expenses | | |
| Staff | 6,698,337 | 5,591,972 |
| Vehicles | 205,070 | 152,373 |
| Travel | 95,181 | 135,785 |
| Professional fees | 819,325 | 319,767 |
| Advertising | 795,366 | 502,467 |
| Donations | 81,940 | 170,500 |
| Auditor's remuneration / statutory audit services | 185,480 | 173,500 |
| Directors' fees & expenses | 662,061 | 755,808 |
| Conferences | 127,614 | 50,101 |
| Office expenses | 1,265,297 | 1,416,195 |
| Staff housing | 915,952 | 626,913 |
| Office building expenses | 113,780 | 157,497 |
| | 11,965,404 | 10,052,878 |
| Outsourcing expenses | | |
| Fund administration | 2,144,550 | 2,026,967 |
| | 461,715 | 409,075 |
| BPNG license fees | | |
| Contributor expenses | | |
| Contributor liaison | 531,173 | 722,900 |
| Investment Managers fees | 8,173,965 | 6,122,324 |
| Life insurance expense | 65,808 | 277,100 |
| | 8,770,946 | 7,122,324 |
| Other expenses | | |
| Bad debts written off | 464,900 | 663,235 |
| Depreciation on property plant and equipment | 618,585 | 695,406 |
| Investment Monitoring expenses | 284,789 | 401,066 |
| | 1,368,274 | 1,759,707 |
| Total general and administrative expenses | 24,710,889 | 21,370,951 |
| (b) Direct investment expenses | | |
| Maintenance expenditure on investment properties | 11,178,994 | 10,308,927 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K |
|--|---------------------|---------------------|
| 5. INCOME TAX EXPENSE | | |
| The income tax charged on total revenues less expenses and benefits paid is determined as follows: | | |
| (a) Income tax expense | | |
| Profit before tax | 362,033,749 | 749,275,582 |
| Prima facie tax at 25% | 90,508,437 | 187,318,896 |
| Permanent differences: | | |
| Accounting profit on fair value changes in investment properties | (14,945,897) | (8,835,660) |
| Accounting profit on fair value changes in equity investments | (3,616,482) | (96,774,602) |
| Benefits paid to Members | 27,522,664 | 23,962,019 |
| Employee Contributions | (17,368,976) | (15,529,694) |
| Employer Contributions | (58,957,605) | (71,708,265) |
| Contributions from other Super Funds | (460,511) | - |
| Exempt dividend = section 42(3) | (533,097) | (666,552) |
| Exempt Interest Received - Long Term Bond | (137,684) | - |
| Non-deductible benefit payments | 32,609 | - |
| Non-deductible entertainment expense | 3,085 | - |
| Expenses paid on earning exempt income | 126,887 | - |
| Section 72A staff training - double deduction | (43,621) | - |
| Section 216 Dividend rebate | (13,722,334) | (8,973,779) |
| Tax depreciation on investment properties | (337,930) | (301,982) |
| Foreign exchange gain/(loss) - capital account | 6,480,605 | - |
| Profit on sale of investment - capital gain | (19,064) | - |
| Adjustment recognised in the current year in relation to prior years | - | 2,494,919 |
| Income tax expense for the year | 14,531,087 | 10,985,299 |
| (b) Provision for income tax | | |
| Prima facie tax payable at 25% (2007:25%) on total revenue less expenses and benefits paid before income tax | 90,508,437 | 187,318,896 |
| Tax effect of permanent differences | (75,977,351) | (178,828,516) |
| Tax effect of temporary differences | (21,515,249) | 2,912,678 |
| Tax paid - credit for interest withholding tax | (6,656,625) | (4,553,287) |
| Provisional income Tax paid / (Income tax refundable) | - | (29,548,035) |
| | (13,640,787) | (22,698,264) |
| Benefit of tax loss able to be carried forward | | |
| Prior years income tax provision - (over)/under provision | 137,685 | 2,857,689 |
| Provision for Income Tax | (13,503,102) | (19,840,575) |
| (c) Deferred tax liability/(asset) | | |
| Opening balance at the beginning of the year | 3,293,390 | 1,263,280 |
| Movement during the year | 1,385,809 | 2,912,678 |
| Prior year | 161,322 | (882,568) |
| Closing balance at the end of the year | 4,840,520 | 3,293,390 |
| Comprising: | | |
| Interest receivable | 2,219,622 | 2,650,894 |
| Rent receivable | 3,909,193 | 3,684,296 |
| Consumable stores | 56,439 | 9,103 |
| Prepaid Insurance | 149,937 | - |
| Management fee receivable | 35,630 | 35,632 |
| Depreciation | 219,705 | 13,565 |
| Less: | | |
| Employee benefits | (602,274) | (430,499) |
| Doubtful debts/loans | (1,035,446) | (921,195) |
| Insurance payments - death claims | (1,393,939) | (1,393,939) |
| Other accruals | 501,910 | (354,466) |
| Others | 779,742 | - |
| Net deferred tax liability/(asset) | 4,840,520 | 3,293,390 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K |
|--|---------------|--------------|
| 6. INVESTMENTS | | |
| (a) Held to maturity investments | | |
| Government Inscribed Stocks & Treasury Bills:- | | |
| Balance at the beginning of the year | 235,230,206 | 258,239,177 |
| Purchases during the year | 288,149,091 | 59,504,388 |
| Maturities during the year | (195,365,347) | (82,352,777) |
| Accumulated amortisation of Premium(discount) | 5,317,079 | (160,582) |
| Balance at the end of the year | 333,331,029 | 235,230,206 |
| Investment in the government inscribed stock and treasury bills are carried at amortised cost. They are held to their maturity which varies between 2009 and 2021 and have a face value of approximately K328m. (2007: K235m). These deposits are held at an average coupon rate of 8% (2007: 7%). | | |
| (b) Other investments held to maturity | | |
| Balance at the beginning of the year | 81,791,443 | 131,358,059 |
| Deposits during the year | | |
| - Offshore term deposit | 15,801,697 | - |
| Deposits retired during the year | | |
| - Offshore term deposit | - | (48,318,728) |
| - Offshore fixed interest deposits | (7,929,428) | - |
| - Institutional notes and bills | (2,949,262) | (1,969,885) |
| Fair value gain/(loss) from change in net market value | (962,939) | 721,997 |
| Balance at the end of the year | 85,751,511 | 81,791,443 |
| Other investments held to maturity are held at cost. They are held to maturity which varies between 2009 and 2013 and carry a fixed interest rate of 6% (2007: 6%). | | |
| (c) Loans and debentures | | |
| <i>Companies</i> | | |
| Balance at the beginning of the year | 24,300,000 | 23,850,000 |
| Advances made | 18,828,557 | 17,700,000 |
| Payments received | (6,600,000) | (17,250,000) |
| Balance at the end of the year | 36,528,557 | 24,300,000 |
| The loans attract interest at an average rate of 12% (2007: 12%) . Interest is repayable monthly and the principal amount is repayable in accordance with the respective loan agreements, which varies between 2009 and 2017. | | |
| (d) Financial assets - unlisted shares (onshore) | | |
| Balance at the beginning of the year | 354,765,505 | 184,275,870 |
| Investments during the year | 17,220,926 | 57,672,954 |
| Others | (13,735,411) | 19,122,505 |
| Fair value gain from change in net market value | 101,102,403 | 93,694,176 |
| Balance at the end of the year | 459,353,423 | 354,765,505 |
| (e) Financial assets - unlisted shares (offshore) | | |
| Balance at beginning of year | 193,011,078 | 70,322,595 |
| Investments during the year | 32,926,847 | 130,729,179 |
| Fair value gain/(loss) from change in net market value including the effects of exchange rate movements | (85,808,956) | (8,040,696) |
| Balance at the end of the year | 140,128,969 | 193,011,078 |
| (f) Financial asset - listed shares | | |
| Balance at the beginning of the year | 783,386,707 | 468,956,729 |
| Investments during the year | 19,221,256 | 24,407,402 |
| Divestments during the year | (27,800,561) | (10,700,356) |
| Fair value gain/(loss) from change in net market value - refer note 3(d) | (7,956,838) | 300,722,932 |
| Balance at the end of the year | 766,850,564 | 783,386,707 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K | | | | |
|---|-----------------------------------|-------------------------|---|----------------------------------|------------------------|------------------------|
| 6. INVESTMENTS | | | | | | |
| (g) Investment properties | | | | | | |
| Balance at the beginning of the year | 247,572,392 | 193,369,846 | | | | |
| Additions | 8,489,291 | 6,209,478 | | | | |
| Others | (11,430,308) | 9,766,027 | | | | |
| Fair value gains from change in net market value - refer note 3(d) | 59,783,589 | 35,342,641 | | | | |
| Capital works in progress | 46,799,221 | 2,884,401 | | | | |
| Balance at the end of the year | 351,214,186 | 247,572,392 | | | | |
| Total investments | 2,173,158,239 | 1,920,057,331 | | | | |
| Amounts recognised in Statement of Changes in Net Assets for investment properties: | | | | | | |
| Rental income | 43,982,532 | 36,210,608 | | | | |
| Direct operating expenses | (11,178,994) | (10,308,927) | | | | |
| Net rental income | 32,803,538 | 25,901,681 | | | | |
| (h) Asset allocation | | | | | | |
| Asset class | Portfolio value K(million) | | Percentage holdings | | | |
| | 31-Dec-08 | 31-Dec-07 | 31-Dec-08 | 31-Dec-07 | | |
| Fixed Interest | 370 | 260 | 17 | 14 | | |
| Equities | 1,209 | 1,083 | 56 | 56 | | |
| Property | 351 | 247 | 16 | 13 | | |
| International | 243 | 330 | 11 | 17 | | |
| Total | 2,173 | 1,920 | 100 | 100 | | |
| (i) Single investment exceeding 5% of net assets | | | Value | Value | | |
| Investment | Type | Shareholding % | % of net asset 2008 | K(million) 2008 | K(million) 2007 | |
| Bank South Pacific Ltd | Listed equity | 11.09 | 18.2 | 476.3 | 353.2 | |
| Bank of PNG Ltd | GIS & T/Bills | - | 12.7 | 333.3 | 235.5 | |
| Bank of South Pacific Ltd | IBD | 11.09 | 9.2 | 242.4 | 129.8 | |
| (j) Valuation methodology and earnings multiples applied | | | Value | Value | | |
| Unlisted equities - onshore | Industry | Valuation Method | Earnings Multiple | % shareholding | K(million) 2008 | K(million) 2007 |
| Alotau International Hotel Ltd | Hotel | Net Assets | - | 34 | 0.80 | 1.25 |
| Avis Rent A Car Ltd | M/vehicle hire | FME | 4 | 6 | 0.69 | 0.26 |
| Big Rooster (PNG) Ltd | Fast food | FME | 3 | 100 | 5.50 | 1.35 |
| Brian Bell & Company Ltd | Wholesale/retail | FME | 5 | 34 | 33.00 | 26.40 |
| Capital Way Holdings Ltd | Telecommunications | At Cost | - | 10 | 13.17 | - |
| Coastwatchers Court Ltd | Property | Net Assets | - | 65 | 11.34 | 19.12 |
| Ela Motors (PNG) Ltd | Motor vehicle | FME | 6 | 4 | 8.50 | 6.22 |
| Hunter Ltd | Property | Net Assets | - | 30 | 5.61 | 4.61 |
| Kumul Hotels Ltd | Hotel | FME | 8 | 55 | 70.00 | 61.56 |
| Marsh Insurance (PNG) Ltd | Insurance broker | FME | 5 | 10 | 0.90 | 1.02 |
| Moki NO.10 Ltd | Real Estate | Net Assets | - | 100 | 25.30 | 25.30 |
| Paradise Foods Ltd | Food & Snacks | FME | 7 | 85 | 97.30 | 67.82 |
| Pacific Building Mgt Services Ltd | Building maintenance | At Cost | - | 50 | 0.15 | - |
| PNG Water Ltd | Utilities | FME | 4 | 30 | 13.50 | 10.50 |
| Post Courier Ltd | Media | FME | 4 | 21 | 5.00 | 1.17 |
| SP Brewery Ltd | Brewery/manufacturing | FME | 7.5 | 20 | 112.50 | 83.96 |
| Westpac Bank (PNG) Ltd | Banking & finance | FME | 7 | 7 | 53.00 | 38.50 |
| Net assets - net assets on a going concern basis | | | FME - future maintainable earnings | | | |
| (k) Sensitivity analysis | | | Movement to | Movement to | | |
| Particulars | | | share price by +/-10% | exchange rates by +/- 10% | | |
| Impact to total portfolio in kina value | | | 92.7 | 38.48 | | |
| Impact to total portfolio in percentage | | | 3.58 | 1.49 | | |

If the share price moved up or down by 10% the investment portfolio will increase or decrease by K92.7 million or 3.58%.

If the exchange rate moved up or down by 10% the investment portfolio will increase or decrease by K38.48 million or 1.49%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K |
|---|--------------------|--------------------|
| 7. CASH AND CASH EQUIVALENTS | | |
| Bank overdraft | (4,344,252) | (8,147,230) |
| Cash in hand | 2,959 | 2,759 |
| Bank call deposit | 7,210,058 | 8,095,145 |
| Term deposit (maturities within 90 days) | 425,495,998 | 302,863,921 |
| | 428,364,763 | 302,814,595 |
| 8. TRADE RECEIVABLES & OTHER DEBTORS | | |
| Rental debtors | 15,636,771 | 14,737,182 |
| Less: Provision for doubtful debts | (1,786,154) | (1,329,150) |
| | 13,850,617 | 13,408,032 |
| Staff housing scheme and advances | 383,256 | 373,295 |
| Sundry debtors | 15,398,192 | 7,811,458 |
| State share of benefits | 6,049,417 | 20,597,157 |
| Accrued interest income | 6,285,422 | 8,010,510 |
| | 41,966,904 | 50,200,452 |

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. Refer Note 6(g).

The valuation of land and buildings is fair value being the amount for which the asset could be exchanged between willing parties in an arm's length transaction based on current market prices in an active market for similar properties in the same location and condition. The 2008 Commercial & Industrial Property valuations were made by registered valuers Savills (NSW) Pty Ltd while KVS&PC and Professional Valuers of PNG Limited revalued residential properties & vacant land.

The revaluation surplus was credited to asset revaluation reserve (note 11(e)).

| | Land & building K' 000 | HOUSING Plant & equipment K' 000 | Land & building K' 000 | Furniture & fittings K' 000 | OFFICE BUILDING Plant & equipment K' 000 | VEHICLES Motor vehicles K' 000 | Total K' 000 |
|---------------------------------|------------------------------|---|------------------------------|-----------------------------------|---|---|-------------------|
| COST OR REVALUATION | | | | | | | |
| At 1 January 2008 | 3,074,375 | 199,379 | 4,505,000 | 2,269,938 | 3,882,937 | 1,479,877 | 15,411,506 |
| Additions | 181,345 | - | - | 20,382 | 97,633 | 278,932 | 578,292 |
| Revaluation increment | - | - | 1,795,000 | - | - | - | 1,795,000 |
| Disposal | (313,564) | (12,475) | - | - | (258,315) | (284,091) | (868,445) |
| At 31 December 2008 | 2,942,156 | 186,904 | 6,300,000 | 2,290,320 | 3,722,255 | 1,474,719 | 16,916,353 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1 January 2008 | 196,433 | 117,178 | 452,339 | 1,398,259 | 2,609,062 | 963,938 | 5,737,210 |
| Depreciation | 20,936 | 11,869 | 1,344 | 97,954 | 279,053 | 207,429 | 618,585 |
| Disposals | - | (5,508) | - | - | (216,807) | (232,440) | (454,756) |
| At 31 December 2008 | 217,369 | 123,538 | 453,683 | 1,496,213 | 2,671,309 | 938,928 | 5,901,039 |
| NET BOOK VALUE | | | | | | | |
| At 31/12/08 | 2,724,787 | 63,366 | 5,846,317 | 794,106 | 1,050,946 | 535,791 | 11,015,314 |
| At 31/12/07 | 2,877,942 | 82,203 | 4,052,660 | 871,678 | 1,273,875 | 515,939 | 9,674,299 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K |
|--------------------------------------|------------|------------|
| 10. TRADE AND OTHER CREDITORS | | |
| Trade creditors | 20,298,151 | 9,851,959 |
| Other creditors | 572,284 | 4,772,850 |
| Rental bond fees | 2,133,059 | 1,869,513 |
| Member insurance payable | 5,858,024 | 5,575,754 |
| State-share received in advance | 1,714,224 | 6,883,337 |
| State pension liability | 6,643,744 | 6,720,000 |
| Employee provisions | 2,361,316 | 1,562,380 |
| | 39,580,801 | 37,235,793 |

11. LIABILITY FOR ACCRUED BENEFITS AND RESERVES

Liability for accrued benefits is represented by contributor funds, contributor housing withdrawals, pensioner funds and retirement savings accounts. Contributor funds are credited with contributions on a cash received basis. For 2008, interest allocated to contributor funds was determined on member balances at a rate of 11.5% (2007: 32%) based on a daily time weighted basis

Contributor housing withdrawals comprise of withdrawals from contributor funds, which are repaid by way of additional contributions at a minimum rate of 2% or from member's entitlements at the time of exit.

(a) Contributor funds

| | | |
|---|---------------|---------------|
| Balance at the beginning of the year | 2,083,527,961 | 1,389,440,378 |
| Add: | | |
| Members' contributions received during the year | 69,475,904 | 62,132,477 |
| Employer contributions received during the year | 235,830,421 | 286,577,071 |
| Transfers from other funds | 1,842,045 | 438,838 |
| Interest allocation | 234,934,995 | 413,655,189 |
| | 2,625,611,325 | 2,152,243,953 |
| Deduct: | | |
| Member benefits paid during the year * | (100,014,895) | (67,319,421) |
| Unemployment benefits paid | (1,491,414) | (1,396,571) |
| | (101,506,309) | (68,715,992) |
| Balance at the end of the year | 2,524,105,016 | 2,083,527,961 |
| * Benefit payment details: | | |
| Resignation | 18,960,257 | 11,958,042 |
| Retrenchment | 11,065,051 | 16,327,658 |
| Retirement | 55,233,011 | 31,578,375 |
| Death | 14,756,575 | 7,455,346 |
| | 100,014,895 | 67,319,421 |

(b) Contributor housing withdrawals

| | | |
|--------------------------------------|--------------|--------------|
| Balance at the beginning of the year | (65,451,557) | (45,447,178) |
| Advances or member withdrawals | (9,277,779) | (23,318,637) |
| Repayments received | 4,190,470 | 3,314,258 |
| Balance at the end of the year | (70,538,865) | (65,451,557) |

(c) Pensioner funds

| | | |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | 81,237,882 | 65,086,359 |
| Payments during the year | (3,497,039) | (7,127,703) |
| Allocation during the year | - | 23,279,226 |
| Balance at the end of the year | 77,740,843 | 81,237,882 |

The Board and management are of the view that there has not been a material change in the underlying assumptions and that the provision continues to be adequate to fund the ongoing pension liability. Accordingly, in view of the decreasing number of active pensioners no additional funding has been allocated to this account during the year. The extent of any surplus funding will be determined from an independent actuarial assessment in 2009 and the carrying balance of the fund adjusted accordingly.

| | | |
|--|---------------|---------------|
| Total contributor & pensioner funds | 2,531,306,994 | 2,099,314,286 |
|--|---------------|---------------|

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 K | 2007 K |
|--|---------------|---------------|
| 11. LIABILITY FOR ACCRUED BENEFITS AND RESERVES | | |
| (d) Retirement savings account | | |
| Balance at the beginning of the year | 11,925,140 | 7,119,076 |
| Transfers during the year | 20,348,020 | 9,747,210 |
| Payments during the year | (8,101,814) | (4,941,146) |
| | 24,171,346 | 11,925,140 |
| Interest allocation for RSA is included in Note 11(a). | | |
| (e) Retained reserves | | |
| Retained earnings and general reserve | 41,772,864 | 126,262,908 |
| Sec 35(2)© reserve | 21,278,096 | 21,278,096 |
| Revaluation reserve - property, plant and equipment | 3,589,158 | 1,794,159 |
| | 66,640,118 | 149,335,163 |
| Total liability for accrued benefits and reserves | 2,622,118,459 | 2,260,574,590 |

Additional note on reserves:

- (i) Fixed Asset revaluation reserve (increment) - this reserve represents increment in the valuation of properties that are used as administration office and property used to accommodate senior managers & senior staff.
- (ii) As at 04 December 2008 the Bank of PNG reviewed the level of permitted reserves, and decided to allow reserves up to a maximum of 4% of Net Assets.

12. FUNDING ARRANGEMENTS

At the end of 2008 the future unfunded liability of the State to members is estimated to be K1,870 million (2007: K2,507.9 million which more correctly stated on the basis of known information should have been K1,740m), which is not included in the "Liability for Accrued Benefits". Previously the values had been internally generated estimates but are now system generated from the member database giving rise to more reliable and accurate values.

(a) Exited members

Before 2003, employer obligations, being obligations of the State of PNG, were met on an emerging basis. As members exited 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.

(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 was 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.

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) Foreign 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) Share Price Risk Exposures

The Fund is exposed to equity securities price risk. These arise from investments held by the Fund and are classified on the Statement of Net Assets as financial assets at fair value.

(f) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

2008
K

2007
K

14. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to the balance sheet date, the listed equities portfolio in both the domestic and international market experienced some volatility in the share price and the net result of these movements are summarised as follows:

31 March 2009 - K44m unfavourable movement (Domestic: loss K45.97m and International: Gain K1.896m) Big Rooster (PNG) Limited and the Fund's interest in Avis Rent A Car Limited were disposed of subsequent to year end.

15. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents

For the purpose of the 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 | 2,959 | 2,759 |
| Bank call deposits | 7,210,058 | 8,095,145 |
| At call deposits | 425,495,998 | 302,863,921 |
| Bank Overdraft | (4,344,252) | (8,147,230) |
| | 428,364,763 | 302,814,595 |

Reconciliation of Cash flow from Operations with Total Revenues less expenses and benefits paid

| | | |
|---|-------------|-------------|
| Total revenues less expenses and benefits paid after income tax | 347,502,662 | 738,290,284 |
|---|-------------|-------------|

Add/(less) non-cash items:

| | | |
|---|--------------|---------------|
| Depreciation on property, plant and equipment | 618,585 | 695,406 |
| Depreciation on investment property assets | - | 846,265 |
| Gain on disposal of investment property assets | (1,263,705) | - |
| Gain on sale of shares in listed & unlisted equities | (3,855,379) | (3,506,875) |
| Direct investment expenses | 19,352,959 | 10,308,927 |
| Fair value gain arising from changes in net market value of investments | (74,249,515) | (422,441,048) |
| Net cash provided by operating activities before change in assets and liabilities | 288,105,607 | 324,192,959 |

Changes in assets and liabilities during the year:

| | | |
|--|-------------|--------------|
| (Increase)/decrease in receivables | 8,233,547 | (19,539,903) |
| Increase/(decrease) in benefits payable | (14,937) | (486,457) |
| Increase/(decrease) in trade and other creditors | 3,242,555 | 3,465,751 |
| Increase/(decrease) in current income tax refundables | 11,502,246 | (25,402,495) |
| Increase/(decrease) in deferred income tax liabilities | 1,547,130 | 2,065,743 |
| Cash flow from operating activities | 312,616,149 | 284,295,597 |

16. RELATED PARTY DISCLOSURES

(a) The Trustee of the Fund throughout the year was Nambawan Super Limited ("NSL"). The names of persons who were directors of the trustee company at any time during the financial year and up to the date of this report were:

| | |
|-----------------------|---|
| Sir Nagora Bogan, KBE | Mr. Kerenga Kua |
| Mr. Greg Taylor | Lady Aivu Tauvasa |
| Mr. Leon Buskens | Mr. Ravu Vagi (Term not extended during annual meeting) |

(b) During the financial year the Fund earned interest on term deposits of K387,085 (2007: K157,053) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager, Kina Funds Management. As at 31 December 2008, the term deposits placed with Kina Finance Limited was K10.47 million (2007: K6.1 million). These transactions were carried out on commercial terms and all on cash basis for average of 28 days placements.

(c) Big Rooster (PNG) Limited is a wholly owned investment of the Fund. As at 31 December 2008 Big Rooster owed NSL a sum of K13,916 which is included under debtors.

(d) Lawes Road apartments is jointly owned by NSL and Comrade Trustee (50% each). NSL manages the apartments and as at 31 December 2008 owed K696,074 (2007: K526,503) to Comrade Trustees.

(e) NSL owns 85% of Paradise Foods whilst Comrade Trustee Limited owns the 15% balance. In the books this is recorded as an investment in Unlisted equity.

(f) NSL owns 65% of Coastwatchers Court Limited, a company which owns a 32 apartment residences in Port Moresby. All apartments are currently leased out through a real estate agent.

(g) NSL has 55% shareholding in a Kumuls Hotels Limited which owns a chain of hotels in PNG.

(h) NSL has 50% shareholding in a newly established lift maintenance company called Pacific Building Services Management Limited.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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.

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 defend them. In the Board’s view, none of these claims are expected to result in significant losses to the Fund.

18. DIRECTORS' DISCLOSURE

| Name | Nature of Interest | Companies | | |
|-----------------------------|---|---|--|-------------------------|
| Sir Nagora Bogan, KBE | Director as NSL nominee | Bank South Pacific Ltd Paradise Foods Ltd Paradise Foods Holdings Ltd | | |
| | Director/Shareholder | Inventive Nook Ltd Coprez Hodlings Ltd Coprez Communications Ltd James Cook Ltd In Touch Media Ltd Hyper Construction Ltd | | |
| | Director | Ahi Holdings Ltd Peoples Advocacy Ltd | | |
| | Manager | FM Morobe Ltd | | |
| | Member | Lutheran Church of PNG | | |
| | Provision of Multimedia Services | In Touch Media Ltd | | |
| | Kerenga Kua | Director as NSL nominee | Big Rooster (PNG) Ltd | |
| | | Director | Endeyaudo Ltd Fikor Ltd Finance Corporation Ltd Petromin PNG Holding Ltd | |
| | | Partner | Posman Kua Aisi Lawyers | |
| | | Statutory Office | President PNG Law Society | |
| Provision of Legal services | | Nambawan Super Ltd Kina Funds Management Ltd ANZ Bank (PNG) Ltd QBE Insurance (PNG) Ltd | | |
| Gregory Taylor | | Director as NSL nominee | Kumul Hotels Ltd Marsh Ltd Paradise Foods Ltd Paradise Foods Holdings Ltd | |
| | | Director | TFG International Ltd (Australia) Kina Assets Management Ltd | |
| | | Ravu Vagi | Director as NSL nominee | Big Rooster (PNG) Ltd |
| | | | Lady Aivu Tauvasa | Director as NSL nominee |
| Director | | PNG Drums Reconditioning Ltd Teisaki Ltd | | |
| Leon Buskens | Director as NSL nominee | Brian Bell & Company Ltd Moki No.10 Ltd Alotau International Hotel Ltd Credit Corporation Ltd Coastwatchers Court Ltd SP Brewery Ltd | | |
| | Shareholder | Kopkop College | | |
| | Independent Director | Telikom PNG Ltd | | |
| | Non remunerated NGO affiliation | Transparency International CDI Foundation Trust Fund | | |
| | Volunteer, disaster relief organisation | Halivim Wantok Trust | | |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

DIRECTORS' REMUNERATION

| Name of director | Total remuneration | Board meetings attended | Audit & risk committee meetings attended | Membership committee meetings attended |
|-------------------|--------------------|-------------------------|--|--|
| Sir Nagora Bogan | K56,150 | 4/4 | 4/4 | - |
| Kerenga Kua | K38,000 | 2/4 | - | 2/4 |
| Lady Aivu Tauvasa | K41,505 | 3/4 | - | - |
| Greg Taylor | K126,419 | 4/4 | - | - |
| Ravu Vagi | K18,000 | 2/2 | - | 2/3 |

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 having regard to among other factors, current market data.

| Name | Nature of interest | Company |
|-------------|-------------------------|---|
| Wayne Smith | Director as NSL nominee | Kumul Hotels Ltd |
| | | Hunter Ltd |
| | | Big Rooster (PNG) Ltd |
| | | Brian Bell & Company Ltd |
| | | Coastwatchers Court Ltd |
| | | Moki No.10 Ltd |
| Asi Pako | Director as NSL nominee | Pacific Building Services Maintenance Ltd |
| | | Hunter Ltd |
| | | Big Rooster (PNG) Ltd |
| | | Pacific Building Services Maintenance Ltd |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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 Financial Statements, 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 2008, 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



MR 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 2008, 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 realise 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.



MR LEON BUSKENS
Managing Director



MR PAUL YANGEN
General Manager Finance & Administration

Directory

HEADQUARTERS

Level 6, Era Rumana

P.O. Box 483, Port Moresby, National Capital District

General Enquiries:

Ph: 309 5311

Fax: 321 4406

Email: nspom@nambawansuper.com.pg

Manager Member Services

Ph: 309 5245

Manager Member Awareness

Ph: 309 5236

Manager Finance

Ph: 309 5229

Manager HR & Administration

Ph: 309 5210

Manager Property

Ph: 309 5254

Manager Legal & Compliance

Ph: 309 5209

MOMASE REGION – LAE

Part Ground Floor B, Vele Rumana

PO Box 1289, Lae, Morobe Province

Ph: 472 2272

Fax: 472 4536

Email: nslae@nambawansuper.com.pg

HIGHLANDS REGION – MT HAGEN

Wamp Nga Building, Sec 21 Lot 1-3, Mt Hagen

PO Box 1574, Mt Hagen, Western Highlands Province

Ph: 542 1182

Fax: 542 1186

Email: nshagen@nambawansuper.com.pg

NEW GUINEA ISLANDS REGION – RABAUL

Tropicana House, Sec 6 Lot 19, Kokopo

PO Box 608, Rabaul, East New Britain Province

Ph: 982 8900

Fax: 982 8901

Email: nslrabaul@nambawansuper.com.pg

FUND ADMINISTRATOR

Kina Investment & Superannuation Services

PO Box 1141, Port Moresby, National Capital District

Ph: 180 1414 / 308 3888

Fax: 308 3899

Email: super@kina.com.pg

INVESTMENT MANAGER

Kina Funds Management Limited

PO Box 1141, Port Moresby, National Capital District

Ph: 308 3888

Fax: 308 3899

Email: funds@kina.com.pg



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