



# Nambawan *Super*

2009  
ANNUAL REPORT

# 2009 Highlights

## FINANCIAL

2009 was another year of steady growth for Nambawan Super Members. Here are some of the highlights.

### Attractive steady returns

10% interest was credited to members' accounts, the 7th consecutive year after the reforms of double digit returns, and taking 2008 interest of 11.5%, the year of the Global Financial Crisis (GFC), achieving double digit growth post the GFC will be pleasing to members.

Again, the 10% is above the 2009 5.7% inflation rate

### Strong membership growth

- Membership of the Fund grew by 15.3%, double the growth from the previous year. 113,564 people were members of the Fund as at 31 December 2009.
- During the year over 1,700 members chose to deposit funds worth over K29 million into Nambawan Super's Retirement Savings Account (RSA). At the end of the year, the RSA had 1,406 active members and K40 million under management.

## MEMBER SERVICES

- Over 16,000 members attended information sessions and had the opportunity to meet Nambawan information specialists during the member engagement road show that covered 18 provinces during the year.
- Plan and action to open offices in all provinces in the country commenced.
- Valuable discounts for RSA members were negotiated with a number of organisations:
  - Air Niugini: 45% discount on fares and 10 kilos extra baggage allowance
  - Funeral Home: 25% discount on services
  - Brian Bell, CHM, Belltek and Esco: 15% discount on purchases
  - Plumbers & Builders and City Pharmacy: 10% discount on purchases
  - RSA gold identification cards issued

### Asset management

- Extensive development activity in the Fund's property portfolio to capture the performance of the expected growth in the PNG property sector:
  - 9 storey Port Tower in Port Moresby's CBD neared completion;
  - Work progressed on the Kokopo Gazelle International Hotel, East New Britain, scheduled for opening in mid 2010;
  - Contract awarded to construct what will be the tallest building in Lae;
  - The Board approved the construction of an A-grade commercial office development to be built on land, formerly occupied by the Taurama Squash Courts. Work on the 6-storey building, which will be based on "Environmentally Sustainable Design", is expected to begin mid 2010.
- Prudent and responsible approach to market valuation of investment assets

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# Mission, Vision & Corporate Values

## Vision

To continue to be the leading Superannuation Fund in Papua New Guinea, committed to 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

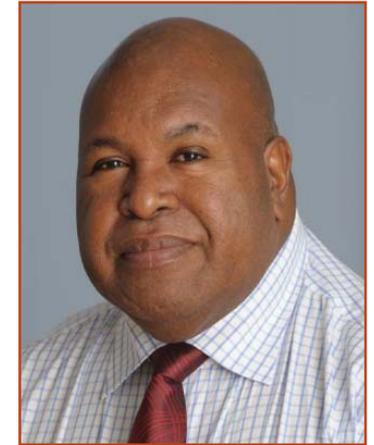
- Adopting organisational management principles which are conducive to improved skills articulation for niche growth opportunities.

## Relationship Management

- Maintaining strong strategic partnerships to optimize growth opportunities, including challenges to pursue long term objectives of the Fund.

# Chairman's Statement

SIR NAGORA BOGAN, KBE | Chairman



## “Nambawan Super in solid position, in spite of tough conditions”.

By any measure, 2009 was a difficult year for business and investment. The global financial crisis (GFC) battered a wide range of industry sectors around the world, tightening the global flow of money and putting intense pressure on investment markets.

To some extent, the Papua New Guinea economy was sheltered from the worst of the GFC's impact. A number of your Fund's investments thrived during the year, against the worldwide downward trend that saw billions wiped from share market capitalisations.

Against these very challenging conditions, your Board is very pleased to report that the Fund has delivered yet another solid result for our members. The Board's prudent approach to managing members' money has stood the Fund in very good stead. This places the Fund in a strong position to take advantage of improvements in the various markets for the benefit of our members.

After tax profit for 2009 was a very respectable K190 million. Interest of 10% has been credited to member accounts, including the Retirement Savings Accounts (RSA) of retired members. Offset against a headline inflation rate of 5.7%, the declared interest rate represents a positive real return of 4.3%, the seventh year in a row since the reforms in which the Fund has delivered double digit interest and, most importantly, real returns to members.

Your Board also approved an interim interest rate of 3% for members leaving the Fund in 2010.

Determining the annual interest rate is a very serious decision for your Board of Directors. We take account of the audited financial statements of the Fund for the year, and consider all aspects that have bearing on the financial outcome, not just the after tax profit figure. We make sure proper accounting standards are met. We also factor in economic forecasts for the next few years, to make sure we set aside sufficient reserves to meet the prudential requirements set by the Bank of Papua New Guinea and to reduce the impact on members of future market ups and downs.

Simply put, we do not drain your asset bucket to boast an artificially high interest rate. As you would appreciate, superannuation is a long term commitment. Our job is to make sure your Fund is sustainable over the long term so it will be there when you come to retire, however many years away that may be.

At year end the Board maintained reserves at the prudent level of K73 million, representing 2.58% of net assets.

In spite of the difficult investment conditions, the Fund's net assets increased to K2.83 billion, an increase of K208 million over the 2008 total. Income of K241 million was derived from the Fund's investments largely attributed to good performance in international shares and exchange rate benefits arising from the drop in value of the Kina. The Fund has been prudent, responsible and conservative in the valuation of our investments. This is reflected in only 33% of our total income being unrealised “paper profits”.

More detail about the investment performance of your Fund can be found in the Investment Manager's Report.

Membership of both the Fund and the RSA continued to grow during 2009. By the end of the year 113,564 Papua New Guineans had entrusted Nambawan Super with the care of their superannuation money, with membership growth double that of the previous year.

Following this positive trend, the RSA also attracted a significant number of new members, people who recognise the value of leaving money in their account to help fund their later retirement years. The growth of the RSA is welcome on another level, as it represents a strengthening of the culture and habit of saving among our members.

All in all, your Fund's performance and achievements in 2009's challenging environment were very pleasing.

In the context of the regulatory environment in which your Fund operates, implementing good corporate governance practice and taking a careful and prudent approach to managing members' money have long been priorities and they will continue to be priorities of your Board.

### But what of the future?

Towards the end of 2009, once again your Board took the prudent step of reviewing the Investment Strategy of the Fund. This review is important, enabling the Board to take stock of the recent global market volatility and ensure proper realignment of the Investment Strategy with current

# Chairman's Statement

and emerging market trends. It will also ensure prudent management and mitigation of investment risks.

On the investment front, there are small but promising signs of improving health in the various global markets. Intervention and stimulus packages introduced by the governments of a number of countries seem to be gradually bearing fruit. Such influences are likely to help improve our export markets, as well as the potential performance of the local and international companies we invest in on your behalf.

The property market in PNG is likely to continue rising, with supply still struggling to meet strong demand. The Fund has a number of strategies in place to capture the expected strong performance of this asset class.

Global demand for major export commodities has been on a gradual upward trend, projected to increase when demand from larger economies picks up. This includes increased demand for liquified natural gas, boding well for the PNG LNG project, whose project partners made the financial investment decision in December 2009.

The PNG LNG project merits some mention because of its profound and far-reaching impact on Papua New Guinea.

Realising the LNG project, a mega billion Kina deal, is an enormous feat and I take this opportunity, on behalf of the Board and members of the Fund, to acknowledge the efforts of the National Government, the LNG Project partners and all stakeholders in bringing this milestone investment project to fruition.

At the macro level, the project will double the GDP of Papua New Guinea and significantly transform our economy, society and lifestyle. However, given the size and complexity of the project, it is reasonable to expect that it will also bring significant challenges and risks.

For example, PNG's infrastructure, public utilities and suppliers of goods and services are already under pressure as the resources sector increases its influence on the country. There is a danger that, with the LNG project coming on-stream, the resources sector will dominate the economy, triggering appreciation in the Kina currency and threatening the viability of other industries such as agriculture and manufacturing.

With this potential scenario in mind, everybody involved with or affected by the LNG project, including the Fund's Board, must be prepared for all eventualities and have plans in place to mitigate any potential downside impact.

On behalf of all Fund members I would like to take the opportunity to thank my fellow Board members for their wise counsel and support throughout the year. I also extend a personal thank you to Nambawan Super's dedicated management and staff and all service suppliers for their hard work and their energetic commitment to the Fund and its members during 2009.

Sir Nagora Bogan, KBE

# Board of Directors



Standing Left-Right: Mr Greg Taylor, Sir Nagora Bogan (Chairman), Mr Leon Buskens  
Sitting: Lady Aivu Tauvasa and Mr Kerenga Kua (Deputy Chairman)

## Composition of the Board of Directors

The Constitution currently provides that the Board of Directors of the Trustee, Nambawan Super Limited, comprises a Managing Director, a nominee of the Secretary of Treasury who is also appointed Chairman, a nominee of the Secretary of the Department of Personnel Management and two independent Directors, one of whom is nonresident.

All directors have a responsibility to meet appropriate ethical and professional standards, which includes an understanding of the requirements of the Superannuation Act.

Directors resign and offer themselves for re-election as provided for under the Constitution.

# Corporate Governance

Nambawan Super ("the Fund") is a defined contribution fund (or accumulation fund) approved under the Superannuation General Provisions Act 2000. The Fund is governed by the Board of Directors of its Corporate Trustee, Nambawan Super Limited ("the Trustee").

The Fund exists to invest amounts contributed by or on behalf of members for their retirement. It has no purpose other than to serve the interests of its membership.

## Principles of good governance

The Trustee's primary responsibility to members is to ensure the Fund is run according to the principles of good corporate governance. To this end, the Board of Directors of the Trustee ("the Board") implements five key principles across the entire operation of the Trustee and the Fund:

Compliance with the law;  
Effective leadership;  
Integrity;  
Accountability;  
Risk management.

### Principle 1 - Compliance with the law

The Fund comes under the provisions of a number of acts and regulations, including the Superannuation General Provisions Act 2000 ("the Superannuation Act"), the Companies Act 1997 and the Income Tax Act 1959.

### Principle 2 - Effective leadership

The Board of Directors of the Trustee is ultimately responsible to the members of Nambawan Super and sets the leadership standards for the Trustee.

### Principle 3 - Integrity

The Board endeavors to ensure that the directors, officers and employees of the Trustee act with integrity and observe the highest standards of behavior and business ethics in relation to the Fund's activities.

This principle is embedded in the Trustee's Codes of Conduct, which recognise the overriding responsibility to act honestly, with integrity, diligently and in accordance with the laws of PNG in serving the best interests of the members and stakeholders.

In addition, the activities of the Trustee's Internal Audit team ensures processes and procedures are implemented and applied properly throughout the organisation. During 2009 Internal Audit completed a number of important projects aimed at enhancing the transparency of the Fund's operations. These included conducting all scheduled audits of high-risk issues, reviewing the Conflict of Interest policy, communicating the Whistleblower policy to employees and reviewing and updating the Fund's risk register.

Board members are held to a high standard of integrity. For example, they are required to disclose their interests publicly and resolve any potential conflicts of interest.

## Principle 4 - Accountability

Three independent Standing Committees help the Board meet its responsibilities - Audit & Risk, Membership and Remuneration & Nomination.

### Audit & Risk Committee

This Committee functions as an independent reviewer, providing an objective appraisal of the financial and operational activities of the Trustee and supporting the Board in carrying out its accounting, auditing and financial reporting responsibilities.

#### *The Audit & Risk Committee oversees:*

- (1) external financial reporting and financial statements to ensure their accuracy and integrity;
- (2) appointment, remuneration, independence and competence of the external auditors;
- (3) performance of internal and external audit functions;
- (4) risk management and internal controls; and

(5) systems and procedures associated with applicable legal and regulatory requirements, which includes ensuring:

- compliance with superannuation licensing conditions set by the Bank of Papua New Guinea;
- proper governance of assets where the Trustee has majority or substantial minority ownership;
- the Trustee's Fund Administrator and Investment Manager operate within their Agreement;
- proper procurement procedures are followed when engaging major contractors.

During the year the Audit & Risk Committee comprised David Guinn OBE as Chairman and Sir Nagora Bogan and Johnson Kalo as committee members.

### Membership Committee

Members of this Committee include representatives from union associations and major companies in a number of industries, including a nominee from the Department of Personnel Management. All Committee members are independent of the Trustee and its management. Its composition allows the Trustee to have access to valuable counsel from Committee members with a wide range of backgrounds, expertise and experience.

The Membership Committee supports the Board in a number of areas, including:

- assisting the Trustee in dealing with enquiries or complaints about the operation and management of the Fund;
- providing an avenue for Committee members to enquire about and provide views on the Fund's operation and performance;
- establishing a process for members to set guidelines for benefits under the Fund;
- advising the Trustee on the membership's communication needs and ensuring those needs are met.

# Corporate Governance

During 2009 the Membership Committee comprised:

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 Corrections Institute Services
Mr. Martin Kenehe	Member - Vice President PNG Teachers Association
Mr. Clemence Kanau	General Secretary - PNG Police Association
Ms. Eunice Isom	Member - Papindo Trading Representative
Mrs. Helen Are'e	Member - President Amalgamated General Workers Union
Vacant -	PNG Energy Workers



Left-right Standing: Clemence Kanau, Gabriel Paulus, Kerenga Kua, Martin Kenehe & Tau Vali  
Sitting: Helen Are'e and Eunice Isom Missing: Eimi Kaptigau and Peter Luga

## Remuneration and Nomination Committee

The role of this Committee includes assisting the Board in setting appropriate fair and responsible remuneration policies and practices, so the Fund can attract, retain and motivate management and staff and identifying suitable candidates and nominees to fill vacancies for Directors and Standing Committee members.

In 2009 the Remuneration and Nomination Committee comprised Lady Aivu Tauvasa (Chairperson), Mr Greg Taylor (Deputy Chairman). The position of an independent member is vacant.

## Investment Committee

The Investment Committee, which meets regularly, actively considers the merits of new and developing investment proposals and reviews the activity of the specialist managers charged with managing the Fund's offshore investments.

The Committee also reviews the ongoing Investment Strategy as required and from time to time considers initiatives for new income streams for the Fund.

In addition to the Investment Manager, the Chairman, Managing Director and non-resident Director participate in the committee together with representatives from executive management.

## Senior Management remuneration

The Board determines the Managing Director's remuneration package, taking into account performance, achievements and parity with the broader employment market.

The Managing Director determines the remuneration packages of senior management packages, also in line with a number of influencing factors.

## Principle 5 - Risk Management

In the context of investment, risk is the chance of something happening that will have a material impact on the value and returns of the portfolio. The Fund takes a long-term perspective, given the nature of 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.

Investment risk can arise from a variety of sources, including

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

The Board is responsible for establishing a framework of prudent and effective controls so risks can 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.

# Corporate Governance

The practices surrounding the Fund's offshore investments are a good illustration of the Board's approach to risk management in the context of asset selection and asset management.

- Offshore investments are held by a custodian satisfactory to the Bank of Papua New Guinea;
- The Investment Manager considers advice from the international finance house ABN-Amro Morgans, or from other expert sources, in respect of all new offshore listed investments;
- New offshore unlisted investments are acquired by the Investment Manager through Access Capital Advisors, a leader in this field. All such investments are also managed through this firm, and are subject to independent valuation at least once every year.

The Trustee's risk management practices go much further than the investment portfolio. For example, during the financial year the Trustee paid premiums to insure each of its Directors, Officers and Employees against claims brought against them in the course of undertaking their duties.

During the year the Trustees' duty to safeguard the assets of the Fund was tested when the daughter of the Managing Director and some of her relatives were kidnapped, followed by failed attempts to extort K5 million from the Fund. The perpetrators were of the mistaken view that the Fund has insurance against ransom. The fund and the superannuation industry does not carry such insurance. With the assistance of the police and other parties this criminal attack was successfully negotiated and quelled with the safe release of the victims and the perpetrators apprehended. Additional security measures have now been implemented to protect staff and the assets of the Fund.

## THE YEAR IN REVIEW

2009 was a very busy year for Nambawan Super's operations divisions.

### New Branches on the way

Member Services produced a program for a major rollout of new Branches, with the opening of 11 new Branches planned for 2010.

### Significant transaction activity

Our Legal Division's workload reflected the significant activity in the local property and share markets. Acquisition transactions included the Kokopo market site, Voco Point, Lae properties and shares in Capital Life Insurance Company. Divestment transactions included the sale the Funds' holding in Big Rooster (PNG) Limited, Avis Rent a Car Limited and in Marsh Limited

### Progress towards our own Savings & Loan Society

During the year we completed a number of key administrative, staffing, systems development and brand image steps towards establishing a savings & loan society. Registration of the Society is subject to approval from the Bank of Papua New Guinea.

## OUR PEOPLE

### Staffing in 2009

Staff level	National	Expatriate	Total
Full-time	46	-	46
Contract	67	1	68
Special projects	1	-	1
<b>TOTAL</b>	<b>114</b>	<b>1</b>	<b>115</b>

### Salary levels

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

Salary Range	Number of employees
K120,000 - K129,999	2
K140,000 - K149,999	1
K150,000 - K159,999	2
K170,000 - K179,999	1
K180,000 - K189,999	1
K190,000 - K199,999	1
K210,000 - K219,999	1
K290,000 - K299,999	1
K310,000 - K319,999	1
K600,000 - K609,999	1
K960,000 - K969,999	1
<b>Total</b>	<b>13</b>

### A culture of learning and development

Having the right people in place and making sure they are equipped with the right skills to perform their jobs effectively for the benefit of our members are key priorities for Nambawan Super.

A significant proportion of our staff participated in learning and development activities during the year, including task-specific in-house training, capacity-building external programs and tertiary education courses. Staff members also took part in a program designed to foster work/life balance.

We are proud of our employees' commitment to ongoing professional development through their membership of professional associations, including CPA PNG, the Institute of Internal Auditors (PNG Chapter), the PNG Training & Development Society, the PNG Law Society, the PNG Computer Society, the Information Systems Audit & Control Association and the PNG Institute of Directors.

Nambawan Super also holds corporate membership of the PNG Occupational Health & Safety Association and the PNG Human Resources Institute.

### An eye to the future

Nambawan Super management believes leading employers should provide learning opportunities for the employees of tomorrow.

To this end we provide work experience opportunities to a number of students from a range of educational institutions around PNG. During 2009 Nambawan Super engaged 8 students in a range of work experience assignments of between 6 weeks and 6 months duration at Head Office in Port Moresby and our offices in Rabaul and Mt Hagen.

# Managing Director's Statement

LEON BUSKENS Managing Director



2009 was a tough year for all businesses, particularly those in financial services. A year when Nambawan Super's philosophy, strategies, investment approach, management style and staff capabilities were all put to the test. And despite these internal and external challenges, we were able to again deliver another pleasing result for our members.

2009 was a tough year for all businesses, particularly those in financial services. A year when Nambawan Super's philosophy, strategies, investment approach, management style and staff capabilities were all put to the test. And despite these internal and external challenges, we were able to again deliver another pleasing result for our members.

In his Statement, our Chairman highlighted the Fund's sound performance in spite of the difficult conditions experienced in 2009. In this Report, my job is to place this sound and steady performance in the context of what it means to you as members.

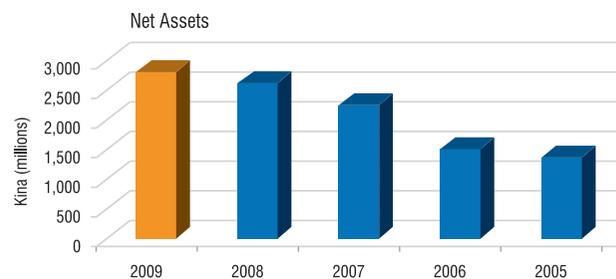
Let me start by defining the role of Nambawan Super.

Our function is to provide a sustainable and long term horizon environment into which all PNG employees can make tax-effective long term savings to fund their eventual retirement. The fact that superannuation is a long term commitment, designed so people can have a comfortable and secure lifestyle once their working lives are over, means we must do everything possible to safeguard the long term sustainability of our business. When it comes right down to the basics, our job is to make sure our members' money will be intact and available when they retire.

As part of this responsibility Nambawan also provides a range of valuable member services, including housing assistance and a Retirement Savings Account (RSA). Members retiring from their jobs do have the option to

retain portion of their superannuation benefits back in the Fund through the RSA until they need the money, along the way earning competitive tax advantaged returns over the duration of their RSA balance.

Nambawan is the largest superannuation fund in Papua New Guinea measured in terms of assets under management, which totaled just over K2.8 billion at 31 December 2009. This is even with out factoring in the unfunded portion from State in respect of Government employees of around K2 billion. Obviously, with these facts members of Nambawan Super do have a significantly high average retirement balances in the country.



This chart shows how members' money in the Fund has increased since 2005. The point to note here is that the greater the total of assets under management, the more likely fund members can participate in benefits arising from increased scale. For example, benefits of scale may include

being able to negotiate lower fees from external service providers, which could in turn lead to higher returns on members' money.

Of course the total value of assets under management is only one measure of a superannuation fund's quality and sustainability. We believe the cornerstones of sustainability also include ethical corporate behavior, effective business operations, successful investment strategies, a prudent yet dynamic management style, best practice corporate governance and a real commitment to serving the interests of all members.

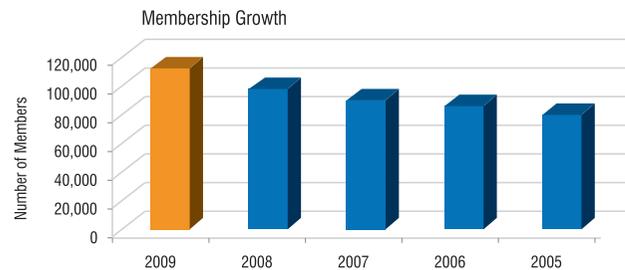
Nambawan's people are committed to meeting these key quality requirements. So our members can be confident we are taking proper care of their hard-earned cash and have at heart their best long term financial security interests.

Our approach to managing the Fund during the difficult investment climate in 2009 is a case in point. Recognising the challenges the GFC presented us, your management team did not panic or take big investment bets with members' money. On the contrary, our approach was to stay true to our investment objective, which states that the primary purpose of the Fund is the preservation of members' contributions and the principal investment objective is to seek positive returns on funds invested without putting this basic purpose at risk.

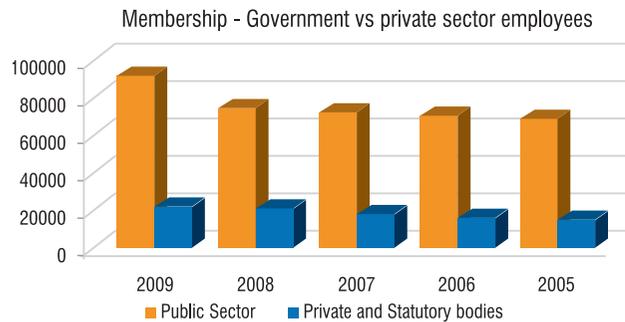
# Managing Director's Statement

LEON BUSKENS Managing Director

Judging by the growth in Fund membership over the past five years, our message appears to be getting through to PNG employers and their staff. As you will see from this chart, the number of members in Nambawan Super has grown 42% since 2005.



This next chart shows the changing proportion of Government-employed Fund members to Fund members employed in the private sector.



In the past, Nambawan Super has been viewed as a public service super fund. Not so these days. As this chart suggests, private sector employers are increasingly putting Nambawan Super on their company shopping lists, recognising the value for their employees of being part of the strongest super fund in PNG.

Keeping costs under tight control is a key function for management, so the Fund's Management Expense Ratio (MER) is a very important benchmark. The MER measures the costs associated with running the Fund, including investment management, marketing, trusteeship, legal, accounting and auditing. The total of these types of costs is

expressed as a percentage of net asset value. Going forward, there are potential upside in cost reduction while at the same time achieving value for money through cost containment and competitive bidding process in outsourcing going forward

## And so to the future.

The financial services sector in PNG is growing and maturing rapidly, reflecting our relatively stable domestic economy and the increasing financial savvy of local consumers.

As our industry continues to develop, we can expect it to come under closer scrutiny from the regulatory authorities. In the case of Nambawan Super, the regulator is the Bank of Papua New Guinea (BPNG), with which we have a professional and evolving working relationship. Our members can be rest assured that we will continue our co-operative and consultative approach to BPNG, to make certain we comply with all requirements governing superannuation in the PNG context.

In a similar vein, operating under good corporate governance principles and implementing prudent financial practices are also key priorities for management. For example, when it comes to investment decision-making, your Fund has set strict risk management strategies firmly in place.

As well, we draw a clear separation between asset allocation (deciding the 'mix' of investments in the portfolio) and asset selection (selecting the specific investments to invest in or to divest) to ensure the most appropriate composition of the Fund's various investment portfolios. Also in keeping with the spirit of the reforms there is clear separation and independence with our BPNG licensed Investment Manager, which provides a sound check and balance in investment decisions. Our valuation methods have been prudent, hence members will note only 33% of our income in 2009 is attributed to asset revaluation, in other words relatively small paper profits, with actual cash profits much higher.

I would like to turn now to what Fund members can expect from Nambawan Super into the future. As our Chairman said in his Address, the impact of the GFC is expected to diminish over the next 18 to 24 months. Nambawan Super

is ready for the turnaround.

Effective communications will be key. So, providing members with meaningful and valuable information about the Fund is set to be a top priority into the future. Expect more communication about the services we provide and the benefits members are entitled to, via a range of member communication activities. These will include face-to-face member awareness programs, advertising campaigns, website enhancement, and releases and statements to the influential media.

We are also committed to increasing Nambawan's physical presence around PNG. In 2010 we will open new branches in provincial towns, enabling members in those areas the opportunity to speak face-to-face with the Fund's highly trained enquiry staff.

Your Fund's theme for the immediate future will be awareness, education and communication while still maintaining the core values of building and protecting members retirement Funds.

While the Fund has been able to deliver double digit returns since the reforms in 2002, and even post the Global Financial Crisis in 2008, it is only prudent and being responsible that we caution members not to expect double digit returns to continue forever.

In this context I extend my sincere appreciation to our Chairman and fellow Directors, the management and staff team, members of our committees and especially the Membership Committee, our Investment and Fund Administrator, and all our service providers engaged in ensuring that the best interests of our members are being served.

Thank you,

Leon Buskens  
Managing Director

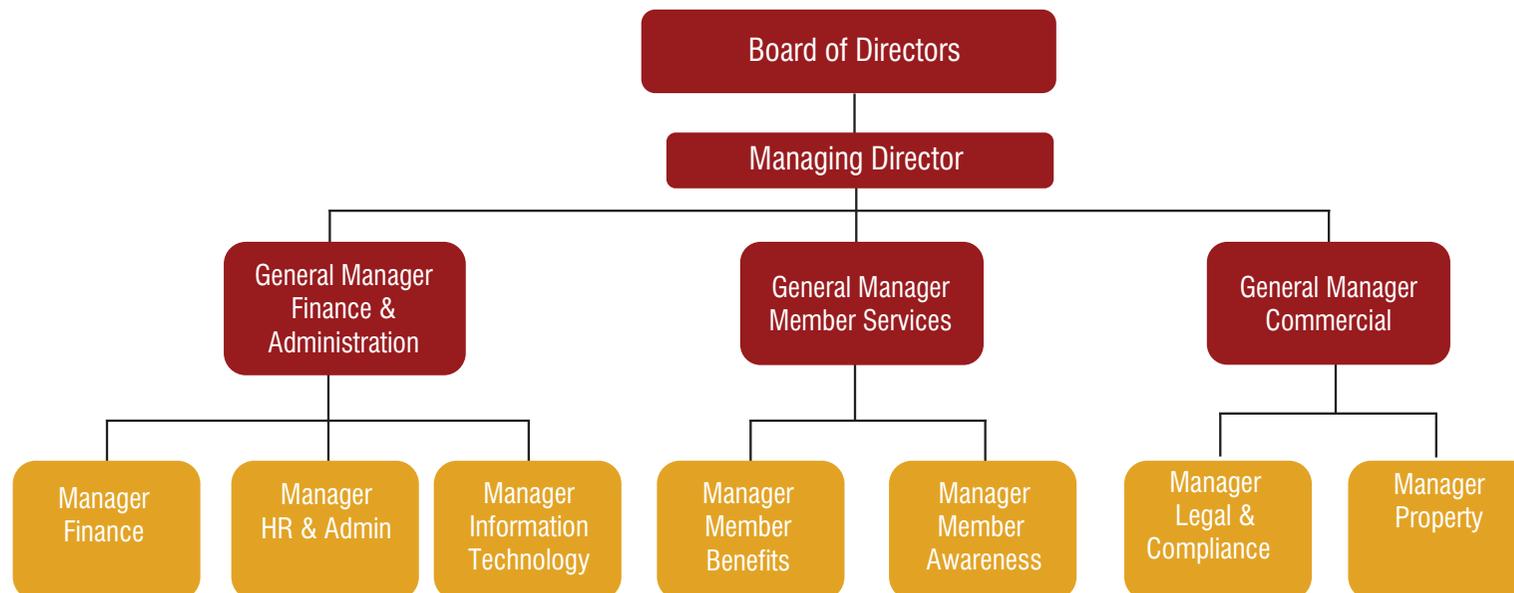
# Management Team



Standing Left-Right:  
 Steven Avel | Manager Member Benefits  
 Joseph Pupua | Manager Savings & Loan  
 Russel Tato | Manager Internal Audit  
 Andrew Arua Oa | Manager Property  
 Augustine Birie | General Manager Member Services  
 David Passam | Acting Manager IT  
 Heartly Kanaiat | Manager Finance  
 Paul Yangen | General Manager Finance & Administration

Sitting:  
 Wayne Smith | General Manager Commercial  
 Loka Kula | Manager HR/ Admin  
 Leon Buskens | Managing Director  
 Patricia Taureka | Manager Legal & Compliance  
 Euralia Paine | Manager Member Awareness  
 Manager Internal Audit reports functionally to the Audit & Risk Committee and administratively to the Managing Director.

## Management Team Structure



# Comparative Statistics Summary

		2009	2008	2007	2006	2005
<b>PROFITABILITY</b>						
Total investment income	K (m)	241	190	526	191	341
Total expenses	K (m)	35	25	25	20	40
Income tax expense	K (m)	16	15	11	6	12
Net profit after income tax	K (m)	190	150	490	165	289
<b>BALANCE SHEET</b>						
Net asset	K (m)	2,830	2,622	2,261	1,516	1,365
Net asset growth	%	8	16	49	11	32
Reserves	K (m)	73	67	149	100	135
Reserves as a % of Net Assets	%	2.58	2.54	6.60	6.61	9.86
Retirement Savings Account balance	K (m)	40	24	12	7	1
<b>RETURN TO MEMBERS</b>						
Rate of return on funds employed	%	13.3	12.5	42	16.1	36.3
Interest credited to members	%	10	11.5	32.0	16	20.0
Headline inflation rate	%	5.7	11.2	3.2	1.6	4.6
Real return to members	%	4.3	0.3	28.8	14.4	15.4
<b>MEMBERSHIP</b>						
Number of members		113,564	98,475	90,966	85,939	80,020
Average wealth per member	Kina	24,920	26,626	24,851	17,645	17,058
Number of RSA participants		1,406	836	512	218	19
Average number of pensioners		694	722	670	1190	1261
<b>MEMBER CONTRIBUTION &amp; BENEFITS</b>						
Contributions	K (m)	274	413	349	92	97
Gross exit payouts	K (m)	255	203	166	165	103
Number of exit payments		5,837	3,732	3,220	3,548	2,908
Total pension payments	K (m)	3	4	7	6	2
<b>TRUSTEE EXPENSES</b>						
Management expenses	K (m)	14	12	21	18	16
Management expense ration (MER)	%	1.27	1.0	1.2	1.4	1.4
Fund Administration fee	K (m)	3	2.1	2	1.66	1.45
Investment Management Fee	K (m)	9	8.2	6.1	6	2.9
Number of staff		115	96	90	102	92

# 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 2009 Financial Year.

### YEAR IN REVIEW

The Papua New Guinea economy showed no lagging effects of the global recession as employment in the market still appeared to be robust and this was reflected in the solid growth in membership for the fund. What was apparent and in contrast to the economic position of Papua New Guinea was the increased feeling of great desperation in those unfortunate members who were unemployed and needed their superannuation entitlements expeditiously to meet the higher cost of living in Papua New Guinea. As disheartening as the situation for some members are, there is also comfort in the knowledge that the system has secured some financial recourse in a difficult time. Under the strong corporate governance from Board and Management of Nambawan Super Limited coupled with the Investment guidance from Kina Funds Management many members are pleasantly surprised by the benefit paid to them.

### MEMBERSHIP

Membership for the fund in 2009 grew by 15.3%. This was a significant increase on last year's position as it was double the membership growth from the previous year. Total membership as at 31 December 2009 was 113,564 consisting of 99,981 active and 13,583 inactive members, compared to total membership of 98,475 at the end of 2008. There still continues to be strong growth in the number of new private sector companies and individuals joining the Fund, and this is expected to increase further in 2010 as the momentum of the LNG project accelerates.

Keeping members biographical details up to date is a constant challenge for the fund, especially for those members that are employed in the public sector. However with the development of a project team within Nambawan Super a huge amendment to the database took place during the year with the update of over 36,000 members' details.

### CUSTOMER SERVICE

Customer Service is and will always be our priority for the members at Nambawan Super Fund. We continued to benchmark ourselves against world class standards and we pride ourselves on achieving these benchmarks.

### RETIREMENT SAVINGS ACCOUNT

The retirement savings account continues to be a product of interest for members who are eligible to collect their entitlement with K29million being transferred into RSA. Once again 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 Funds in the Retirement Savings Account (RSA) to insure they have money to utilize in their latter years of retirement. There was 42% increase in the value transferred into RSA in 2009 but there was also an increase in the number of new RSA members needing to further withdraw from their Retirement Savings Account within the first twelve months of the account being opened.

### HOUSING ADVANCE

In 2009, K6.9 million in housing advances were allocated to 806 members who applied for the purpose of building a new dwelling or improving or extending an existing dwelling on either urban or customary land.

### CONTRIBUTIONS

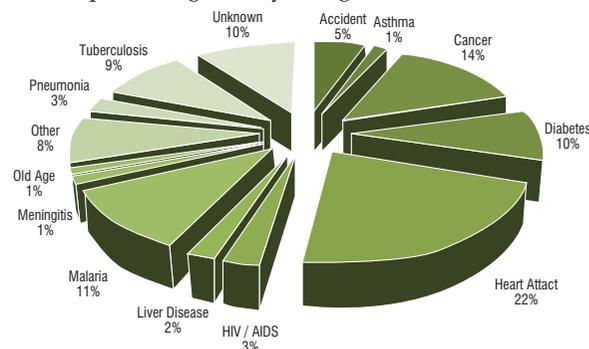
Total contributions for the year were K274.3 million with an unallocated contribution amount equalling K1.05 million due to the contribution received being unable to be reconciled

### BENEFITS PAYMENTS

The total number of benefit payments for 2009 were 5,837 which is a 34% increase on last year's benefit payments.

Exit Type	No. Members
Resignation	2,605
Retrenchment	356
Retirement	1,838
Death	855
Unemployment	183

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



### 2010 FORECAST

2009 proved to be far from the advised forecast last year with membership growths increasing 15.3% and benefit payments increasing by 34%. With the effects of global recession behind us and confidence returning back to global economies and the commencement of the LNG project in PNG we anticipate further strong growth in membership. We also anticipate that the number of members collecting their entitlement will also increase due to the increasing member base reaching eligible retirement age or service.

KISS will once again focus on technology to support the objectives and performance of Nambawan Super Limited. One of the key focal points for 2010 will be improving processes surrounding contributions. We will be implementing a suite of tools that will increase the options and efficiency for employers remitting contributions to the fund on behalf of their employees by the end of the first quarter.

Kina Investment & Superannuation Services 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

### Investment Strategy

The Fund's primary purpose is to preserve members' contributions. The investment strategy guides the investment decisions we make. Our investment aim is to achieve a solid return on funds without jeopardising our ability to meet our primary purpose.

The Fund's objective is to provide an after tax return of at least +3% per annum above CPI with negative returns in no more than one in five years.

During 2009 the Board of NSL, with the assistance of the Investment Manager, commissioned a firm of external consultants to review the Fund's investment strategy. The review included an analysis of the various risks associated with the Fund's current portfolio and recommendations regarding optimal asset allocation for the Fund. The Investment Committee is considering the recommendations of the review and the implications for the Fund.

### Investment Portfolio Performance

The value of the Fund's total investment portfolio as at 31 December 2009 was K2.75 billion, an increase of K144.7 million over the previous year. The Fund achieved investment income of K241 million.

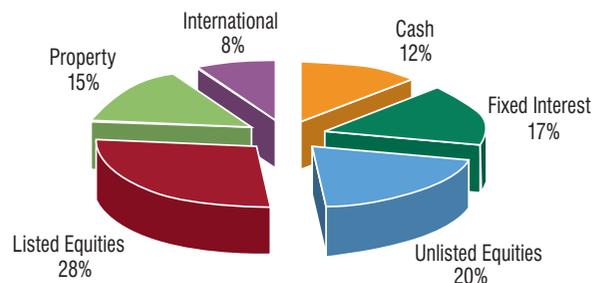
### Portfolio composition

This table compares the mix of investments in the portfolio as at 31 December 2009 with the asset class breakdown at the end of the previous year.

#### Composition of Investment Portfolio

Asset Class	Portfolio value (K million)		% of total portfolio	
	31-Dec-09	31-Dec-08	31-Dec-09	31-Dec-08
Cash	334.4	428.4	12.2	16.5
Fixed Interest	462.4	369.9	16.8	14.2
Equities - Unlisted	535.2	459.4	19.5	17.7
- Listed	771.5	750.3	28.1	28.8
Property	421.0	351.2	15.3	13.5
International	221.7	242.3	8.1	9.3
Total	2,746.2	2,601.5	100.0	100.0

### Asset allocation within the Fund's portfolio



The chart below shows the increase in the investment portfolio since 2003. The investment portfolio has increased by almost four times its levels of 2003 with an annualized growth of 25%.



### Portfolio composition by asset class

#### Domestic Portfolio

##### Cash

The Fund's domestic cash portfolio comprises Interest Bearing Deposits (IBDs) and Treasury Bills (TBills) with maturities of up to 90 days. As at 31 December 2009 the Fund held a total of K334.4 million in this sector which represented 12.2% of the total portfolio.

##### Fixed Interest

The Fixed Interest Portfolio comprises government, semi-government and corporate securities and debt including development loans beyond 90 days. As at 31 December 2009 the value of fixed interest securities in the Fund was K462.4 million, which represented 16.8% of the total portfolio.

### Equities

The Domestic Equities Portfolio comprises listed and unlisted equities.

As at 31 December 2009 the Fund's equity portfolio stood at K1,306.7 million. This represented an increase of K97 million or 8% over the K1,209.7 million total for 2008.

#### Listed Equities

As at 31 December 2009 the domestic listed equities portfolio was valued at K771.5 million. The portfolio increased by K21.2 million for the year. The listed equities portfolio experienced sluggish growth, influenced by the slow recovery of the investment markets in the wake of the global financial crisis with decreases in the value of Bank South Pacific and Credit Corporation Limited shares arising from a general overexposure in the PNG market and resulting selling pressures and the lack of liquidity.

This table shows the Fund's equity holdings listed on the Port Moresby Stock Exchange (POMSoX) and shares listed on both the POMSoX and the 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

#### Unlisted Equities

The value of the Fund's unlisted equities portfolio at the end of the year was K535.2 million, 16.5% of the total portfolio, up from K459.4 million at 31 December 2008.

During the year NSL undertook a share swap, which reduced the Fund's BSP shareholding, and acquired a stake in Capital Life Insurance Company Ltd. Along with the benefits of equity ownership, the transaction also offers the opportunity of providing NSL members with general insurance products and services in the future.



# Investment Manager's Statement

## Domestic Unlisted Equities

Description	Industry Sector	(%) Holding
Unquoted Ordinary Shares		
Alotau International Hotel Ltd	Hotels	34
Brian Bell & Co. Ltd	Wholesale / Retail / Merchants	34
Capital Life Insurance Company Ltd	Insurance	34
Capital Way Holdings Ltd	Telecommunication	10
Coastwatcher Court Ltd	Property - Residential	65
Gazelle International Hotel Ltd	Hotels	65
Hunter Ltd	Property - Commercial	30
Kumul Hotels Ltd	Hotels	55
Moki No.10 Pty Ltd	Property - International	100
Morobe Front Holdings Ltd	Property - Development	100
Pacific Building Management Services Ltd	Building Maintenance	50
Paradise Foods Ltd	Food & snacks/ Manufacturing	85
PNG Water Ltd	Utilities	30
Post Courier Ltd	Media	21
SP Brewery Ltd	Manufacturing	20
Toyota Tsusho (PNG) Ltd	Motor Vehicle	4
Westpac Bank (PNG) Ltd	Banking / Finance	7

## Property

The Fund's property portfolio comprises commercial, residential, industrial and vacant land. As of the end of 2009, the portfolio was valued at K421 million, which represented 15.3% of the total investment portfolio.

Active management of the property portfolio during the 2009 year involved both new and ongoing projects and included the engagement of external specialist project management consultants.

Achievements at the end of the year included:

- completion of Stages 1 – 4 of the 8 Mile Housing Project, with NSL undertaking to sell the sixty-two (62) completed houses;
- completion of a refurbishment work on 16 units at Portion 212 (Lae);
- the completion of the Gordons Gabaka Street Warehouse;
- acquisition of a fully tenanted eight (8) unit residential property in Lae;
- progress towards completion of the Gazelle International Hotel in Kokopo with opening scheduled for mid 2010;
- engagement of external consultants to prepare strategic advice for development of the 4 Mile and Century 21 land.

## Property portfolio as at 31 December 2009:

Properties	Location	Description
<b>COMMERCIAL BUILDINGS</b>		
Aopi Centre (S390 L12,13 & 14 Waigani Drive)	Port Moresby	A 6 Level Twin Tower Office Complex on Waigani Drive Currently leased to the Health & Lands Department
Burns House (S19 L20 Champion Parade)	Port Moresby	Burns Haus is a 4 Level Mixed Office and Retail Space in the Town CBD
Era Rumana (S20 L6&7 Champion Parade)	Port Moresby	A 7-Level commercial office complex on Champion Parade in the Town CBD
Mogoru Moto (S20 L8&9 Champion Parade)	Port Moresby	A 9 level commercial office complex on Champion Parade Road, Town CBD
Revenue Haus (S20 L11 Champion Parade)	Port Moresby	A 16 level commercial office complex on Champion Parade Road
Vele Rumana (S6 L19&20 4th Street Top Town)	Lae	A six level commercial building located in the Lae CBD
Vulupindi Haus (S405 L15 Waigani Drive)	Port Moresby	A six level commercial building in Waigani Office Area Leased to the Finance and National Planning Department
S355 L7 (Hohola)	Port Moresby	Commercial Building (Big Rooster)
S111 L21 (Martirogo)	Port Moresby	Commercial Building (Big Rooster)
S88 L3	Lae	Commercial Building (Big Rooster)
<b>INDUSTRIAL PROPERTIES</b>		
L24 S7 (Bataden Road)	Madang	BP Madang Service station
L15,16 & 17 S64 (Gordons - Warehouse)	Port Moresby	NSL Data Storage Facility
L64 S41 (Huon Road)	Lae	Retail Shop & Service Station
Angco L5,6,19 & 20 S34 (Macdhui Street)	Lae	Industrial warehouse
L23 S50 (Milfordhaven Road)	Lae	Prime Industrial Warehouse
<b>RESIDENTIAL APARTMENTS</b>		
Bayside Apartments *(Portion 178)	Port Moresby	A 42 x 2&3-Bedroom residential units located at Koki
Hibiscus Street, Eriku (S33,L11)	Lae	This is a recently acquired 8 residential unit property
Lawes Road (S7 L24)	Port Moresby	This comprises of a 20 x 2&3-bedroom units located on Lawes road
Pacific Vista (S42 L14)	Port Moresby	This comprises of a 7 x 3 bedroom executive apartments located at Ogoa Street
Portion 212 (Portion 212, Boundary Road)	Lae	Comprises of 40 x 2&3 bedroom residential units at Boundary Road 15 units have recently been renovated and are leased
Touaguba Apartments (S63 L22 Daugo Drive)	Port Moresby	Planning in progress to refurbish nine (9) existing residential apartments
Webb Street (S32 L33 Town)	Port Moresby	4 executive apartments
<b>PROPERTY IN HOLDING COMPANIES</b>		
Coastwatchers Court Ltd	Port Moresby	A property holding Company that owns 31 newly constructed apartments on Touaguba Hill. NSL owns 65% of the company
Hunter Ltd	Port Moresby	A property holding Company that owns the Defense Haus on Hunter Street, POM. NSL owns 30%
Moki Ltd	Australia	Property holding Company that owns Cairns Conservatory Building in Australia It is 100% owned by NSL
Morobe Front Holdings Ltd (Sec27 Lot47)	Lae	Company that owns the Lae Waterfront land as its sole asset. The company is 100% owned by NSL

# Investment Manager's Statement

## Property portfolio as at 31 December 2009:

Properties	Location	Description
<b>UPCOMING DEVELOPMENTS</b>		
Bautama Land	Port Moresby	Currently assessing development options
Boroko Development	Port Moresby	Schematic design for development approved by the Physical Planning Board
Century 21 Land (S25 L34)	Port Moresby	Currently accommodates Century 21 office in Town CBD Currently assessing strategic advice on redevelopment options
New CBD Development (Hunter Street)	Port Moresby	A 9 level mixed office and residential building Construction in progress for completion in 2010
IPI Building	Lae	A mixed use commercial building is currently under construction
4 Mile Land (Boroko)	Port Moresby	Currently assessing strategic advice on redevelopment options
L3 S 82 (Elizabeth Street)	Goroka	Currently assessing development options
L7&8 S22 (Kokopo Market Land)	Kokopo	Currently assessing development options
L123 S145 to 152 (8 mile)	Port Moresby	Sixty-two (62) allotments have been developed for residential use Planning in progress for development of the remaining 156 allotments
Waterfront Land (S27 L47)	Lae	Planning in progress for development of residential units
Portion 989, 1568, 2124 & 2156 to 2159 (9 Mile)	Port Moresby	Currently assessing development options

## International Portfolio

The international portfolio includes various call accounts, term deposits, unlisted managed funds, listed hybrids, as well as listed and unlisted equities. The total international portfolio holding as at 31 December 2009 was K221.7 million, which represented 8.1% of the total investment portfolio.

The international portfolio is structured to allow the Fund flexibility and convenient access to companies that will benefit from economic growth outside of PNG.

Listed equities within the International Portfolio as at 31 December 2009 (market value K45.5 million)

Listed Equities	Industry/Sector
Alpha Financial Products Ltd	Managed Income Note
Barclay discretionary mandate	Various
Bendigo and Adelaide Bank	Banking/Finance
BHP Billiton Limited	Mining
Bougainville Copper	Mining
Commonwealth Bank of Australia	Banking/Finance
Ishares – MSCI all country Asia (ex Japan)	Exchange traded fund
Macquarie Infrastructure Group	Infrastructure
Macquarie Media Group	Communication
RiverCity Motorway Group	Infrastructure
Mahogany Capital Limited	Managed Income Note
Transurban Group	Infrastructure
Multiplex Sites Trust	Property Trust
Telstra	Communication
Westpac Banking Corporation	Banking/Finance

Unlisted securities within the International Portfolio as at 31 December 2009 (market value of K33.6 million).

Unlisted Securities	Industry/Sector
ABN AMBRO Infrastructure Trust (ASIT)	Managed Income Note
AMP Capital – China Fund	Banking/Finance
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 International Portfolio also includes several alternative investments with a total value of K94.7 million, selected and managed by Access Capital Advisors (ACA), an Australian-based investment manager specialising in alternative investments. Independent valuers conduct annual valuations of these investments, which are also subject to ACA's internal assessment process. As with many alternative investments, the value of the ACA portfolio was significantly affected by the global financial crisis and difficult trading conditions during the year.

Access Capital Advisors

Description	Industry
Carrix Inc	Container-Maritime – US
FKP Core Plus Fund 1	Property Trust - Australia
FKP Core Plus Fund 2	Property Trust - Australia
Inglewood Farms	Agriculture – Australia
Isle of Man Steam Packets	Sea Transport - UK
R.M Williams Agricultural Holdings	Agriculture – Australia
Smarte Carte	Airport trolley hire – US
Spirit Finance	Property/Finance – US
Southern Water	Infrastructure, Water, Sewerage – UK
Tata Realty Initiative Fund 1	Property Trust – India

# Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

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## 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 (the Fund), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in members funds and statement of cash flow for the year ended on that date, a summary of significant accounting policies, and other explanatory notes for the Fund.

#### 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 the financial statements in accordance with Generally Accepted Accounting Standards in Papua New Guinea, the Superannuation ("General Provisions") Act 2000 and the Companies Act 1997. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that is 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 the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

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

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

#### Auditor's opinion

In our opinion the financial statements of Nambawan Super is in accordance with the Companies Act 1997, including giving a true and fair view of the Fund's financial position as at 31 December 2009 and of its performance for the year ended on that date; and complying with International Financial Reporting Standards, the Superannuation ("General Provisions") Act 2000 and other generally accepted accounting practice in Papua New Guinea.

#### 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:

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

#### Other Matters

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

PricewaterhouseCoopers

By: B Entwistle  
Partner  
Registered under the Accountants Act 1996

J Roberts  
Engagement Leader

Port Moresby  
5 May 2010

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 K'000	2008 K'000
<b>REVENUE</b>			
<b>Investment income</b>			
Interest	3(a)	72,015	46,025
Dividends	3(b)	57,123	57,022
Property rentals	3(c)	37,155	43,983
Foreign exchange gains/(losses)	3(e)	20,580	(25,922)
Net gain on financial assets at fair value	3(d)	62,277	74,250
Less: Direct investment expenses		(9,907)	(11,179)
		239,243	184,177
Other income	3(f)	1,809	5,510
		1,809	5,510
Total income		241,052	189,687
<b>LESS: EXPENSES</b>			
<b>Management expenses</b>			
Staff		7,176	6,698
Vehicles		181	205
Travel		226	95
Professional fees		1,689	819
Advertising		441	795
Donations		117	82
Auditor's remuneration - statutory audit services		200	170
Auditor's remuneration - other services		126	15
Directors' fees & expenses		753	662
Conferences		98	128
Office expenses		1,468	1,265
Staff housing		1,658	916
Office building expenses		222	114
		14,356	11,965

	Notes	2009 K'000	2008 K'000
Outsourcing expenses			
Fund administration		2,512	2,145
BPNG license fees		1,521	462
Contributor expenses			
Contributor liaison		752	531
Investment Manager's fees		9,114	8,174
Life insurance expense		-	66
		9,866	8,771
Other expenses			
Bad and doubtful debts		5,778	465
Depreciation on property plant and equipment		528	619
Investment monitoring expenses		795	285
Other		106	-
		7,208	1,368
Total general and administration expenses		35,461	24,711
Total revenue less expenses paid before income tax		205,590	164,976
Income tax expense 4(a)		15,626	14,531
Net profit after tax		189,964	150,445
Other Comprehensive income			
Revaluation of property plant & equipment - surplus/(deficit)		(1,050)	1,795
Total Comprehensive income		188,914	152,240

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

# Statement of Changes in Members' Fund

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Contributors' Funds K'000	Pensioners' Funds K'000	Revaluation Reserve K'000	Retirement Savings Account K'000	Retained & General Reserves K'000	Total K'000
Balance as at 31 January 2007		2,018,076	81,238	1,794	11,925	147,541	2,260,575
Contribution received	10(a)	412,714	-	-	-	-	412,714
Benefit payments		(191,812)	(3,497)	-	(8,102)	-	(203,411)
Interest allocation	10(a)	234,935	-	-	-	(234,935)	-
Comprehensive income		-	-	1,795	-	150,445	152,240
Transfers		(20,348)	-	-	20,348	-	-
Balance as at 31 December 2008	10	2,453,566	77,741	3,589	24,171	63,051	2,622,118
Contribution received	10(a)	274,322	-	-	-	-	274,322
Benefit payments		(238,950)	(2,846)	-	(13,499)	-	(255,295)
Interest allocation	10(a)	236,496	-	-	-	(236,496)	-
Comprehensive income		-	-	(1,050)	-	189,964	188,914
Transfers		(29,193)	(54,000)	-	29,193	54,000	-
<b>Balance as at 31 December 2009</b>	10	<b>2,696,241</b>	<b>20,895</b>	<b>2,539</b>	<b>39,865</b>	<b>70,519</b>	<b>2,830,060</b>

The above Statement of Changes in Members' Funds should be read in conjunction with the accompanying notes to the financial statements.

# Statement of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 K'000	2008 K'000
<b>INVESTMENTS</b>			
Held to maturity (government securities)	5(a)	424,232	333,331
Other investments held to maturity	5(b)	74,682	85,752
Loans and debentures	5(c)	38,180	36,529
Financial assets at fair value	5(d-g)	1,453,682	1,366,333
Investment properties	5(h)	421,036	351,214
<b>Total investments</b>		<b>2,411,812</b>	<b>2,173,158</b>
<b>OTHER ASSETS</b>			
Cash and cash equivalents	6	334,446	428,365
Trade receivables & other debtors	7	104,515	41,967
Current income tax refundable	4(b)	11,936	13,503
Property, plant and equipment	8	12,215	11,016
<b>Total other assets</b>		<b>463,111</b>	<b>494,850</b>
<b>TOTAL ASSETS</b>		<b>2,874,924</b>	<b>2,668,009</b>
<b>LIABILITIES</b>			
Benefits payable		1,522	1,469
Trade and other creditors	9	39,951	39,581
Deferred income tax liabilities	4(c)	3,389	4,841
<b>TOTAL LIABILITIES</b>		<b>44,862</b>	<b>45,890</b>
<b>NET ASSETS</b>		<b>2,830,060</b>	<b>2,622,118</b>
Members' accounts and Pensioner funds	10(a-c)	2,717,136	2,531,307
Retirement Savings Account	10(d)	39,866	24,171
Reserves	10(e)	73,059	66,640
<b>TOTAL MEMBERS' FUNDS</b>		<b>2,830,060</b>	<b>2,622,118</b>

The above Statement of Financial Position 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: 30 March 2010

# Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 K'000	2008 K'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Interest received		72,015	47,387
Dividends received	3(b)	57,123	57,022
Property rentals received		37,655	43,540
Other income and receipts		991	390
Direct investment expense		(19,816)	(19,353)
General administration expenses paid		(28,530)	(32,302)
Income tax paid	4(b)	(3,176)	-
<b>Net cash provided by operating activities</b>	<b>14</b>	<b>116,262</b>	<b>96,684</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Employer contributions received	10	71,741	235,830
Member contributions received	10	84,781	71,318
Fund share of benefits paid (including housing withdrawals)		(124,793)	(89,743)
State share of benefit payments received		57,600	99,517
State share of benefits paid		(104,320)	(99,995)
Payment from Retirement Savings Account	10(d)	(13,499)	(8,102)
		(28,489)	208,825
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Receipt of loan repayments	5(c)	4,058	6,600
Loans advanced	5(c)	(6,782)	(18,123)
Proceeds on maturity of Government securities	5(a)	121,827	188,598
Payment for purchase of Government securities	5(a)	(217,935)	(293,466)
Net investment in term deposits	5(b)	(11,069)	(3,960)
Payment for acquisition of shares in listed equities	5(f-g)	(54,724)	(18,863)
Payment for acquisition of shares in unlisted equities - offshore	5(e)	(9,519)	(17,221)
Payment for acquisition of shares in unlisted equities - onshore	5(d)	(31,107)	(32,927)
Proceeds on sale of shares in listed equities	5(f-g)	17,049	33,930
Proceeds on sale of shares in unlisted equities	5(d-e)	15,231	19,495
Payment for investment property development & acquisition	5(h)	(6,621)	(48,104)
Payment for the purchase of property, plant and equipment	8	(2,818)	(578)
Proceeds on sale of investment properties		717	4,246
Proceeds on sale of property, plant and equipment		-	414
<b>Net cash provided by / (used in) investing activities</b>		<b>(181,692)</b>	<b>(179,959)</b>
<b>Net increase / (decrease) in cash &amp; cash equivalents held</b>		<b>(93,919)</b>	<b>125,550</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>428,364</b>	<b>302,815</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>6</b>	<b>334,446</b>	<b>428,364</b>

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 2009

## 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 revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

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*

Investment income, comprising interest on government securities, term deposits, debentures, loans and rental income, is brought to account on an accruals basis. Dividends from shares are accounted for on a cash received basis. Changes in the net market value of assets are recognized in the Statement of Comprehensive Income in the periods in which they occur.

#### *Contribution income*

Employer and member contributions are recognised upon receipt. Transfers from other funds are recognised when received by the Fund. Contributions received and receivable from the State in relation to exit payments are recognised when payments are made by the Fund to exiting members.

### (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 recognized in the Statement of Comprehensive Income. Such balances are translated at year-end exchange rates at balance date. Translation differences on non-monetary items, such as financial assets.

The rates used as at 31 December 2009 were:

AUD	0.4352	(2008: 0.5617)
USD	0.3893	(2008: 0.3952)
GBP	0.2422	(2008: 0.2652)

### (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 (Professional Valuers of PNG Ltd ("PVPNG")), 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 revalue 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 cost 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 Comprehensive Income 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 decreases reverses a decrease previously recognised in the Statement of Comprehensive Income, the increase is first recognised in the Statement of Comprehensive Income. 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 Comprehensive Income.

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.

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

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## (e) Investments and other financial assets

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those assets with maturities greater than 12 months after the reporting date which are classified as non-current assets.

### (iii) Held-to-maturity investments

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. If the Fund were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those assets with maturities less than 12 months from the reporting date which are classified as current assets.

### (iv) Available -for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

### (v) Investment properties

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 PVPNG were engaged to undertake the valuation exercise in December 2009. Changes in fair value are recorded in the Statement of Comprehensive Income as part of the fair value gain.

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

### Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income as gains or losses from investment securities.

### Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of "financial assets at fair value through profit or loss" category are presented in the Statement of Comprehensive Income within other income or other expenses in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income as part of revenue from continuing operations when the Fund's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss.

### Impairment

The Fund assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the Statement of Comprehensive Income.

If there is evidence of impairment of any of the Fund's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit that have been incurred. The cash flows are discounted at the financial assets original effective interest rate. The loss is recognised in the Statement of Comprehensive Income.

## (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 Comprehensive Income 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, net of bank overdrafts.

## (h) Income tax

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

Deferred tax asset is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that the future taxable amounts will be available to utilise these temporary differences and losses.

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases for investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same tax authority. Current tax assets and tax liabilities are offset where the Fund has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(i) Provisions**

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

**(j) Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors and investments. These instruments are generally carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

**(k) Employee benefits**

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

**(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) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Internal Revenue Commission. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the Internal Revenue Commission is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities are recoverable from, or payable to the Internal Revenue Commission, are presented as operating cash flows.

**(p) Investment properties**

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 PVPNG were engaged to undertake the valuation exercise in December 2009. Changes in fair value are recorded in the Statement of Comprehensive Income as part of the fair value gain.

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.

**(q) Comparative figures**

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

**(r) New and amended standards adopted by the Fund**

The Fund has adopted the following new and amended IFRS's as of January 2009:

IAS 1 (revised). 'Presentation of Financial Statements' - effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Fund presents in the Statement of Changes in Members' Fund all owner changes in equity, whereas all non owner changes in equity are presented in the Statement of Comprehensive Income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings.

IFRS 7 'Financial Instruments - Disclosures' (amendment) - effective 1 January 2009. The amendment requires enhanced disclosure about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings.

**(s) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Fund**

The International Accounting Standards Board has issued the following standards, amendments and interpretations that are applicable for accounting periods beginning on or after 1 January 2010 or later periods but the Fund has not yet early adopted them.

IFRS 3 (revised) : Business Combinations

IFRS 9: Financial Instruments

IAS 24 (revised) : Related Party Disclosures

IAS 27 (revised): Consolidated and Separate Financial Statements

IAS 28 (revised): Investments in Associates

Amendments to IFRS 2, 'Share-based Payment - Group cash-settled share based payment transactions'

Amendment to IAS 38, 'Intangible Assets'

Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement on eligible hedged items'

Amendments to IAS 40, 'Investment Property'

IFRIC 17: Distributions of non cash assets to owners

IFRIC 18: Transfers of assets from customers

The Fund has conducted investigations and does not consider that there are any measurement or recognition issues arising from the release of the new pronouncements that will have a significant impact on the reported financial position or financial performance of the Fund.

**(t) Critical accounting estimates and judgements**

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Fair value of Financial Assets that are not quoted in an active market**

Fair value of financial assets that are not quoted in an active market is determined by experts using valuation techniques, primarily earning multiples and net asset values. Management reviews these valuations used to determine fair value for appropriateness.

The carrying value of unquoted financial assets may be materially different to the values received on disposal.

**Investment properties**

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 PVPNG were engaged to undertake the valuation exercise in December 2009. Changes in fair value are recorded in the Statement of Comprehensive Income as part of the fair value gain.

**Interest in controlled entities**

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

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 K'000	2008 K'000
<b>3. INCOME</b>		
The following categories of income were credited to the Statement of Comprehensive Income:		
<b>INVESTMENT INCOME</b>		
<b>(a) Interest</b>		
Interest from:		
Government securities	29,511	23,037
National Government loan	2,554	1,712
Debentures and/or loans	4,707	461
Term deposits	35,242	20,814
	<u>72,015</u>	<u>46,025</u>
<b>(b) Dividends from Investments</b>		
Shares in listed equities	16,869	19,962
Shares in unlisted equities	40,254	37,060
	<u>57,123</u>	<u>57,022</u>
<b>(c) Property Rental</b>		
Gross rental income	37,155	43,983
<b>(d) Changes recognised in relation to financial assets at fair value through the statement of comprehensive income</b>		
Shares in listed equities	14,964	(7,957)
Shares in unlisted equities	9,315	22,423
Investment properties	37,998	59,784
	<u>62,277</u>	<u>74,250</u>
<b>(e) Foreign exchange gain</b>		
Foreign exchange gain/(losses)	20,580	(25,922)
<b>Total investment income</b>	<u>249,150</u>	<u>195,356</u>
<b>(f) Other Income</b>		
Directors' fees received	55	78
Management fees	-	143
Gain on disposal of investments	1,451	5,127
Other income	303	162
	<u>1,809</u>	<u>5,510</u>

## 4. INCOME TAX EXPENSE

The income tax charged on total revenues less expenses and benefits paid is determined as follows:

	2009 K'000	2008 K'000
<b>(a) Income tax expense</b>		
Profit before tax	205,590	164,976
Prima facie tax at 25%	51,398	41,244
<b>Permanent differences:</b>		
Accounting profit on fair value changes in investment properties	(9,500)	(14,946)
Accounting profit on fair value changes in equity investments	(6,069)	(3,616)
Accounting profit on fair value changes - other	148	-
Exempt dividend = section 42(3)	-	(533)
Exempt Interest Received - Long Term Bond	-	(138)
Non-deductible staff expenses	26	33
Non-deductible entertainment expense	9	3
Expenses paid on earning exempt income	45	127
Gain on disposal of plant & equipment	10	-
Section 72A staff training - double deduction	(11)	(44)
Section 216 Dividend rebate	(14,292)	(13,722)
Tax depreciation on investment properties	(629)	(338)
Foreign exchange loss/(gain) - capital account	(5,145)	6,481
Gain on sale of investment - capital gain	(364)	(19)
Income tax expense for the year	<u>15,626</u>	<u>14,531</u>
<b>(b) Provision for income tax</b>		
Opening balance	(13,503)	(19,841)
Current year income tax provision	19,618	12,857
Tax payments - credit for interest withholding tax	(8,832)	(6,657)
Tax payments made during the year - provisional tax	(3,176)	-
Prior year adjustments	(6,044)	138
Closing balance at the end of the year	<u>(11,936)</u>	<u>(13,503)</u>
<b>(c) Deferred tax liability/(asset)</b>		
Opening balance at the beginning of the year	4,841	3,293
Movement during the year	(1,451)	1,386
Prior year	-	161
Closing balance at the end of the year	<u>3,389</u>	<u>4,841</u>
<b>Comprising:</b>		
Interest receivable	1,075	2,220
Rent receivable	4,711	3,909
Consumable stores	6	56
Prepaid Insurance	205	150
Management fee receivable	-	36
Depreciation	194	220
Others	552	780
Less:		
Employee benefits	(545)	(602)
Doubtful debts/loans	(2,222)	(1,035)
Insurance payments - death claims	(1,363)	(1,394)
Other	776	502
<b>Net deferred tax liability/(asset)</b>	<u>3,389</u>	<u>4,841</u>

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 K'000	2008 K'000
<b>5. INVESTMENTS</b>		
<b>(a) Held to maturity financial assets - onshore</b>		
Government Inscribed Stocks & Treasury Bills:-		
Balance at the beginning of the year	333,331	235,230
Purchases during the year	217,935	288,149
Maturities during the year	(121,827)	(195,365)
Accumulated amortisation of Premium(discount)	(5,207)	5,317
Balance at the end of the year	424,232	333,331
Investments in government inscribed stock and treasury bills are carried at amortised cost. They are held to their maturity which varies between 2010 and 2025 and have a face value of approximately K429m. (2008: K328m) These deposits are held at an average coupon rate of 7.5% (2008: 8%).		
<b>(b) Held to maturity financial assets - offshore</b>		
Balance at the beginning of the year	85,752	81,791
Deposits/Transfers during the year		
- Offshore term deposit	23,467	15,802
Deposits retired during the year		
- Offshore fixed interest deposits	(42,238)	(7,929)
- Institutional notes and bills	-	(2,949)
Gain/(loss) due to the effect of exchange rate movements - refer note 3(d)	7,701	(963)
Balance at the end of the year	74,682	85,752
Other investments held to maturity are held at cost. They are held to maturity which varies between 2010 and 2013 and carry a fixed interest rate of 6% (2008: 6%).		
<b>(c) Loans and debentures</b>		
Companies		
Balance at the beginning of the year	36,529	25,372
Advances made	6,782	18,829
Payments received	(4,058)	(6,600)
Provisions for doubtful loans	(1,072)	(1,072)
Balance at the end of the year	38,180	36,529
The loans attract interest at an average rate of 10% (2008: 12%) . Interest is repayable monthly and the principal amount is repayable in accordance with the respective loan agreements, which varies between 2010 and 2017.		
<b>(d) Financial assets - unlisted shares (onshore)</b>		
Balance at the beginning of the year	459,353	354,766
Investments during the year	31,107	17,221
Divestments during the year	(7,096)	(13,735)
Fair value gain from change in net market value	51,837	101,102
Balance at the end of the year	535,201	459,353
<b>(e) Financial assets - unlisted shares (offshore)</b>		
Balance at beginning of year	140,129	193,011
Investments during the year	9,519	32,927
Divestments during the year	(8,135)	-
Fair value gain from change in net market value	(42,523)	(85,809)
Balance at the end of the year	98,990	140,129

	2009 K'000	2008 K'000
<b>(f) Financial asset - listed shares (onshore)</b>		
Balance at the beginning of the year	750,300	725,324
Investments during the year	23,967	14,148
Divestments during the year	(7,549)	(14,243)
Fair value gain/(loss) from change in net market value - refer note 3 (d)	4,745	25,071
Balance at the end of the year	771,463	750,300
<b>(g) Financial asset - listed shares (offshore)</b>		
Balance at the beginning of the year	16,550	58,062
Investments during the year	30,757	4,573
Divestments during the year	(9,500)	(13,058)
Fair value gain/(loss) from change in net market value - refer note 3 (d)	10,219	(33,027)
Balance at the end of the year	48,027	16,550
<b>(h) Investment properties</b>		
Balance at the beginning of the year	351,214	247,572
Additions	60,364	49,475
Disposals and write offs	(805)	(4,843)
Depreciation	(682)	(774)
Transfer to unlisted shares	(24,753)	-
Transfer to property, plant and equipment	(2,250)	-
Other	(50)	-
Fair value gain from change in net market value - refer note 3 (d)	37,998	59,784
Balance at the end of the year	421,036	351,214
<b>Total Investments</b>	<b>2,411,812</b>	<b>2,173,158</b>
Amounts recognised in Statement of Comprehensive Income for investment properties:		
Rental income	37,155	43,983
Direct operating expenses	(9,907)	(11,179)
Net rental income	27,248	32,804

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## (i) Asset Allocation

Asset Class	Portfolio Value (K million) 31-Dec-09	Portfolio Value (K million) 31-Dec-08	Percentage Holdings 31-Dec-09	Percentage Holdings 31-Dec-08
<b>Onshore</b>				
Fixed Interest	424	333	18	15
Equities				
Listed	771	750	32	35
Unlisted	535	459	22	21
Property	421	351	17	16
Loans and debentures	37	36	-	-
<b>Offshore</b>				
Fixed Interest	75	86	3	-
Equities				
Listed	48	17	2	1
Unlisted	99	140	4	6
<b>Total</b>	<b>2,411</b>	<b>2,173</b>	<b>98</b>	<b>94</b>

## (j) Single Investment exceeding 5% of the net assets:

Investment	Type	% Shareholding	% of net assets 2009	Value K(million) 2009	Value K(million) 2008
Bank South Pacific Ltd	Listed equity	11.09	14.2	401.6	476.3
Bank South Pacific Ltd	Interest Bearing Deposit	N/A	2.5	71.1	242.4
Bank of PNG	GIS & T/Bills	N/A	15.0	424.2	333.3
Oil Search Ltd	Listed equity	1.02	6.6	186.9	95.5
SP Brewery Ltd	Unlisted equity	20	5.1	144.2	112.5

## (k) Valuation methodology and earnings multiples applied

Unlisted equities	Industry	Valuation Method	Earnings Multiple	% shareholding 2009	Value K(million) 2009	% shareholding 2008	Value K(million) 2008
Alotau International Hotel Ltd	Hotel	Net Assets	-	34	0.8	34	0.8
Avis Rent A Car Ltd*	M/vehicle hire	FME	-	-	-	6	0.7
Big Rooster Ltd*	Fast food	FME	-	-	-	100	5.5
Brian Bell & Company Ltd	Wholesale/retail	FME	3.75	34	40.3	34	33.0
Capital Insurance Group Ltd	Insurance broker	Net Assets	-	34	4.8	-	-
Capital Way Holdings Ltd **	Telecommunications	Cost	-	10	15.0	10	13.2
Coastwatchers Court Ltd	Property	Net Assets	-	65	12.1	65	11.3
Ela Motors (PNG) Ltd	Motor vehicle	FME	5.05	4	8.0	4	8.5
Hunter Ltd	Property	Net Assets	-	30	8.1	30	5.6
Kumul Hotels Ltd	Hotel	FME	6.5	55	75.6	55	70.0
Marsh Insurance (PNG) Ltd*	Insurance broker	FME	-	-	-	10	0.9
Moki NO.10 Ltd	Real Estate	Net Assets	-	100	24.9	100	25.3
Morobe Front Holdings Ltd	Property - Development	Net Assets	-	100	4.9	100	3.0
Paradise Foods Ltd	Food & Snacks	FME	5.65	85	91.6	85	97.3
Pacific Building Mgt Services Ltd	Building maintenance	FME	3.50	50	2.0	50	0.2
PNG Water Ltd	Utilities	FME	5.03	30	12.2	30	13.5
Post Courier Ltd	Media	FME	4.75	21	7.1	21	5.0
SP Brewery Ltd	Brewery/manufacturing	FME	7	20	144.2	20	112.5
Westpac Bank (PNG) Ltd	Banking & finance	FME	6.5	7	60.6	7	53.0
Gazelle International Hotel **	Hotel	Cost	-	65	22.9	-	-
					535.1		459.3

Net assets - net assets on a going concern

FME - future maintainable earnings

\* Investments in Avis Rent a Car Ltd, Big Rooster Ltd and Marsh Ltd were sold during the year.

\*\* Due to the early stage nature of these investments cost is considered to be an appropriate fair value for the investments.

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

Unlisted shares are valued at fair value at balance date, as determined by registered independent professional valuers 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 Comprehensive Income as part of the fair value gain.

## (l) Sensitivity analysis

Particulars	Movement to share price by +/- 10%	Movement to exchange rates by +/- 10%	Movement to interest rate by +/- 1%
Impact to Total portfolio in kina value	92	55	9
Impact to total portfolio in percentage	3.3	2	0.3

If the share price moved up or down by 10% the investment portfolio will increase or decrease by K92 million or 3.3%

If the exchange rate moved up or down by 10% the investment portfolio will increase or decrease by K55 million or 2%.

If the interest rate moved up or down by 1% the investment portfolio will increase or decrease by K9 million or 0.3%.

## (m) Fair value estimation

Effective 1 January 2009, the Fund adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

\* Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

\* Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, derived from prices) (level 2)

\* Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total Balance K'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Listed securities	819,490	-	-	819,490
Unlisted securities	-	-	634,191	634,191
<b>Total Assets</b>	<b>819,490</b>	<b>-</b>	<b>634,191</b>	<b>1,453,681</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The fair value of financial instruments traded in active markets is based on quoted prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily POMSOX or ASX equity investments. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

\* Quoted market prices or dealer quotes for similar instruments

\* Other techniques such as multiples of future maintainable earnings, net asset values or discounted cash flow analysis are used to determine value of the remaining financial instruments.

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total Balance K'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Listed securities	819,490	-	-	819,490
Unlisted securities	-	-	634,191	634,191
<b>Total Assets</b>	<b>819,490</b>	<b>-</b>	<b>634,191</b>	<b>1,453,681</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The fair value of financial instruments traded in active markets is based on quoted prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily POMSOX or ASX equity investments. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

\* Quoted market prices or dealer quotes for similar instruments

\* Other techniques such as multiples of future maintainable earnings, net asset values or discounted cash flow analysis are used to determine value of the remaining financial instruments.

	2009 K'000	2008 K'000
<b>6. CASH AND CASH EQUIVALENTS</b>		
Bank overdraft	(6,033)	(4,344)
Cash on hand	3	3
Bank call deposits	6,022	7,210
Term deposits (maturities within 90 days)	334,453	425,496
	<b>334,446</b>	<b>428,365</b>
<b>7. TRADE RECEIVABLES &amp; OTHER DEBTORS</b>		
Rental debtors	18,843	15,637
Less: Provision for doubtful debts	(7,565)	(1,786)
	<b>11,279</b>	<b>13,851</b>
Staff housing scheme and advances	388	383
Sundry debtors	15,818	15,398
State share of benefits	65,255	6,049
Prepayments and GST input tax	7,475	-
Accrued interest income	4,300	6,285
	<b>104,515</b>	<b>41,967</b>

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## 8. 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 5(h)

The valuation of land and buildings is at 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 2009 Commercial, Industrial and Residential Property valuations were carried out by registered valuers Savills (NSW) Pty Ltd and the Professional Valuers of PNG Limited.

The revaluation deficit of K1.05 million (2008: K1.8 surplus) was charged to asset revaluation reserve (note 10(e)).

	Land & Buildings K'000	HOUSING Plant & Equipment K'000	Land & Buildings K'000	Furniture & Fittings K'000	OFFICE BUILDINGS Plant & Equipment K'000	VEHICLES Motor Vehicles K'000	Total K'000
<b>2009</b>							
<b>COST OR REVALUATION</b>							
At 1 January 2009	2,942	187	6,300	2,290	3,722	1,475	16,916
Additions	-	3	2,250	5	457	102	2,818
Revaluation decrement	-	-	(1,050)	-	-	-	(1,050)
Disposal	-	-	-	-	-	(143)	(143)
At 31 December 2009	2,942	190	7,500	2,295	4,179	1,434	18,540
<b>ACCUMULATED DEPRECIATION</b>							
At 1 January 2009	217	124	454	1,496	2,671	939	5,901
Depreciation	25	9	1	89	233	171	528
Disposals	-	-	-	-	-	(104)	(104)
At 31 December 2009	242	133	455	1,585	2,905	1,006	6,326
<b>NET BOOK VALUE</b>							
At 31 December 2009	2,700	57	7,045	710	1,275	428	12,215
<b>2008</b>							
<b>COST OR REVALUATION</b>							
At 1 January 2008	3,074	199	4,505	2,270	3,883	1,480	15,412
Additions	181	-	-	20	98	279	578
Revaluation increment	-	-	1,795	-	-	-	1,795
Disposal	(314)	(12)	-	-	(258)	(284)	(868)
At 31 December 2008	2,942	187	6,300	2,290	3,722	1,475	16,916
<b>ACCUMULATED DEPRECIATION</b>							
At 1 January 2008	196	117	452	1,398	2,609	964	5,737
Depreciation	21	12	1	98	279	207	619
Disposals	-	(6)	-	-	(217)	(232)	(456)
At 31 December 2008	217	124	454	1,496	2,671	939	5,900
<b>NET BOOK VALUE</b>							
At 31/12/08	2,725	63	5,846	794	1,051	536	11,016

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 K'000	2008 K'000
<b>9. TRADE AND OTHER CREDITORS</b>		
Trade creditors	18,435	20,298
Other creditors	3,026	572
Rental bond fees	2,254	2,133
Member insurance payable	6,282	5,858
State-share received in advance	1,182	1,714
State pension liability	6,644	6,644
Employee provisions	2,129	2,361
	<u>39,951</u>	<u>39,581</u>

## 10. 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 2009, interest allocated to contributor funds was determined on member balances at a rate of 10 % (2008: 11.5%) 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% and from member's entitlements at the time of exit where the advance is not fully restored at the time of exit.

### (a) Contributor Funds

Balance at the beginning of the year	2,524,105	2,083,528
<b>Add:</b>		
Members' contributions received during the year	84,499	69,476
Employer contributions received during the year	71,741	235,830
Transfers from other funds	282	1,842
Contribution income on exit payments	117,800	105,566
	<u>274,322</u>	<u>412,714</u>
Interest allocation	236,496	234,935
	<u>3,034,923</u>	<u>2,731,177</u>
<b>Deduct:</b>		
Member benefits paid during the year*	(147,230)	(100,015)
Member benefit expense - on exit	(117,800)	(105,566)
Unemployment benefits paid	(2,716)	(1,491)
	<u>(267,746)</u>	<u>(207,072)</u>
Balance at the end of the year	<u>2,767,177</u>	<u>2,524,105</u>
<b>* Benefit payment details:</b>		
Resignation	21,188	18,960
Retrenchment	98,109	11,065
Retirement	13,800	55,233
Death	14,133	14,757
	<u>147,230</u>	<u>100,015</u>

	2009 K'000	2008 K'000
<b>(b) Contributor Housing Withdrawals</b>		
Balance at the beginning of the year	(70,539)	(65,452)
Advances or member withdrawals	(6,925)	(9,278)
Repayments received	6,528	4,190
Balance at the end of the year	<u>(70,936)</u>	<u>(70,539)</u>
<b>(c) Pensioner Funds</b>		
Balance at the beginning of the year	77,741	81,238
Payments during the year	(2,846)	(3,497)
Transfer to general reserves	(54,000)	-
Balance at the end of the year	<u>20,895</u>	<u>77,741</u>

During the year, Mercer (Australia) Pty Ltd conducted an actuarial review of the adequacy of the Fund's obligation to Pensioner Funds and determined that a reserve in the order of approximately K20m was considered adequate. The Board adopted the findings of the review and consequently a sum of K54m was transferred to General Reserves. Key assumptions used in the actuarial calculations were:

\* investment returns of 7% per annum's and pensioner indexations of 5% per annum is achieved.

\* Based on World Health Mortality table for PNG for 2003-2006, mortality rates are 0.789% per annum for males and 1.333% per annum for females.

\* All 'old age' pensioners were males with spouses (eligible for reversionary pension of 62.5% of the primary pension) three years younger than themselves (except where reliable dates of birth were available)

\* All 'widow' pensioners were females with no reversionary amount payable.

These assumptions are the same as those adopted in in the last review in 2006, except that the mortality assumption has been adopted for the more recent experience now available.

<b>Total Contributor &amp; Pensioner Funds</b>	2,717,136	2,531,307
<b>(d) Retirement Savings Account</b>		
Balance at the beginning of the year	24,171	11,925
Transfers during the year	29,193	20,348
Payments during the year	(13,499)	(8,102)
	<u>39,866</u>	<u>24,171</u>
Interest allocation for RSA is included in Note 11(a).		
<b>(e) Retained Reserves</b>		
Retained earnings and general reserve	49,242	41,773
Sec 35(2)(c) reserve	21,278	21,278
Revaluation reserve - property, plant and equipment	2,539	3,589
	<u>73,059</u>	<u>66,640</u>
<b>Total Liability for Accrued Benefits and Reserves</b>	<u>2,830,060</u>	<u>2,622,118</u>

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## 11. FUNDING ARRANGEMENTS

At the end of 2009 the future unfunded liability of the State to members is estimated to be K2,036 million (2008: K1,840 million), 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. Efforts are being made to have the State to reduce this carrying value.

### (a) Exiting members

As members exit the Fund, the State is 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 is paid to the member by the Fund, with the State reimbursing the Fund for its share. During 2009 the State fell behind in its obligations in this area by K64.1 million. Subsequent to balance date K65m was received for full settlement of the obligation from the State.

### (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. However, for 2009 the State fell behind in its obligations in this area by K35.9 million. As this shortfall is currently unfunded it is not included in the "Liability for Accrued Benefits" at 31 December 2009.

## 12. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk) and credit risk.

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) Market risk

#### (i) Foreign exchange risk

The Fund is exposed to foreign exchange risk in relation international investments and deposits. The Fund 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.

#### (ii) Price Risk

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

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.

#### (iii) Cash flow and interest rate risk

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.

### (b) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to rental customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The Fund has no significant concentrations of credit risk with the exception of the Government of PNG.

### (c) Net Fair Values of Financial Assets and Liabilities

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

## 13. 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 summarized as follows:

30 March 2010 - K65m unfavourable movement (Domestic: Loss: K 77m and International: Gain: K12m)

Subsequent to the balance sheet date, the Fund received from the State K65m on account of its share of benefits paid to members of the Public Service who had exited the Fund in the period June to December 2009.

## 14. NOTES TO THE STATEMENT OF CASH FLOWS

### Cash and cash equivalents

For the purpose of this Statement of Cash Flows, Cash includes cash on hand, and on call deposits with banks and is net of bank overdrafts. Cash as at the end of the year as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2009 K'000	2008 K'000
Cash on hand	3	3
Bank Call Deposits	6,022	7,210
At call deposits	334,453	425,496
Bank Overdraft	(6,033)	(4,344)
	334,446	428,365
Reconciliation of Cash flow from Operations with Total Revenues less expenses and benefits paid		
Total revenues less expenses and benefits paid after income tax	189,964	150,445
<b>Add/(less) non-cash items:</b>		
Depreciation on property, plant and equipment	528	619
Gain on disposal of investment property assets	(357)	(1,264)
Gain on sale of shares in listed & unlisted equities	(1,094)	(3,376)
Fair value gain arising from changes in net market value of investments	(69,977)	(74,250)
Net cash provided by operating activities before change in assets and liabilities	119,065	72,174
<b>Changes in assets and liabilities during the year:</b>		
(Increase)/decrease in receivables	(3,342)	8,234
Increase/(decrease) in benefits payable	53	(15)
Increase/(decrease) in trade and other creditors	371	3,243
Increase/(decrease) in current income tax refundable	1,567	11,502
Increase/(decrease) in deferred income tax liabilities	(1,451)	1,547
Cash flow from operating activities	116,262	96,684

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## 15. RELATED PARTY DISCLOSURES

- (a) The Trustee of the Fund throughout the year was Nambawan Super Ltd ("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

- (b) During the financial year the Fund earned interest on term deposits of K869,488 (2008: K387,085) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager, Kina Funds Management. As at 31 December 2009, the term deposits placed with Kina Finance Limited was K17.74 million (2008: K10.47 million). These transactions were carried out on commercial terms and all on cash basis for an average of 28 days placements. The Kina group also provides Investment Management and Fund Administration services, related fees paid to the Kina group amounted to K9.1m and K2.5m respectively.

- (c) NSL holds controlling equity interests and associated Director positions in the following unlisted entities based in PNG.

Coastwatchers Court Ltd  
Moki No. 10 Ltd  
Morobe Front Holding Ltd  
Paradise Foods Ltd  
Pacific Building Management Ltd

These entities are not consolidated into the financial statements of NSL and all transactions with these entities are in the ordinary course of business at arms length.

## 16. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

- (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 was served 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 have 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.

	2009 K'000	2008 K'000
(c) Commitments for Capital Expenditure		
Amounts with firm commitments, and not reflected in the accounts	35,403	32,693

- (d) Commitments for Investment Expenditure

The Fund has committed to invest in an Offshore Fund which makes capital calls on an as needs basis. Committed by uncalled amounts in relation to this equity investment are \$US12,984,948 (K33,354,603) at 31 December 2009.

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## 17. DIRECTORS' DISCLOSURE

Name	Nature of Interest	Companies	Name	Nature of Interest	Companies
Sir Nagora Bogan, KBE	Director as NSL nominee	Bank South Pacific Ltd	Gregory Taylor	Director as NSL nominee	Kumul Hotels Ltd
		Paradise Foods Ltd			Paradise Foods Ltd
		Paradise Foods Holdings Ltd			Paradise Foods Holdings Ltd
	Director and Shareholder	In Touch Media Ltd		Director	TFG International Ltd (Australia)
		Coprez Holdings Ltd			Kina Assets Management Ltd
		Coprez Communications Ltd			
		Hyper Construction Ltd			
		Ahi Holdings Ltd			
		Peoples Advocacy Ltd			
		Kambang Holdings Ltd			
Shareholder	Kina Funds Management Ltd	Lady Aivu Tauvasa	Director as NSL nominee	Kumul Hotels Ltd	
	Provision of Multimedia Services			In Touch Media Ltd	Capital Way Limited (Be-Mobile)
Kerenga Kua	Director and Shareholder	Endeayudo Ltd	Leon Buskens	Director as NSL nominee	Brian Bell & Company Ltd
		Dream Inn			Gazelle International Hotel Ltd
		Fikor Ltd			Alotau International Hotel
		Umai Ltd			SP Brewery Ltd
		Finance Corporation Ltd			Credit Corporation Ltd
	Director	Kina Assets Management Ltd		Director and Shareholder	Kopkop College
		Posman Kua Aisi Lawyers		Independent Director	Telikom PNG Ltd
		President PNG Law Society		Non remunerated NGO affiliation	CDI Foundation Trust Fund
		Nambawan Super Ltd (K27,233 - provided during the year)		Volunteer, disaster relief organisation	Halivim Wantok Trust

Except for the Managing Director, Leon Buskens, any directors' fees paid to Directors for being Directors as NSL nominees on certain boards are paid direct to the Directors. Any fees earned by Mr. Buskens are paid to NSL.

## DIRECTORS' REMUNERATION

Name of director	Role	Total Remuneration	Board meetings attended	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee meetings attended	Investment Committee meetings attended	Membership Committee meetings attended
Sir Nagora Bogan	Chairman	K115,000	5/5	4/4	n/a	16	n/a
Kerenga Kua	Deputy chairman	K89,880	4/5	n/a	n/a	n/a	3/4
Aivu Tauvasa	Director	K76,032	5/5	n/a	6/6	n/a	n/a
Greg Taylor	Director	K158,033	5/5	n/a	6/6	21	n/a
Leon Buskens	Managing Director	n/a	5/5	n/a	n/a	21	n/a

Directors' remuneration comprises an annual stipend and sitting fees. No bonus or other monetary benefits were paid during the year. Airfares, accommodation and motor vehicles are provided for non Port Moresby residents when meetings are conducted in Port Moresby. The Managing Director is not paid any director's fees.

# Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## 18. KEY MANAGEMENT PERSONNEL

### Directorship 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	Role	Nature of Interest	Company
Leon Buskens	Managing Director	Director as NSL Nominee	Brian Bell & Company Ltd Gazelle International Hotel Ltd Alotau International Hotel Ltd Credit Corporation Ltd SP Brewery Ltd Coastwatchers Court Ltd
		Independent Director Shareholder	Telikom PNG Ltd Kopkop College
Wayne Smith	General Manager Commercial	Director as NSL nominee	Kumul Hotels Ltd Brian Bell & Company Ltd Gazelle International Hotel Ltd Coastwatchers Court Ltd Hunter Ltd Moki No.10 Ltd Pacific Building Services Maintenance Ltd PNG Water Ltd Fernvale Ltd Morobe Front Holdings Ltd
Paul Yangen	General Manager Finance and Administration	Director as NSL nominee	Moki No.10 Ltd Hunter Ltd Pacific Building Services Maintenance Ltd Nambawan Savings & Loan Society Ltd Paura Ltd Southern Hires Ltd
		Director	
Augustine Birie	General Manager Member Services	Director as NSL nominee Director	Nambawan Savings & Loan Society Ltd AB Consulting Ltd

Any directors fees paid to members of the executive management for being directors as NSL nominees on certain boards are paid to NSL.

### Compensation

The compensation paid to key management for employee services is shown below.

	2009 K'000	2008 K'000
Salaries	1,936	1,315
Leave accruals	258	427
	2,194	1,742

# Declaration by Trustee and Management

FOR THE YEAR ENDED 31 DECEMBER 2009

## DECLARATION BY TRUSTEE

In our opinion the accompanying Statement of Comprehensive Income, Statement of Financial Position, 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 2009, 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

Dated 30 March, 2010

## DECLARATION BY MANAGEMENT

In our opinion the accompanying Statement of Comprehensive Income, Statement of Financial Position, 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 2009, and its performance for the year then ended. We are of the opinion that:

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



MR LEON BUSKENS  
Managing Director



MR PAUL YANGEN  
General Manager Finance & Administration

Dated 30 March, 2010

# DIRECTORY

## HEAD QUARTERS

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