



Annual Report 2011

2011 Highlights

FINANCIAL RESULTS

A solid result in a very difficult year

- Net profit after tax K24 million
- Total general and administration expenses down from the previous year
- Net assets increased to K3.3 billion, up 5% from K3.1 billion in 2010
- Interest of 2% credited to Members' accounts

ASSET MANAGEMENT

Strong activity in the property portfolio

- Hotels in the Nambawan Super portfolio (Gazelle International, Alotau International, Crowne Plaza and Holiday Inn) reported record occupancy rates
- Construction progressed on the IPI mixed use development, Lae and the Holiday Inn development, Port Moresby
- 154 lots at Malolo Housing Estate at 8 Mile Port Moresby were completed, ready for sale as vacant, developed (serviced) land
- Design and procurement completed for Touaguba Apartments, the OPH commercial development and the Bayside Apartments refurbishment
- Design progressed on Kokopo commercial development and Portion 212 refurbishment
- Property rentals received up 16% from previous year

Solid income stream from shareholdings

Dividends up 38% to K96.9 million, (K59.8 million in 2010)

MEMBER SERVICES

Membership continues to grow

- 125,642 Members at 31 December 2011 (up 2% from 2010)
- Average balance of Member accounts K25,892
- 281 Employer Members (169 private sector and 112 public sector Employer Members)

Emphasis on systems to enhance Member Services

- Substantial investment in systems and technology to streamline processing and safeguard Member privacy

Continuing attention on Member communications

- New Nambawan Super Offices opened in Kiunga, Manus, Mendi, Vanimo, Wewak, bringing the total number of provincial offices to 15
- SuperText service introduced, so Members can find out their superannuation account balance via Digicel mobile
- Ongoing nation-wide program of information sessions at Members' workplaces
- Regular release of Member newsletter Toktok Super

RETIREMENT SAVINGS ACCOUNT (RSA)

Dramatic increase in RSA

- 3,327 RSA participants at end of 2011 (up 86% on 2010)
- 23% of Members claiming superannuation benefits in 2011 invested in RSA (8% more than in 2010)
- Total RSA funds K63 million (K49m at the end of 2010)

NAMBAWAN SUPER SAVINGS & LOAN SOCIETY (NSLS)

NSLS completed its full year of operations in 2011. More Members joined to embrace NSLS to provide for their short and medium term financial needs.

- Number of account holders increased to 3,180 from 190 Members in 2010
- Total funds on deposit K1.3 million
- K169,000 lent to Members as at 31 December 2011

PUBLIC EMPLOYEES ASSOCIATION SUPER FUND (PEASF)

- Successful completion of the clean-up of the troubled fund
- PEASF's records were restored and regularised and the savings balance preserved, enabling PEASF Members' super accounts to be credited with 70% interest and allowing claims to be paid.

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Mission, Vision & Corporate Values

Vision

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 DECLARES A 'BALANCED' OUTCOME FOR 2011

During the financial year ending 31st December, 2011, Nambawan Super Limited derived a net after tax profit of K24 million. This result enabled the Board to declare an interest crediting rate of 2% for its Members including RSA Members, set a reserve level of 1.32%, and interim crediting rate of 1% for those Members exiting in 2012. The fund's net worth has also grown by 5% to K3.3 billion.

Members of the fund will recollect that the fund had an unprecedented run of strong performance over the past ten (10) years.

In fact, your Board has been responsible in consistently cautioning Members not to expect a continuous run of double digit interest, especially in a global market place adversely affected by the hangover from the Global Financial Crisis (GFC), the global impact of depressed economic conditions of countries in Europe and the exchange rate volatility.

Your Board has also gone beyond rhetorical caution by taking the prudent step by having an overarching investment objective in its revised Investment Strategy which is: *"to provide an after-tax return of at least +2% above CPI with negative returns in no more than one in five years"*.

Over the last 10 years the fund has credited an average interest of 14.7% to Members' accounts with no negative return recorded for any year. The average real return to members, that is, after taking into account inflation, was 8.1% for the decade.

Broadly speaking, this is a reasonably good performance considering some funds globally including in Australia have been experiencing negative growth.

On a closer analysis of the 2011 performance, the fund faced many challenges from investment markets, and it was poignantly reminded that prices do not always rise, and how important it is to have a diversified portfolio of investments to mitigate risks.

Locally, share prices have moderated after several years of strong returns. The PNG share market can now in many ways be compared to other markets, very directly to globalized world countries. In the local property portfolio, there is emerging signs of the portfolio moderating. After several years of strong increases in property valuations, in 2011 the fund's properties were collectively valued at slightly below the 2010 values and with an increasing supply of property on the market, demand has peaked and rental rates have moderated. There is a close watching brief on market trends of this portfolio which constitutes 14% of the fund's portfolio.

In comparison, offshore investments, whilst forming less than 20% of the fund's assets, were severely affected by the appreciation of the PNG Kina over 2011, which rose against most currencies by some 23% over the year. This immediately resulted in a fall in the Kina valuation of overseas investments by roughly this percentage.

Thus, overall returns for the fund's offshore investments contributed negatively. The fund did however gain overall,



after positive contributions from other locally listed and unlisted equities and government bonds.

Substantive details of the performance of each portfolio are contained in the investment report.

In summary, a diversified portfolio of investments is the best long term strategy to generate long term positive returns. While some year's returns will be greater or less than others, in the long term Members' retirement savings will grow. Indeed, for most Members the time to retirement is many years, and in that time they should experience varying returns but long term gain.

Nambawan Super Limited is a proud Papua New Guinea institution. Over the past decade, the fund has invested in a diversified portfolio. More than 80% of the fund's investments continue to be invested locally, benefiting not only Members through strong returns but also our country through employment generation, growth in investments, retention of capital and wealth creation. The fund will continue to have a majority of Members' funds invested in PNG assets, as there is a strong long term economic outlook for PNG and also to minimize exchange rate risks associated with investing offshore.

Chairman's Statement

SIR NAGORA BOGAN, KBE | Chairman

Significant achievements during the year include a continuing strong growth in membership to 125,642; average account balance of Members increased to K25,892 (i.e. which is substantially higher than any other authorized super fund); number of Retirement Savings Account (RSA) participants increased to 3,327 with total RSA funds amounting to K63m at year end.

In May 2011 the Managing Director, Mr. Leon Buskens resigned. On behalf of Fund Members, the Board, management and staff, I heartily thank Mr. Buskens for his unstinted and exemplary service, especially, in managing the fund's transition in the reform and modernizing its management, culture, systems and operations. Business as usual continued with the appointment of Mr. Paul Yangen as Acting Managing Director for the rest of 2011.

I also express my thank you, on behalf of the Board to the management and staff of the Fund and all service suppliers, who have worked hard over the year in trying circumstances to serve our Members' best interests.

Sir Nagora Bogan, KBE

Chairman of Board

Board of Directors



Position (Left-Right) Standing: Ms. Marianna Ellingson and Mr. Kerenga Kua (Deputy Chairman)
Sitting: Mr. Greg Taylor and Sir Nagora Bogan (Chairman)



Mr. Leon Buskens

Mr. Leon Buskens resigned as Managing Director in May 2011 after 24 years of outstanding service to the fund and its Members. Leon left to pursue other opportunities.

All Directors have a responsibility to meet appropriate ethical and professional standards, which include 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 (accumulation fund) approved under the Superannuation General Provisions Act 2000. The Fund is governed by the Board of Directors of Nambawan Super Limited, the Fund’s Corporate Trustee (“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.

The Trustee’s primary responsibility to Fund Members is to ensure the Fund is run according to the principles of good governance. To achieve this objective, the Board implements five key governance principles across the entire operation of the Trustee and the Fund.

Principle 1: Compliance with the law

Principle 2: Effective leadership

Principle 3: Integrity

Principle 4: Accountability

Principle 5: Risk Management

Good governance in practice

Nambawan Super’s rigorous and disciplined investment decision making process is a good example of the organisation’s commitment to good corporate governance policies and practices.

Kina Funds Management (KFM), as the investment manager of the Fund, is committed to ensuring Nambawan Super’s objectives are met. The investment decision making process is transparent, designed to reduce dependence on individuals and structured to minimise risk arising from the process itself.

Rigorous scrutiny every step of the way

Generating an investment idea is the start of the process. An investment idea will typically arise as a result of strategic assessment of emerging change or opportunity. To be acceptable the proposed idea must be legal, fully compliant with the Bank of Papua New Guinea’s prudential guidelines and fit within Nambawan Super’s investment strategy and guidelines.

The next stage is evaluation and appraisal. The investment analyst sponsoring the proposal is required to provide detailed and comprehensive fundamental analysis to justify his or her recommendation.

The proposal is then assessed against a set of criteria for the asset class it falls within. Its pros and cons are detailed, including whether or not it would adversely affect or make a positive contribution to the quality of the existing portfolio.

The proposal is brought before the Risk division and KFM’s executive management. If the proposal includes a new investment (rather than more or less of an existing investment), there will be significant scrutiny to assure it achieves “KFM Approved List”. While the sponsoring analyst is required to defend his/her position in recommending the investment in the face of this rigorous scrutiny, at all times he/she must be articulate, rational and completely objective.

At this point the original idea will have been enhanced, refined and, if necessary, overhauled. So, when the recommendation finally comes forward from KFM it has the unanimous support of KFM as Nambawan Super’s investment manager.

Nambawan Super also has a key role to play in the development of investment decisions. The Investment Operation Committee (IOC) and Investment Consultative Group Committee (ICG) enable Nambawan Super’ senior executive management to be informed and advised of the investment decision making process.

The IOC gives Nambawan Super a first glimpse of the investment idea and is an opportunity to contribute views. Further fine-tuning and monitoring of the recommendation takes place here, until the IOC is satisfied that all concerns have been addressed.

Where the proposal has significant issues or carries strategic implications, final endorsement must be given by the ICG.

The investment committee decides on the final shape and form of the recommendation, which KFM then executes in line with any risk limits that may be imposed. For example, KFM portfolio managers may be given explicit instructions or implicit guidance about the acceptable pricing of the proposed investment. The Investment Strategy sets the guidelines for listed securities and approved investments.

By the time an investment idea has become an asset of the Nambawan Super portfolio, it will have to be approved by KFM, Nambawan Super and all the other stakeholders of the idea. All parties will have been satisfied that any concerns or issues have been addressed.

The acquisition of the asset is only part of the disciplined process. The entire transaction must also be fully compliant with KFM’s internal policy and procedures, as well as meet all the requirements and standards set by the external regulators, such as the Bank of Papua New Guinea and the Port Moresby Stock Exchange. And it must be able to stand up to the scrutiny of KFM’s and Nambawan Super’s external auditors.

Managing Director's Statement

PAUL YANGEN Acting Managing Director



From an operational perspective, 2011 was a year of working to enhance our capacity to serve our Members. We invested in the development of leading edge information and communications technology, reviewed the effectiveness of our business processes, expanded our network of offices around Papua New Guinea and continued to enhance our communications to Members.

Project SENIS, a major overhaul of our administration processes and procedures, which will produce a quantum improvement in our Member service, continued throughout 2011. The new system is expected to go live in the first quarter of 2012. The key benefits for Members will be streamlined transactions, more timely information to Members and enhanced security of information.

Our ability to provide face-to-face service to Members expanded dramatically during 2011. By the end of the year 15 Nambawan Super offices were in operation, up from 9 the previous year. Members in regional areas can now visit our offices in Alotau, Buka, Goroka, Kavieng, Kimbe, Kiunga, Kokopo, Lae, Madang, Manus, Mendi, Mt Hagen, Popondetta, Vanimo and Wewak as well as the shopfront at Head Office in Port Moresby. Offices for Kundiawa and Wabag are expected to be opened in early 2012.

Over the past few years we have made a concerted effort to improve Member communication, superannuation awareness and education.

As part of this ongoing commitment to providing quality information to Members, in 2011 Member Services staff undertook an extensive series of superannuation seminars at Members' workplaces around the country, including schools, hospitals, Government house and the Bomana Police College.

Our people staffed information stands at a number of conferences and symposia during the year, spreading the word about the role and value of superannuation in general, as well as benefits provided specifically by Nambawan Super.

We welcomed hundreds of visitors to the Nambawan Super stand at the Housing Fair, many of them Members keen to enquire about their eligibility for the Housing Advance facility as a way to fund their homes. The Housing Advance releases the employee contributions of Members who meet the eligibility criteria for the purposes of buying, constructing or extending their principal residence. During the year 718 Housing Advances, totaling K7.5million, were granted to Nambawan Super Fund Members.

Judging by the feedback we received during 2011, our member newsletter Toktok Super is doing a very good job in keeping Members up-to-date with superannuation issues and developments, news about the Fund and its investments, the growing list of special Member benefits and discount offers. Nambawan Super has negotiated with leading PNG businesses, as well as providing valuable ideas to help Members manage their money more effectively.

We introduced a new information service during the year. With the launch of SuperText, Members now have secure access to account balance information very conveniently via their Digicel mobile phones. One of the benefits of this facility is that it reminds Members their superannuation contributions are their own money, working hard on their behalf to build their retirement benefits.

The November 2010 National Budget started 2011 on a good note for our Members employed by the State. It formalized the allocation of Government funds to pay ongoing super contributions for Government employees as well as contribution arrears. I am delighted to report that over the course of the year contribution arrears of K350 million were paid to the benefit of our Government employee Members.

We continue to liaise with Government to ensure all outstanding arrears are paid more efficiently.

Another key administrative achievement during 2011 was the successful completion of the clean up of the troubled Public Employees Association Superannuation Fund (PEASF) in our capacity as the Fund's new Trustee, appointed by the Bank of PNG. In an enormous undertaking over the course of 18 months, PEASF's records were restored and regularised and the savings balance preserved, enabling PEASF Members' super accounts to be credited with 70% interest and allowing claims to be paid.

Managing Director's Statement

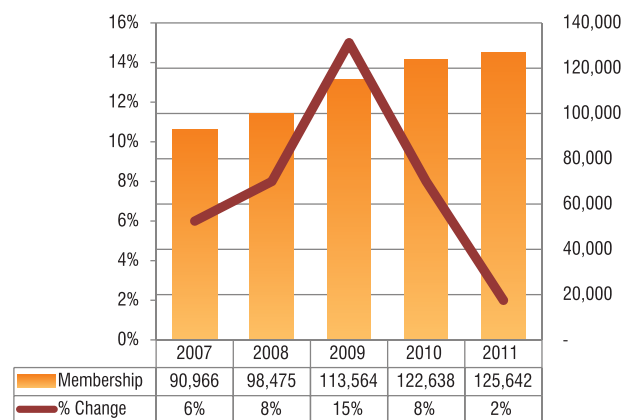
PAUL YANGEN Acting Managing Director

In spite of all these activities associated with investing in the business, I am very happy to report that Nambawan Super's management expense ratio (MER) dropped by more than 20%, from 1.21% in 2010 to 1% in 2011. The MER measures the total cost of running the Fund as a percentage of the average net asset value. A low MER is a good indication of prudent management and effective cost control.

During the year we welcomed over 3,000 new Members to Nambawan Super, bringing total membership at the end of the year to 125,642. I am delighted to note that, as in 2010, an increasing proportion of our membership is represented by part time, casual and ancillary employees. We congratulate employers who are meeting their superannuation responsibilities for these staff members as well as for their full time employees. We encourage employers with less than 15 employees to consider extending the benefits of superannuation to their own staff.

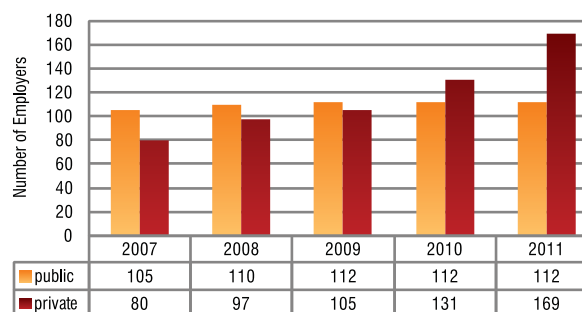
As the following chart shows, over the past 5 years our Membership has increased by over 38%.

Membership movement per year



During the year 38 new private sector employers also selected Nambawan Super as their superannuation partner, as this chart shows.

Contributing Employer - Public vs Private



The increase in the number of our members making voluntary contributions suggests that people are now starting to embrace superannuation as a positive way to be responsible for their own long term financial security. As the following table shows, over the past 5 years the number of members making voluntary contributions has increased drastically.

Voluntary Contribution

| Year | No. of members | Contributions (Km) |
|------|----------------|--------------------|
| 2007 | 151 | 0.15 |
| 2008 | 742 | 0.51 |
| 2009 | 1,399 | 1.04 |
| 2010 | 2,435 | 2.3 |
| 2011 | 3,543 | 4.1 |

In bringing my comments to a close, I would like to add a footnote to our Chairman's observations on the Fund's results for 2011. By the time you reach your retirement many of you will be able to count the term of your Nambawan Super membership in decades rather than years.

Over such a long period, even dramatic short-term investment market ups and downs, such as we have seen in the recent past are smoothed out, largely due to the power of compounding.

With this in mind, we encourage Members to set reasonable and realistic expectations for the performance of your super fund, which acknowledge all the external economic factors that affect returns. Expecting high returns every year is neither reasonable nor realistic, which is why our investment objective is realistic.

However, you can certainly have high expectations that Nambawan Super is looking after your best interests through prudent management and decision-making.

On behalf of Members I take the opportunity to thank the many people and organisations whose dedication and commitment contribute to the ongoing success of Nambawan Super. Sincere thanks to our Chairman and the Directors, with a special mention of appreciation to former Managing Director Leon Buskens, who has been an inspiring leader of the organisation for so many years.

I also acknowledge the valuable contribution made by members of our committees, our Investment Manager and Fund Administrator, our external specialist advisers and our service providers.

Last, but certainly not the least, I extend a special vote of thanks to the dedicated management and staff of Nambawan Super, who have worked very hard to meet the challenges of 2011 to make sure our Members' best interests are served.

Paul Yangen

Acting Managing Director

Our People

Nambawan Super firmly believes that to provide high quality Member service firstly we must employ talented people with the right skills, attitude, aptitude and capacity. Then we must foster a work environment in which our people are motivated to reach their individual potential.

To this end, we are committed to providing the right resources to empower all staff members, including appropriate learning and development and career advancement opportunities.

Staffing in 2011

| Staff Level | National | Expatriate | Total |
|--------------|------------|------------|------------|
| Full time | 44 | - | 44 |
| Contract | 86 | 1 | 87 |
| Casual | 2 | - | 2 |
| TOTAL | 132 | 1 | 133 |

Skills development and continuous learning

During 2011 all Nambawan Super employees, participated in customer services courses to prepare for the implementation of the new Member service standards scheduled for 2012. As well, 30 new staff Members attended the induction program. Effective risk management is a key governance priority for the organisation. Twenty-four employees attended a workshop on internal risk reporting.

Several staff members attended training provided by external institutions as part of professional development programs associated with their particular qualifications and occupation. Nambawan Super recognises the value of membership of professional associations in building the skills and capacity of key staff. During the year the company sponsored such memberships for a number of employees.

Other external courses attended by Nambawan Super staff during the year covered a range of professional disciplines, including human resource management, accounting, IT and treasury management.



Standing - Left-Right: Steven Avel | Manager Member Services; Jeffery Levongo | Manager Projects & PR/Marketing; Russell Tato | Manager Internal Audit; Terence Wilson | Manager Savings & Loans Society; David Rovou | Acting Manager Property; Johnson Manary | Manager Information Technology; Thomas Opa | Manager Compliance & Monitoring
Sitting Left-Right: Heartly Kanaiat | Acting General Manager Finance & Administration; Wayne Smith | General Manager Commercial; Paul Yangen | Acting Managing Director; Andrew Esler | General Manager Member Services; Patricia Taureka | Company Secretary & Manager Legal; Michelle Kulu | Acting Manager Human Resources & Administration

Occupational health and well-being

As in previous years, Nambawan Super encouraged staff members to participate in activities designed to build awareness of workplace safety and promote a healthy work/life balance. Initiatives included a weekly health walk and community and charity support.

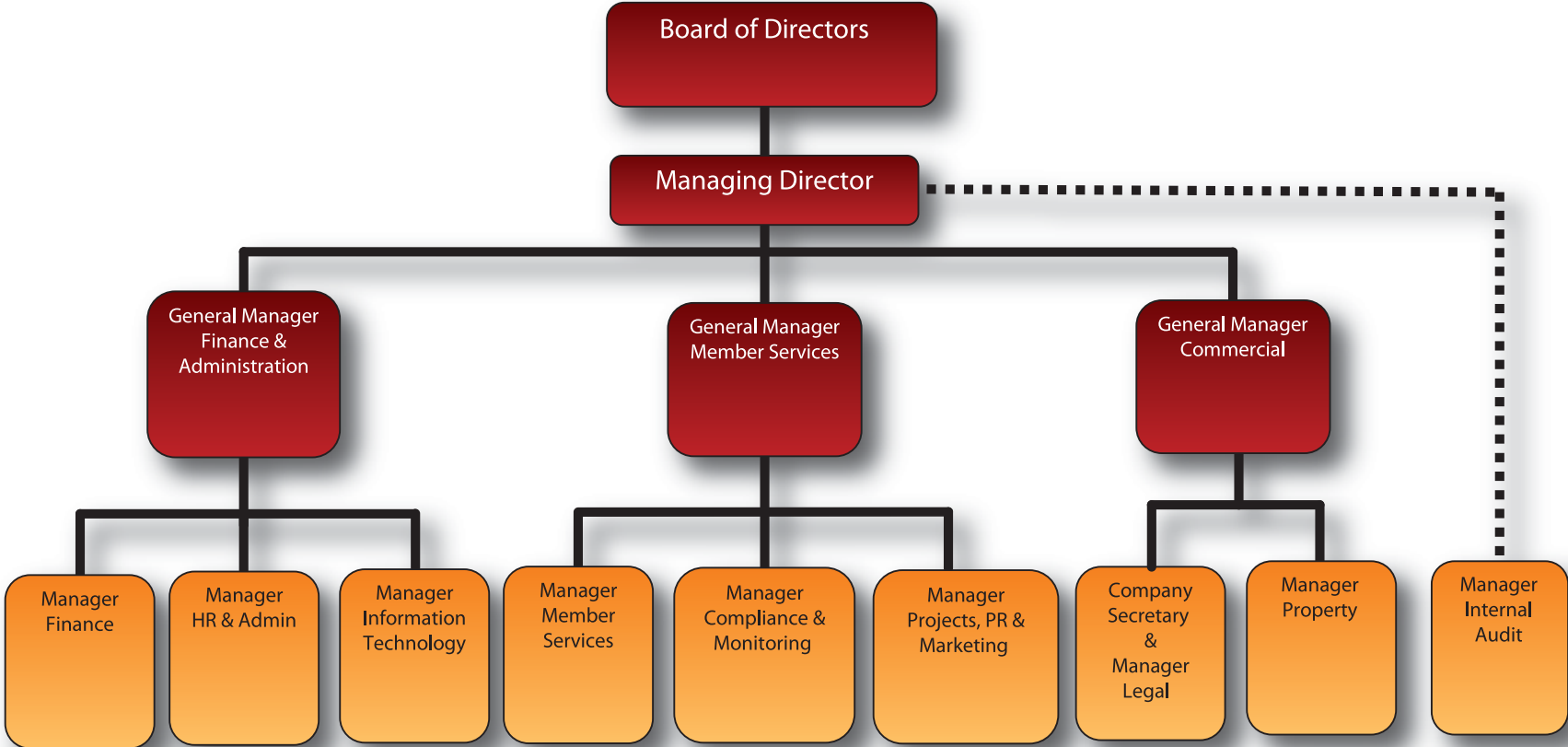
During 2011 staff attended a number of general awareness presentations, on topics ranging from safety at work, healthy lifestyle management to information sessions by some of PNG's leading businesses.

Salary levels

The following table shows the number of employees whose remuneration package, including housing allowances and other benefits and employer contribution to superannuation exceeded K100,000.

| Salary range | Number of employees |
|-----------------------|---------------------|
| 130,000 – 139,999 | 1 |
| 140,000 – 149,999 | 1 |
| 200,000 – 209,999 | 1 |
| 210,000 – 219,999 | 1 |
| 230,000 – 239,999 | 3 |
| 250,000 – 259,999 | 1 |
| 400,000 – 409,999 | 1 |
| 700,000 – 709,999 | 1 |
| 1,090,000 – 1,099,999 | 1 |
| Total | 11 |

Organisational Structure



Comparative Statistics Summary

| | | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|------|---------|---------|---------|--------|--------|
| PROFITABILITY | | | | | | |
| Total investment income | K(m) | 72 | 313 | 241 | 190 | 526 |
| Total expenses | K(m) | 34 | 36 | 35 | 25 | 21 |
| Income tax expense | K(m) | 14 | 14 | 16 | 15 | 11 |
| Net profit after income tax | K(m) | 24 | 263 | 190 | 150 | 490 |
| BALANCE SHEET | | | | | | |
| Net assets | K(m) | 3,235 | 3,093 | 2,830 | 2,622 | 2,261 |
| Net asset growth | % | 5 | 9 | 8 | 16 | 49 |
| Reserves | K(m) | 47 | 79 | 73 | 67 | 149 |
| Reserves as a % of Net Assets | % | 1.46 | 2.54 | 2.58 | 2.54 | 6.6 |
| Retirement Savings Account balance | K(m) | 63 | 49 | 40 | 24 | 12 |
| RETURN TO MEMBERS | | | | | | |
| Rate of return on funds employed | % | 6.8 | 7.9 | 13.3 | 12.5 | 42 |
| Interest credited to members | % | 2 | 10 | 10 | 11.5 | 32.0 |
| Headline inflation rate | % | 6.9 | 7.2 | 5.7 | 11.2 | 3.2 |
| Real return to members | % | -4.9 | 2.8 | 4.3 | 0.3 | 28.8 |
| MEMBERSHIP | | | | | | |
| Number of members | | 125,642 | 122,638 | 113,564 | 98,475 | 90,966 |
| Average wealth per member | Kina | 25,892 | 25,218 | 24,920 | 26,626 | 24,851 |
| Number of RSA participants | | 3,327 | 1,787 | 1,406 | 836 | 512 |
| Average number of pensioners | | 448 | 650 | 694 | 722 | 670 |
| MEMBER CONTRIBUTION & BENEFITS | | | | | | |
| Contributions | K(m) | 562 | 380 | 274 | 413 | 349 |
| Gross exit payouts | K(m) | 425 | 381 | 255 | 203 | 166 |
| Number of exit payments | | 4,502 | 5,238 | 3,513 | 3,732 | 3,220 |
| Total pension payments | K(m) | 2 | 3 | 3 | 4 | 7 |
| TRUSTEE EXPENSES | | | | | | |
| Management expenses | K(m) | 34 | 36 | 35 | 25 | 21 |
| Management expense ration (MER) | % | 1.0 | 1.21 | 1.27 | 1.0 | 1.2 |
| Fund Administration fee | K(m) | 4.6 | 3 | 3 | 2.1 | 2 |
| Investment Management fee | K(m) | 8.6 | 9 | 9 | 8.2 | 6.1 |
| Number of staff | | 133 | 119 | 115 | 96 | 90 |

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 2011 Financial Year.

YEAR IN REVIEW

2011 was the start of another 5 years partnership between Nambawan Super and Kina Investment & Superannuation Services and we commenced the year with a strong set of objectives to achieve and a new focus on how we jointly can best deliver superior services to members of Nambawan Super.

KISS embarked on a significant system upgrade which is the cornerstone for the change in the service model the Fund Administrator and the Trustee set out to achieve. The new system brings administration of members of Nambawan Super into a new spectrum of serviceability and transparency. This technology coupled with the significant physical presence of 15 branches Nambawan Super has throughout the country means that members will no longer endure significant costs and time to obtain their entitlements for retirement.

Nambawan Super released their "SuperText" Service in March 2011 which is a secure, efficient way for members to obtain their current superannuation balance and with over 6,000 members subscribing to the service it is proving to be an effective form of communicating with the members. With access to member balance via the Nambawan Super website and now the Super Text service along with enquiring via the Nambawan Super contact centre or entering into the array of branches across the country, members are able to monitor their superannuation balance grow for a healthy retirement.

It is pleasing to note that there was a significant increase in the percentage of members that were eligible for retirement chose to leave a portion of the money behind in the Retirement Savings Account. But what is of greater interest is the number of members that came forward and collected their entitlement from the fund. The number of members that came forward has been the smallest number of members in many years. Given that the inactive membership in Nambawan Super has grown significantly the reluctance for members to collect on their entitlement appears to correlate with the skilled labour shortfall currently experienced in Papua New Guinea attributed to the LNG project.

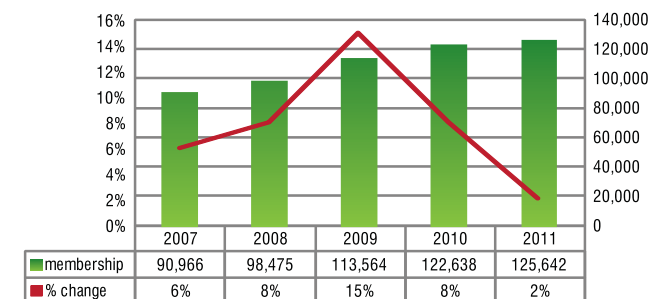
In 2010 the Bank of Papua New Guinea appointed Nambawan Super Limited responsible for the management of the proceeds held in the Public Employees Association Superannuation Fund. KISS under the guidance of Nambawan Super has made significant inroads into resolving this issue for the members in this fund. All historical contributions have been allocated to the system and a final review of the performance of the assets held by Kina Funds Management has taken place to determine a crediting rate and entitlement positions for members of this fund.

MEMBERSHIP

Membership for the fund in 2011 grew by 2%. Total membership as at 31 December 2011 was 125,642.

We still continue to face challenges keeping members' biographical details up to date, especially for those members that are employed in the public sector. With the new strategy in place with Nambawan Super being responsible for member interaction and engagement and supported by the new

Membership Movement



technology we should soon see a significant improvement in this area.

There still continues to be strong growth in the number of new private sector companies and individuals joining the Fund as there were more private sector employers than government and statutory bodies contributing to the fund for the first time since the superannuation reform in 2002, and this is expected to increase further in 2012 as the momentum of the LNG project accelerates and more companies, especially foreign, join the economic landscape of Papua New Guinea.

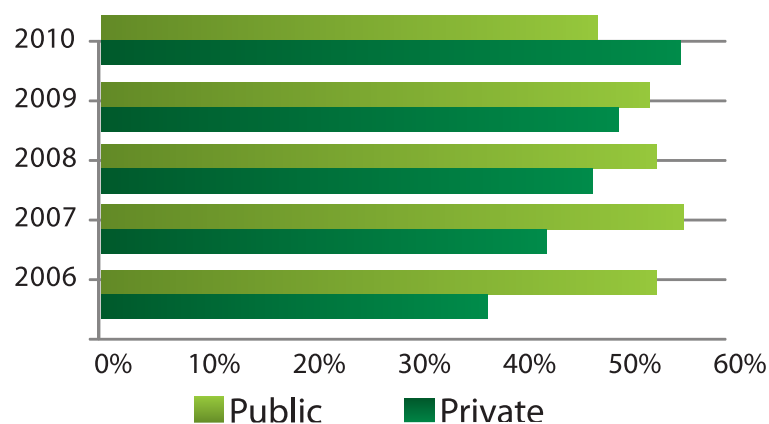
As predicted from last year's summation there has been a significant movement in the number of private employers contributing to Nambawan Super Limited. As a result of more companies becoming engaged in Papua New Guinea, stemming from the LNG project and other resource projects we are seeing a raft of new employers making contributions as prescribed by the legislation on behalf of their employees.

Fund Administrator's Statement

KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED



EMPLOYERS



CUSTOMER SERVICE

2011 will be the last year that members of Nambawan Super will interact with staff at KISS. For the last decade KISS has been the point of contact for members of the fund that they contribute to but under a new strategy adopted by the Trustee, KISS will now be silent in terms of customer service and member engagement. With the extensive branch rollout that Nambawan Super undertook in 2011 that is due to expand on in 2012 places the fund in a better position to manage member interaction.

I do reiterate that to enable Nambawan Super to successfully service members a significant investment in technology was required and was implemented by the end of 2011. This investment means that all requests are recorded and monitored to ensure members receive the service expected.

RETIREMENT SAVINGS ACCOUNT

I am continually pleased to see that members of Nambawan Super are leaving money with the Fund for use in the later years of their retirement. 23% of members who claimed their superannuation entitlements in 2011 held back some portion of their entitlements to remain invested in the Retirement Savings Account. This is an 8% increase from last year.

HOUSING ADVANCE

In 2011, K7.47 million in housing advances were allocated to 718 members who applied for the purpose of building a new dwelling, improving or extending an existing dwelling on either urban or customary land. There are currently 9,161 members repaying their housing advance.

CONTRIBUTIONS

The government paid the full outstanding for the employer contributions from 2010 and contributed most of the employer contributions for 2011.

BENEFITS PAYMENTS

The total number of members paid their benefits during 2009 to 2011 were:

| Exit Type | 2009 | 2010 | 2011 |
|---------------------------------------|-------|-------|-------|
| Resignation, Retrenchment, Retirement | 4,360 | 4,398 | 2,952 |
| Death | 277 | 830 | 236 |
| Unemployment | 1,688 | 1,553 | 1,314 |

2012 FORECAST

As the new technology was implemented at the end of 2011 KISS will evolve from a customer facing fund administrator to a more process oriented fund administrator. Our focus will be on delivering payments of entitlements to the members of Nambawan Super as expeditiously as possible. We now have the tools in place to measure service delivery and therefore will strive to continue to improve against these metrics.

We also feel that it is time for some change in the Superannuation legislation and along with the other members of the Papua New Guinea Superannuation framework will lobby to see product development within superannuation including but not limited to insurance products.

Kina Investment & Superannuation Services is committed to supporting Nambawan Super to be the most successful and respected superannuation fund in Papua New Guinea and I think the significant investment and projects undertaken to improve our systems in 2011 is testament to this commitment and the commitment we have given Nambawan Super for the next 5 years.

SEAN YOUNG

Group Manager Superannuation Services
Kina Investment & Superannuation Services

Investment Manager's Statement

KINA FUNDS MANAGEMENT LIMITED



1. Investment Strategy

The Fund's primary purpose is to preserve and maximise superannuation benefits of members through prudent investment management. The investment strategy guides the investment decisions we make as the Investment Manager. Our investment aim is to achieve solid targeted returns in order to meet the Fund's primary purpose. The Fund's objective is to provide an after-tax return of at least +2% per annum above CPI with negative returns in no more than one in five years.

During the year 2011, The Board in consultation with the Joint Investment Consultative Group (ICG) has reviewed and developed the investment strategy to be aligned with the current market condition, maximise returns for each asset class and strengthen risk management.

2. Investment Portfolio Performance

The Fund's investment portfolio increased as at 31 December 2011 to K3,121.80 million, an increase of K153.6 million or 5.2% from K2,968.2 million at end of December 2010. The increase in the portfolio was mainly attributed to the receipts of the K382 million unfunded liabilities from the state and investment income of K71.7 million and offset by the net withdrawal from the Fund.

The investment income was mainly due to the valuation of unlisted equities and domestic listed equities offset by the following: (1) the exchange rate loss in the cash and assets portfolio denominated in foreign currencies (the Kina appreciated against foreign currencies); (2) the valuation losses from international listed equities; and (3) valuation loss on Property.

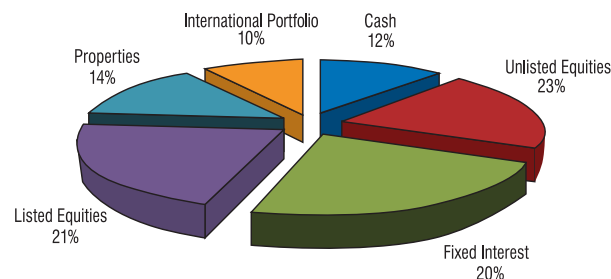
3. Portfolio Composition

The Fund continually maintains and improves an extensive range of investments to diversify our risks. This table compares the mix of investments in the portfolio as at 31 December 2011 with the asset class breakdown at the end of the previous year.

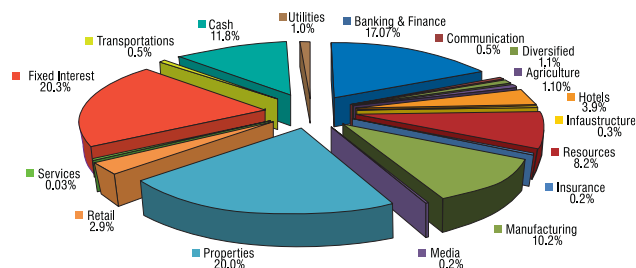
Table 1: Composition of Investment

| Asset Class | Portfolio Value (K million) | | Percentage Holdings | |
|-------------------|-----------------------------|-----------|---------------------|-----------|
| | 31-Dec-11 | 31-Dec-10 | 31-Dec-11 | 31-Dec-10 |
| Cash | 366.7 | 368.1 | 11.7 | 12.4 |
| Fixed Interest | 625.2 | 438.8 | 20.0 | 14.8 |
| Unlisted Equities | 724.8 | 588.4 | 23.2 | 19.8 |
| Listed Equities | 666.6 | 736.0 | 21.4 | 24.8 |
| Property | 437.8 | 476.8 | 14.0 | 16.1 |
| International | 300.6 | 360.7 | 9.6 | 12.1 |
| | 3,121.8 | 2,968.8 | 100.0 | 100.0 |

Graph 1: Asset Allocation within the Fund's portfolio

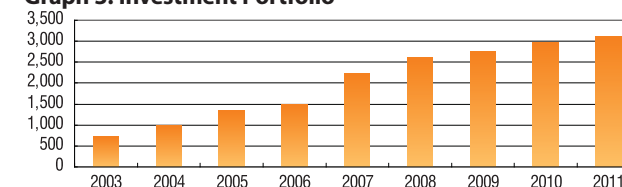


Graph 2: Total Portfolio by sector



The chart below shows the increase in the investment portfolio since 2003. The investment portfolio has increased four times the level of 2003 with an average annualised growth of 20% per annum.

Graph 3: Investment Portfolio



4. Portfolio Composition by Asset Class

4.1 Cash

The Fund's domestic cash portfolio comprises bank at call and term deposits, government securities and loans with a term less than 90 days to maturity. As at 31 December 2011 the Fund held a total of K366.7 million in this asset class, which represents 11.7% of the total portfolio, above the target allocation of 3% as outlined in the investment strategy. Liquidity position are managed by targeting weekly maturities of the cash and fixed interest investment in order to achieve liquidity and still meet the cash buffer limit.

4.2 Fixed Interest

The Fixed Interest Portfolio comprises bank term deposits, government securities and loans with terms equal or more than 90 days to maturity. As at 31 December 2011, the value of fixed interest securities in the Fund was K625.2 million, which represented 20.0% of the total portfolio. This is below the target allocation of 21% outlined in the investment strategy. We are actively participating in longer term maturities of bank term deposit and government securities to reduce cash and maximise cash returns. Fixed interest is used as secondary cash buffer. Certain securities and bank deposits can be liquidated if required to generate cash.

Investment Manager's Statement

4.3 Equities

The Domestic Equities Portfolio consists of listed and unlisted equities. As at 31 December 2011, the Fund's equities portfolio stood at K1,391.3 million. This represents an increase of K67 million or 5.1% from the K1,324.4 million total for 2010.

4.3.1 Listed Equities

As at 31 December 2011, the Domestic Listed Equities portfolio was valued at K666.6 million which represented 21.4% of the portfolio. During the year City Pharmacy Limited (CPL) shares was added to its domestic listed equities portfolio. The acquisition of CPL shares is for both financial and strategic interest. Over the year, the Fund continued to reduce exposure to Bank of South Pacific (BSP), supported by the banks own buy-back program. Whilst the Fund was able to reduce its BSP shares by the full quota allowable by the buy-back program, the uplift and end of year price of K7.50 mitigated the Fund's overall strategy of actively decreasing its exposure to our less liquid holdings in the domestic equities portfolio.

This table shows the Fund's equity holding listed on the Port Moresby Stock Exchange (POMSoX) and shares listed jointly with the Australian Securities Commission (ASX) or the London Stock Exchange (LSE):

Table 2: Domestic Listed Equities

| Listed Equities | Stock Exchange | Industry/ Sector |
|--------------------------|----------------|------------------|
| Bank South Pacific Ltd | POMSoX | Banking/Finance |
| Credit Corporation Ltd | POMSoX | Finance/Property |
| City Pharmacy Ltd | POMSoX | Health/Retail |
| Highlands Pacific Ltd | POMSoX/ASX | Mining |
| Marengo Mining Ltd | POMSoX/ASX | Mining |
| New Britain Palm Oil Ltd | POMSoX/LSE | Agriculture |
| Oil Search Ltd | POMSoX/ASX | Oil & Gas |

4.3.2 Unlisted Equities

The value of the Fund's unlisted equities portfolio at the end of the year was K724.8 million, up by K136.4 or 23.2% from K588.4 million at 31 December 2010.

Table 3: Domestic Unlisted Equities

| Unquoted Ordinary Shares | Industry/Sector | Holdings (%) |
|--|-----------------------------|--------------|
| Alotau International Hotel Ltd | Hotel | 34 |
| Brian Bell & Co. Ltd | Wholesale/Retail/Merchant | 34 |
| Capital Life Insurance Company Ltd | Insurance | 34 |
| Capital Way Holdings Ltd | Telecommunications | 10 |
| Gazelle International Hotel Ltd | Hotel | 65 |
| Kumul Hotels Ltd | Hotel | 55 |
| 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 |

4.4 Properties

The Fund's Properties Portfolio comprises commercial, residential, industrial and land. As at the end of 2011, the portfolio was valued at K437.8 million, which represents 14.0% of the total investment portfolio.

The following key properties activities were achieved during the year:

- Commenced rationalization of the portfolio to focus on more strategic high value assets.
- Revised Property Strategy and development of the 5 year Property Plan.
- Commence delivery of projects under revised project delivery framework.
- Audits undertaken on the POM commercial properties.
- Construction progressed on IPI mixed use development, POM, Lae and the Holiday Inn development.
- Construction commenced on 8 Mile sub-division project.
- Design progressed on Kokopo Commercial Development and Portion 212 Refurbishment.
- Design and procurement completed on the following developments:
 - Touaguba Apartments
 - OPH Commercial Development
 - Bayside Apartments refurbishment

Investment Manager's Statement

Table 4: Property Portfolio as at 31 December 2011:

| Properties | Location | Description |
|---|--------------|---|
| COMMERCIAL BUILDINGS | | |
| Era Rumana (S20 L6&7 Champion Parade) | Port Moresby | 7 Level Commercial Office Complex in the CBD |
| Mogoru Moto (S20 L8&9 Champion Parade) | Port Moresby | 9 Level Commercial Office Complex in the CBD |
| 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 and Lands Department |
| Vulupindi Haus (S405 L15 Waigani Drive) | Port Moresby | 6 Level Commercial Office Complex in Waigani. Leased to the Finance & National Planning Department |
| Revenue Haus (S20 L11 Champion Parade) | Port Moresby | 9 Level Commercial Office Complex in the CBD |
| Burns House (S19 L20 Champion Parade) | Port Moresby | 4 Level Mixed Office & Retail Space in the CBD |
| Century 21 (S25 L34 Hunter St) | Port Moresby | Accommodates the Century 21 office in Town CBD |
| Port Tower (S3 L21 Hunter Street) | Port Moresby | 9 level Mixed Use Commercial/ Residential Complex in the CBD |
| Vele Rumana (S6 L19&20 4th Street, Top Town) | Lae | 6 Level Commercial Office Complex in the CBD |
| S88 L3 | Lae | Commercial Building (Big Rooster) |
| INDUSTRIAL PROPERTIES | | |
| S15, 16& 17 L64 (Gordons - Warehouse) | Port Moresby | NSL Data Storage Facility |
| S64 L41 (Huon Road) | Lae | Retail Shop & Service Station |
| Angco L5, 6, 19&20 S34 (Macdhui Street) | Lae | Industrial Warehouse |
| L23 S50 (Milfordhaven Road) | Lae | Industrial Warehouse |
| S24 L7 (Bataden Road) | Madang | BP Madang Service Station |
| RESIDENTIAL APARTMENTS | | |
| Bayside Apartments (Portion 178) | Port Moresby | 42 x 2&3 Bedroom Residential Units located at Koki |
| Lawes Road (S7 L24) | Port Moresby | 20 x 2&3 Bedroom Units located on Lawes Road |
| Pacific Vista (S42 L14) | Port Moresby | 7 x 3 Bedroom Executive Apartments located on Ogoa Street |
| Toaguba Apartments (S63 L22 Daugo Drive) | Port Moresby | Refurbish 9 Existing Residential Apartments |
| Cedar Units (S33 L11 Hibiscus St.) | Lae | 8 x 3-Bedroom Units |
| Hibiscus Street, Eriku (S33 L11) | Lae | 6 Residential Units |
| Portion 212 (Portion 212, Boundary Road) | Lae | Residential unit complex |

| Properties | Location | Description |
|---|--------------|--|
| VACANT PROPERTY | | |
| Bautama Land | Port Moresby | Currently assessing options |
| Goroka (S82 L3 Elizabeth St) | Goroka | Sold 2012 |
| Taurama Land (Old Squash Club) | Port Moresby | Currently assessing options |
| PROPERTIES IN HOLDING COMPANIES | | |
| Coastwatchers Court Ltd | Port Moresby | Holding company that owns 31 newly constructed apartments on Touaguba Hill. NSL owns 65% of the company. |
| Hunter Ltd | Port Moresby | Holding company that owns the Defens Haus in the CBD. NSL owns 30% of the company. |
| Moki No.10 Ltd | Australia | Holding company that owns Cairns Conservatory Building. NSL owns 100% of the company. |
| Morobe Front Holdings Ltd | Lae | Holding company that owns the Lae Waterfront Land as its sole asset. NSL owns 100% of the company. |
| UPCOMING DEVELOPMENTS | | |
| 4 Mile Land | Port Moresby | Seeking a corporate or institutional anchor for a commercial office development in Boroko |
| 9 Mile Land (Portion 989, 1568, 2124, 2156 & 2159) | Port Moresby | On-going efforts and consultation with NCDC and Lands Department for a proposed "satellite town" development. |
| Bayside Apartments | Port Moresby | Evaluation of refurbishment options completed and progress to construction soon. |
| Old Parliament House Ltd | Port Moresby | Joint development with Lamana for a 9 storey commercial building. Construction work commenced in December 2011 |
| Waigani Asset Ltd | Port Moresby | Joint development with Lamana for 4 storey building – Approaching Completion |
| Portion 212 | Lae | Progressed to tender stage, followed by commencement of refurbishment work. |
| IPI | Lae | A mixed use commercial building which is scheduled for completion in April 2012 |
| Kokopo Market Land (S22 L7&8) | Kokopo | Tenders to be called soon for construction of two level mixed commercial and office building |

Investment Manager's Statement

4.5 International Portfolio

The International Portfolio includes bank call accounts, term deposits, listed equities, unlisted equities and properties. The total International Portfolio holding as at 31 December 2011 was K300.6 million which represents 15.8% of the total investment portfolio.

The international portfolio is structured to allow the Fund flexibility and convenient access to investments that will benefit from economic growth outside of PNG's limited pool of available investments domestically, the local market structure, our economic situation and PNG's social demographics. The Fund's dominant strategy in terms of the International Listed Equities portfolio has been passive, value and growth.

2011 was a difficult year for international listed equities and dual listed equities. These contributed negatively to the Fund's return. Not only did the PNG Kina appreciate by over 20% against most currencies but international shares prices also generally fell. The Fund was severely impacted by the large fall in Highlands Pacific shares.

NSL is continuing its strategic alliance and partnerships with some of the globally most respected investment houses such as RBS Morgan, Credit Suisse and Barclay's Wealth. They are mandated to seek opportunities and recommend investments globally.

Listed equities within the international portfolio as at 31 December 2011 (market value of K169 million):

Table 5: International Listed Equities

| Listed Equities | Industry/Sector |
|--|--------------------------|
| ANZ Banking Group Ltd | Banking/Finance |
| AMP Ltd | Banking/Finance |
| Barclays Discretionary Mandate | Various |
| BHP Billiton Ltd | Mining |
| Bougainville Copper Ltd | Mining |
| Coca-Cola Amatil Ltd | Consumer Staple |
| Commonwealth Bank of Australia Ltd | Banking/Finance |
| Ishares – MSCI all countries Asia (ex Japan) | Exchange Traded Fund |
| Newcrest Mining Ltd | Mining |
| QBE Insurance Group Ltd | Insurance |
| Rio Tinto Ltd | Mining |
| Transurban Group Ltd | Infrastructure |
| Mirvac | Property Trust |
| Multiplex Site Trust | Property Trust |
| National Australia Bank | Banking/Finance |
| Telstra Ltd | Communications |
| Westfield Group Ltd | Property |
| Westfield Retail Trading | Retail |
| Woodside Petroleum Ltd | Petroleum |
| Woolworths Ltd | Retail |
| Westpac Banking Corporation Ltd | Banking/Finance |
| Vanguard International Shares Index Fund | Global Fund ex Australia |

The existing investments within the portfolio were carefully selected to contribute to the quality of their respective asset class and purchased at reasonable value to be held for medium to long periods. This maximizes tax-efficiency and allows the power of compounding to build wealth for NSL members. The Fund targets combinations of assets with low correlation for diversification and blending of investment styles.

Unlisted securities within the International Portfolio as at 31 December 2011 (market value of K72.3 million):

Table 6: International Unlisted Equities

| Unlisted Equities | Industry/Sector |
|------------------------------------|---------------------|
| AMP Community Infrastructure Trust | Infrastructure Fund |
| Corsair (Jersey) No.2 Ltd | Managed Income Note |
| Cypress Tree Synthetic CDO Ltd II | Managed Income Note |

The International Portfolio also includes several alternative investments with a total value of K54.5 million, selected and managed by Access Capital Advisors (ACA), an Australia-based investment manager specialising in alternative investments. Independent valuers conduct annual valuations of the 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 over the last few years.

These alternative investments include:

Table 7: ACA Managed Investments

| Listed Equities | Industry/Sector |
|------------------------------------|--------------------------------------|
| Carrix Inc | Container- Marine – US |
| FKP Core Plus Fund 1 | Property Trust – Australia |
| FKP Core Plus Fund 2 | Property Trust – Australia |
| 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 |

These investments will be sold or exited at maturity.

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

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Independent Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011, and the statement of comprehensive income, statement of changes in members funds and statement of cash flows for the year ended on that date, a summary of significant accounting policies, and other explanatory notes.

Trustees' responsibility for the financial statements

The directors of Nambawan Super Limited, being the Fund's Trustee, are responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Practice in Papua New Guinea, the Superannuation (General Provisions) Act 2000 and the financial statements requirements embodied in the Companies Act 1997 and for such internal control as the Trustees determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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, 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.

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 are in accordance with the financial statement requirements embodied in the Companies Act 1997, including giving a true and fair view of the Fund's financial position as at 31 December 2011 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 requirements

We confirm that:

1. in our opinion proper accounting records have been kept by the Fund, so far as appears from our examination of those records;
2. we have obtained all the information and explanations we have required; and
3. 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 so that we might state to Fund's members those matters we are required to state to them in an auditors report 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



G E Burns
Engagement Leader



S C Beach
Partner
Registered under the Accountants Act 1996

Port Moresby
30 March 2012

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Notes | 2011 K'000 | 2010 K'000 |
|---|-------|---------------|---------------|
| REVENUE | | | |
| Investment income | | | |
| Interest | 3(a) | 56,198 | 56,104 |
| Dividends | 3(b) | 96,892 | 59,841 |
| Property rentals | 3(c) | 54,165 | 46,617 |
| Foreign exchange gains/(losses) | 3(e) | (14,484) | 5,487 |
| Net gains/(losses) on assets at fair value | 3(d) | (103,276) | 154,990 |
| Less: Direct investment property expenses | | (18,075) | (11,074) |
| | | 71,419 | 311,965 |
| Other income | 3(f) | 280 | 753 |
| | | 280 | 753 |
| Total income | | 71,699 | 312,718 |
| LESS: EXPENSES | | | |
| Management expenses | | | |
| Advertising | | 386 | 460 |
| Auditor's remuneration - statutory audit services | | 320 | 260 |
| Auditor's remuneration -other services | | - | 16 |
| Bad and doubtful debts | | (2,014) | 2,505 |
| BPNG license fees | | 695 | 441 |
| Conferences | | 76 | 86 |
| Contributor expenses | | 823 | 1,307 |
| Depreciation on property plant and equipment | | 858 | 623 |
| Directors' fees & expenses | | 705 | 764 |
| Donations | | 178 | 109 |

| | Notes | 2011 K'000 | 2010 K'000 |
|---|-------|---------------|---------------|
| Fund administration fees | | 4,570 | 3,287 |
| Office building expenses | | 606 | 383 |
| Office expenses | | 2,090 | 1,535 |
| Professional fees | | 1,022 | 1,155 |
| Staff | | 9,041 | 7,163 |
| Staff housing | | 1,261 | 1,690 |
| Travel | | 467 | 316 |
| Vehicles | | 248 | 179 |
| Other | | 131 | 160 |
| Net cash provided by/(used in) finally activities | | 21,463 | 22,437 |
| Investment expenses | | | |
| Property administration expenses | | 2,332 | 2,509 |
| Investment manager's fees | | 8,612 | 8,967 |
| Investment monitoring expenses | | 1,415 | 1,946 |
| | | 12,359 | 13,421 |
| Total expenses | | 33,822 | 35,858 |
| Total revenue less expenses paid before income tax | | 37,877 | 276,860 |
| Income tax expense | 4(a) | 13,966 | 13,523 |
| Net profit after tax | | 23,911 | 263,337 |
| Other Comprehensive income | | | |
| Revaluation of property plant & equipment - surplus/(deficit) | | 67 | 466 |
| Total Comprehensive income | | 23,978 | 263,803 |

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

Statement of Changes in Members' Funds

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | Contributors' Funds K'000 | Pensioners' Funds K'000 | Retirement Savings Account K'000 | Revaluation Reserve K'000 | Retained & General Reserves K'000 | Total K'000 |
|--------------------------------|-------|------------------------------|----------------------------|-------------------------------------|------------------------------|--------------------------------------|----------------|
| Balance as at 31 December 2009 | | 2,696,241 | 20,895 | 39,866 | 2,539 | 70,519 | 2,830,060 |
| Contribution received | 11(a) | 380,097 | - | - | - | - | 380,097 |
| Benefit payments | | (359,922) | (2,574) | (18,834) | - | - | (381,330) |
| Interest allocation | 11(a) | 258,177 | - | - | - | (258,177) | - |
| Profit for the year | | - | - | - | - | 263,337 | 263,337 |
| Other comprehensive income | | - | - | - | 466 | - | 466 |
| Transfers | | (27,795) | - | 27,795 | - | - | - |
| Balance as at 31 December 2010 | 11 | 2,946,799 | 18,321 | 48,827 | 3,006 | 75,679 | 3,092,630 |
| Contribution received | 11(a) | 561,947 | - | - | - | - | 561,947 |
| Benefit payments | | (398,339) | (2,472) | (24,642) | - | - | (425,453) |
| Interest allocation | 11(a) | 55,237 | - | - | - | (55,237) | - |
| Profit for the year | | - | - | - | - | 23,911 | 23,911 |
| Other comprehensive income | | - | - | - | 67 | - | 67 |
| Transfers | | (38,799) | - | 38,799 | - | - | - |
| Balance as at 31 December 2011 | 11 | 3,126,844 | 15,849 | 62,984 | 3,073 | 44,353 | 3,253,102 |

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 2011

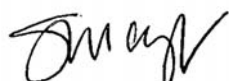
| | Notes | 2011 K'000 | 2010 K'000 |
|--|---------|------------------|------------------|
| INVESTMENTS | | | |
| Short-term deposits | 5(a) | 382,017 | 383,512 |
| Held to maturity (government securities) | 5(b) | 566,235 | 391,458 |
| Other investments held to maturity | 5(c) | 12,490 | 11,799 |
| Loans | 5(d) | 58,995 | 47,318 |
| Financial assets at fair value | 5(e-h) | 1,632,184 | 1,632,485 |
| Investment properties | 5(i) | 437,834 | 476,771 |
| Total investments | | 3,089,755 | 2,943,343 |
| OTHER ASSETS | | | |
| Cash and cash equivalents | 6 | 31,522 | 25,361 |
| Trade receivables & other debtors | 7 | 129,058 | 146,388 |
| Income tax refundable | 4(b) | 9,108 | 7,528 |
| Assets held for sale | 10 | 27,367 | - |
| Property, plant and equipment | 8 | 12,977 | 13,521 |
| Total other assets | | 210,032 | 192,798 |
| TOTAL ASSETS | | 3,299,787 | 3,136,141 |
| LIABILITIES | | | |
| Benefits payable | | 1,663 | 1,700 |
| Trade and other creditors | 9 | 38,186 | 34,017 |
| Provisions | | 2,086 | 2,504 |
| Deferred income tax liabilities | 4(c) | 4,750 | 5,289 |
| TOTAL LIABILITIES | | 46,685 | 43,510 |
| NET ASSETS | | 3,253,102 | 3,092,631 |
| Members' accounts and Pensioner funds | 11(a-c) | 3,142,694 | 2,965,120 |
| Retirement Savings Account | 11(d) | 62,984 | 48,827 |
| Reserves | 11(e) | 47,424 | 78,684 |
| TOTAL MEMBERS' FUNDS | | 3,253,102 | 3,092,631 |

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



Paul Yangen
Acting Managing Director

Dated: 29 March 2012

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Notes | 2011 K'000 | 2010 K'000 |
|--|-----------|------------------|-----------------|
| Cash flow from operating activities | | | |
| Interest received | | 55,323 | 57,400 |
| Dividends received | 3(b) | 96,892 | 59,841 |
| Property rentals received | | 47,292 | 39,638 |
| Other income and receipts | | 196 | 565 |
| Direct investment expenses | | (30,434) | (21,986) |
| General administration expenses paid | | (30,502) | (22,858) |
| Income tax paid | 4(b) | (15,505) | (7,213) |
| Net cash provided by operating activities | 15 | 123,262 | 105,386 |
| Cash flow from financing activities | | | |
| Employer contributions received | 11(a) | 193,834 | 61,560 |
| Member contributions received | 11(a) | 105,015 | 84,231 |
| Fund share of benefits paid (including housing withdrawals) | | (142,277) | (125,616) |
| State Share of benefit payments received | | 174,298 | 76,132 |
| State share of benefits paid | | (138,078) | (117,591) |
| Payment from Retirement Savings Account | 11(c-d) | (27,114) | (21,408) |
| Net cash provided by / (used in) financial activities | | 165,678 | (42,691) |
| Cash flow from investing activities | | | |
| Receipt of loan repayments | 5(d) | 4,708 | 5,529 |
| Loans advanced | 5(d) | (16,385) | (14,666) |
| Proceeds on maturity of Government securities | 5(b) | 318,857 | 263,040 |
| Payment for purchase of Government securities | 5(b) | (487,895) | (230,663) |
| Net investment in term deposits | 5(c) | 61 | 12,280 |
| Payment for acquisition of shares in listed equities | 5(g-h) | (89,337) | (151,500) |
| Payment for acquisition of shares in unlisted equities - offshore | 5(f) | (19,070) | (8,548) |
| Payment for acquisition of shares in unlisted equities - onshore | 5(f) | (36,497) | (26,092) |
| Proceeds on sale of shares in listed equities | | 34,604 | 127,673 |
| Proceeds on sale of shares in unlisted equities | | 934 | - |
| Return of capital from unlisted equities | | 26,579 | - |
| Payment for investment property development & acquisition | 5(i) | (36,343) | (30,457) |
| Payment for the purchase of property, plant and equipment | 8 | (1,236) | (1,695) |
| Proceeds on sale of investment properties | | 15,627 | 19,593 |
| Proceeds on sale of property, plant and equipment | | 1,121 | 362 |
| Net cash provided by / (used in) investing activities | | (284,273) | (35,145) |
| Net increase / (decrease) in cash & cash equivalents held | | 4,666 | 27,550 |
| Cash and cash equivalents at the beginning of the year | | 408,873 | 381,322 |
| Cash and cash equivalents at the end of the year | 15 | 413,539 | 408,873 |

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 2011

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

The financial statements have been authorised for issue by the directors on 27 March 2012. The Board of Directors have the power to amend the financial statements after its issue.

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, the Papua New Guinea Companies Act 1997, the Superannuation Prudential Standard 3/2008 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 thousand Kina.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property 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 recognised 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 recognised 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 held at fair value through the profit or loss are reported as part of the fair value gain or loss in relation to the financial assets.

The rates used as at 31 December 2011 were:

| | | |
|-----|--------|----------------|
| AUD | 0.4880 | (2010: 0.3482) |
| USD | 0.4804 | (2010: 0.3544) |
| GBP | 0.3116 | (2010: 0.2297) |

(d) Property, plant and equipment

Land and buildings (except for investment properties) - refer to note 1 (p) are shown at fair value based on annual valuations by external independent registered valuers (Savills NSW Pty Ltd), less subsequent depreciation for buildings. The valuation of the Fund's land and building was determined by reference to recent market transactions on arm's length terms through either direct comparison approach or capitalisation approach. Any accumulated depreciation at the date of revaluation is eliminated against the carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent 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 increase 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 asset's 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 2011

(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.

The Fund's interests in controlled entities and entities in which it holds significant influence 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 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 and deposits held at call with banks. Other short-term highly liquid investments with original maturities of three months or less are classified under investment assets.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

(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.

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

A liability for annual leave is recognised and measured at the amount of unpaid leave at amount expected to be paid to settle the present entitlements. A liability for long service leave is recognised taking into consideration expected future wage and salary levels, experience of employee departures and periods of service, discounted to present values.

(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.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

(m) Benefits payable

Benefits payable are benefits attributable to members but not 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 were engaged to undertake the valuation exercise in December 2011. 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 and entities in which it holds significant influence are treated as plan assets or investments of the Fund and these investments are measured at fair value.

(q) Assets held for sale

Assets held for sale are stated at the lower of carrying amount or fair value less cost to sell when their carrying amount is to be recovered principally through a sale transaction and the sale is considered highly probable. The fair market value is determined by reference to recent market transactions on arms length terms.

(r) Comparative figures

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

(s) Revised standard, amendments to existing standards and interpretations adopted by the Fund

The following revised standard, amendments to existing standards and interpretations as approved by the FRSC which are mandatory for annual periods beginning 1 January 2011:

- IAS 24 (Revised), Related Party Disclosures (effective 1 January 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund has applied the revised standard from 1 January 2011.

2010 Improvements to IFRS (effective for annual periods on or after 1 January 2011)

The following are the relevant amendments to IFRS which contains amendments that result in changes in accounting, presentation, recognition and measurement. It also includes amendments that are terminology or editorial changes only which have either minimal or no effect on accounting. These amendments are part of the IASB's annual improvements project published in August 2009. Unless otherwise stated, these improvements did not have a significant impact on the Fund's financial statements.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

(s) Revised standard, amendments to existing standards and interpretations adopted by the Fund
continued...

- IFRS 3, Business Combinations (effective 1 July 2010). The amendment clarifies that the amendments to IFRS 7, Financial Instruments: Disclosures, IAS 32, Financial Instruments: Presentation, and IAS 39, Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).
- IFRS 7, Financial Instruments: Disclosures (effective 1 January 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.
- IAS 1, Presentation of Financial Statements (effective 1 January 2011). The amendment clarifies that an entity may present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- IAS 27, Consolidated and Separate Financial Statements (effective 1 July 2010). The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21, The Effect of Changes in Foreign Exchange Rates, IAS 28, Investments in Associates, and IAS 31, Interests in Joint Ventures, apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier.
- IAS 34, Interim Financial Reporting (effective 1 January 2011). The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:
 - The circumstances likely to affect fair values of financial instruments and their classification;
 - Transfers of financial instruments between different levels of the fair value hierarchy;
 - Changes in classification of financial assets; and
 - Changes in contingent liabilities and assets.
- International Interpretation IFRIC 13, Customer Loyalty Programs (effective 1 January 2011). The amendment clarifies the meaning of 'fair value' in the context of measuring award credits under customer loyalty program.

(t) New standards, amendments and interpretations to existing standards that are not yet effective and not early adopted by the Fund unless otherwise stated

- IAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income (effective 1 July 2012). The main change resulting from these amendments is a requirement for entities to Fund items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income. The Fund will apply the amendment beginning 1 January 2013.

The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation in the statement of total comprehensive income.

- IAS 12 (Amendment), Income Taxes - Deferred Tax (effective 1 January 2012). IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale.

It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, Investment Property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value.

The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Fund will apply the amendments beginning 1 January 2012 but the adoption is not expected to have a significant impact on the financial statements.

- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Fund will apply the revised standard beginning 1 January 2013 but the adoption is not expected to have an impact on the financial statements.
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This has no significant impact to the Fund.
- IFRS 1 (Amendment), First-time Adoption of IFRS - Fixed Dates and Hyperinflation (effective 1 July 2011). These amendments include two changes to IFRS 1, First-time adoption of IFRS. The first replaces references to a fixed date of 1 January 2004 with the date of transition to 'IFRS', thus eliminating the need for entities adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The Fund will apply the amendment beginning 1 January 2012 but the adoption is not expected to have an impact on the financial statements as the Fund is not a first-time adopter.
- IFRS 7 (Amendment), Financial Instruments: Disclosures - Derecognition (effective 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The Fund will adopt the amendment beginning 1 January 2012 and provide the additional disclosures required by the amendment upon adoption.
- IFRS 9, Financial Instruments (effective 1 January 2015). This standard is the first step in the process to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Fund's accounting for its financial assets. The Fund is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Fund's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Fund has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 beginning 1 January 2015.
- IFRS 10, Consolidated Financial Statements (effective 1 January 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This is expected not to have a significant impact for the Fund as the Fund does not consolidate any interest.
- IFRS 11, Joint Arrangements (effective 1 January 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The standard has no significant impact to the Fund as they do not have any joint arrangements.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

(t) New standards, amendments and interpretations to existing standards that are not yet effective and not early adopted by the Fund unless otherwise stated *continued...*

- IFRS 12, Disclosures of Interests in Other Entities (effective 1 January 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Fund has yet to assess IFRS 12's full impact and intends to adopt IFRS 12 beginning 1 January 2013.
- IFRS 13, Fair Value Measurement (effective 1 January 2013). This new standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Fund is yet to assess IFRS13's full impact and intends to adopt IFRS 13 beginning 1 January 2013.

(u) 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 were engaged to undertake the valuation exercise in December 2011. 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 interest in controlled entities and entities in which it holds significant influence are treated as plan assets or investments of the fund and these investments are measured at fair value.

Receivable from the state

The state owes significant debts to the Fund in relation to State's share of the members exit payments, unpaid rentals, outgoings and interests. Management continuously assesses the recoverability of these receivables considering the nature of the debt, past history, likelihood of settlement and any relevant information available to management. Based on this assessment, a provision for impairment is recognised in the financial statements for potentially uncollectable rental outgoings and interest. Directors consider the State's share of exit payments receivable and the outstanding rentals to be fully recoverable.

Management uses judgement based on best available facts and circumstances and the actual outcome may differ from the estimates made.

**2011
K'000** **2010
K'000**

3. INCOME

The following categories of income were credited to the Statement of Comprehensive Income:

INVESTMENT INCOME

(a) Interest

Interest from:

| | | |
|--------------------------|--------|--------|
| Government securities | 30,858 | 35,986 |
| National Government loan | 2,840 | 3,315 |
| Debentures and/or loans | 4,125 | 4,481 |
| Term deposits | 18,375 | 12,321 |
| | 56,198 | 56,104 |

(b) Dividends from investments

| | | |
|-----------------------------|--------|--------|
| Shares in listed equities | 28,731 | 33,339 |
| Shares in unlisted equities | 68,161 | 26,501 |
| | 96,892 | 59,841 |

(c) Property rental

| | | |
|---------------------|--------|--------|
| Gross rental income | 54,165 | 46,617 |
|---------------------|--------|--------|

(d) Changes recognised in relation to assets at fair value

| | | |
|---|-----------|---------|
| Unrealised fair value gain/(loss) - | | |
| Shares in listed equities | (151,016) | 51,837 |
| Shares in unlisted equities | 76,669 | 22,133 |
| Investment properties | (26,312) | 44,263 |
| Impairment of held to maturity financial assets | - | (3,727) |
| Realised fair value gain/(loss) - | | |
| Listed investments | (1,300) | 39,152 |
| Investment properties | (1,317) | 1,331 |
| | (103,276) | 154,990 |

(e) Foreign exchange (losses)/gain

| | | |
|---------------------------------|----------|-------|
| Foreign exchange (losses)/gains | (14,484) | 5,487 |
|---------------------------------|----------|-------|

(f) Other income

| | | |
|---|-----|-----|
| Directors' fees received | 84 | 71 |
| Gain on disposal of property, plant and equipment | 84 | 188 |
| Other income | 112 | 493 |
| | 280 | 753 |

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

| | 2011 K'000 | 2010 K'000 |
|--|---------------|---------------|
| 4. INCOME TAX EXPENSE | | |
| The income tax charged on total revenues less expenses and benefits paid is determined as follows: | | |
| (a) Income tax expense | | |
| Profit before tax | 37,877 | 276,860 |
| Prima facie tax at 25% | 9,469 | 69,215 |
| Permanent differences: | | |
| Accounting (profit)/loss on fair value changes in investment properties | 6,578 | (11,066) |
| Accounting (profit)/loss on fair value changes in equity investments | 18,587 | (18,493) |
| Accounting loss on fair value changes - other | - | 932 |
| Non-deductible staff expenses | 33 | 5 |
| Non-deductible entertainment expenses | 3 | 4 |
| Non-deductible donations | 6 | - |
| Expenses paid on earning exempt income | - | 22 |
| Section 72A staff training - double deduction | (150) | (62) |
| Section 216 Dividend rebate | (24,217) | (14,960) |
| Tax depreciation on investment properties | (618) | (582) |
| Foreign exchange loss/(gain) - capital account | 3,621 | (1,372) |
| (Gain)/loss on sale of investment - capital gain | 654 | (10,121) |
| Income tax expense for the year | 13,966 | 13,523 |
| (b) Provision for income tax | | |
| Opening balance payable/(receivable) | (7,528) | (11,936) |
| Current year income tax provision | 12,880 | 11,620 |
| Tax payments - credit for interest withholding tax | (10,627) | (7,213) |
| Tax payments made during the year - provisional tax | (4,878) | - |
| Prior year adjustments | 1,045 | - |
| Closing balance at the end of the year | (9,108) | (7,528) |
| Current year income tax expense comprise: | | |
| Current year income tax expense | 12,880 | 11,623 |
| Deferred tax expense | 1,087 | 1,900 |
| | 13,967 | 13,523 |

| | 2011 K'000 | 2010 K'000 |
|--|---------------|---------------|
| 4. INCOME TAX EXPENSE | | |
| (c) Deferred tax liability/(asset) | | |
| Opening balance at the beginning of the year | 5,289 | 3,389 |
| Movement during the year | 1087 | 1,900 |
| Prior years adjustments | (1,626) | - |
| Closing balance at the end of the year | 4,750 | 5,289 |
| Comprising: | | |
| Interest receivable | 970 | 751 |
| Rent receivable | 9,452 | 7,621 |
| Consumable stores | 15 | 24 |
| Prepaid insurance | 185 | 149 |
| Depreciation | 174 | 221 |
| Fixed assets | (464) | 987 |
| Less: | | |
| Employee benefits | (522) | (611) |
| Doubtful debts/loans | (2,344) | (2,848) |
| Insurance payments - death claims | (1,337) | (1,541) |
| Other accruals | (1,379) | 537 |
| Net deferred tax liability/(asset) | 4,750 | 5,289 |

5. INVESTMENTS

| | | |
|--|-----------|-----------|
| (a) Short term deposits | | |
| Term deposits (maturities within 90 days) - onshore | 340,167 | 361,963 |
| Term deposits (maturities within 90 days) - offshore | 41,850 | 21,549 |
| | 382,017 | 383,512 |
| (b) Held to maturity financial assets - onshore | | |
| Government Inscribed Stocks & Treasury Bills | | |
| Balance at the beginning of the year | 391,458 | 424,232 |
| Purchases during the year | 487,895 | 230,663 |
| Maturities during the year | (318,857) | (263,040) |
| Accumulated amortisation of premium/(discount) | 5,739 | (397) |
| Balance at the end of the year | 566,235 | 391,458 |
| Investments in government inscribed stock and treasury bills are carried at amortised cost. They are held to their maturity which varies between 2012 and 2027 and have a face value of approximately K562m. (2010: K392m) These deposits are held at an average coupon rate of 4% (2010: 9%). | | |
| (c) Held to maturity financial assets - offshore | | |
| Balance at the beginning of the year | 11,799 | 27,806 |
| Withdrawals | (61) | (14,837) |
| Gain/(loss) due to the effect of exchange rate movements | 752 | 2,557 |
| Fair value gain/(loss) from change in net market value | - | - |
| Impairment of financial assets | - | (3,727) |
| Balance at the end of the year | 12,490 | 11,799 |

Other investments held to maturity are held at cost. They are held to maturity which varies between 2012 and 2014 and carry a fixed interest rate of 5% (2010: 5%).

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

| | 2011 K'000 | 2010 K'000 |
|---|------------------|------------------|
| 5. INVESTMENTS <i>continued...</i> | | |
| (d) Loans | | |
| <i>Companies</i> | | |
| Balance at the beginning of the year | 48,390 | 39,253 |
| Advances made | 16,385 | 14,666 |
| Payments received | (4,708) | (5,529) |
| Loan balance at the end of the year | 60,067 | 48,390 |
| Provisions for doubtful loans | (1,072) | (1,072) |
| Balance at the end of the year, net of provisions | 58,995 | 47,318 |
| The loans attract interest at an average rate of 10% (2010: 10%) . Interest is repayable monthly and the principal amount is repayable in accordance with the respective loan agreements, which varies between 2012 and 2018. | | |
| (e) Financial assets - unlisted shares (onshore) | | |
| Balance at the beginning of the year | 588,425 | 535,201 |
| Investments during the year | 36,497 | 26,092 |
| Prior year adjustment | 42 | - |
| Fair value gain from change in net market value | 99,313 | 27,132 |
| Balance at the end of the year | 724,277 | 588,425 |
| (f) Financial assets - unlisted shares (offshore) | | |
| Balance at beginning of year | 101,476 | 98,990 |
| Investments during the year | 19,070 | 8,548 |
| Divestments during the year | (25,543) | (1,063) |
| Fair value gain/(loss) from change in net market value | (22,644) | (4,999) |
| Balance at the end of the year | 72,359 | 101,476 |
| (g) Financial assets - listed shares (onshore) | | |
| Balance at the beginning of the year | 735,966 | 771,463 |
| Investments during the year | 25,476 | 5,304 |
| Divestments during the year | (20,277) | (67,169) |
| Fair value gain/(loss) from change in net market value | (74,599) | 26,368 |
| Balance at the end of the year | 666,566 | 735,966 |
| (h) Financial assets - listed shares (offshore) | | |
| Balance at the beginning of the year | 206,617 | 48,027 |
| Investments during the year | 63,861 | 146,196 |
| Divestments during the year | (25,079) | (13,076) |
| Fair value gain/(loss) from change in net market value | (76,418) | 25,470 |
| Balance at the end of the year | 168,981 | 206,617 |
| Total financial assets at fair value | 1,632,184 | 1,632,485 |

| | 2011 K'000 | 2010 K'000 |
|--|------------------|------------------|
| (i) Investment properties | | |
| Properties | | |
| Balance at the beginning of the year | 438,272 | 355,678 |
| Additions | 7,885 | 6,526 |
| Transfer from capital work in progress | 4,712 | 36,798 |
| Transfer to assets held for sale | (27,367) | - |
| Disposals and write offs | (17,932) | (4,270) |
| Depreciation | (723) | (723) |
| Fair value gain/(loss) from change in net market value | (26,312) | 44,263 |
| Balance at the end of the year | 378,535 | 438,272 |
| Capital work in progress - properties under construction (at cost) | | |
| Balance at the beginning of the year | 38,499 | 65,359 |
| Additions | 28,458 | 23,931 |
| Transfer to properties | (4,712) | (36,798) |
| Disposals and write offs | (2,946) | (13,993) |
| Balance at the end of the year | 59,299 | 38,499 |
| Total investment properties | 437,834 | 476,771 |
| TOTAL INVESTMENTS | 3,089,755 | 2,943,343 |
| Amounts recognised in Statement of Comprehensive Income for investment properties: | | |
| Rental income | 54,165 | 46,617 |
| Direct operating expenses | (18,075) | (11,074) |
| Net rental income | 36,090 | 35,543 |

(j) Asset Allocation

| Asset Class | Portfolio Value (K million) | | Percentage Holdings | |
|-------------------------------------|-----------------------------|-----------|---------------------|-----------|
| | 31-Dec-11 | 31-Dec-10 | 31-Dec-11 | 31-Dec-10 |
| Onshore | | | | |
| Fixed Interest | 566 | 391 | 21 | 15 |
| Equities | | | | |
| Listed | 667 | 736 | 24 | 29 |
| Unlisted | 724 | 588 | 26 | 23 |
| Property | 438 | 477 | 17 | 19 |
| Assets held for sale | 27 | - | - | - |
| Loans and debentures | 59 | 47 | 2 | 2 |
| Offshore | | | | |
| Fixed Interest | 12 | 12 | - | - |
| Equities | | | | |
| Listed | 169 | 207 | 6 | 8 |
| Unlisted | 72 | 101 | 3 | 4 |
| Total excluding short-term deposits | 2,735 | 2,560 | 100 | 100 |

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

5. INVESTMENTS *continued...*

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

| Investment | Type | % Shareholding | % of net assets 2011 | Value K(million) 2011 | Value K(million) 2010 |
|-------------------------|-----------------|----------------|----------------------|-----------------------|-----------------------|
| Bank South Pacific Ltd | Listed equity | 10.49 | 10.9 | 356.2 | 358.4 |
| The State (Bank of PNG) | GIS & T/Bills | N/A | 17.4 | 566.2 | 391.5 |
| SP Brewery Ltd | Unlisted equity | 20 | 5.7 | 186.9 | 147.4 |

(l) Valuation methodology and earnings multiples applied

| Unlisted equities | Industry | Valuation Method | Earnings Multiple | % shareholding 2011 | Value K(million) 2011 | % shareholding 2010 | Value K(million) 2010 |
|--------------------------------------|------------------------|------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|
| Alotau International Hotel Ltd | Hotel | Net Assets | - | 34 | 4.0 | 34 | 0.7 |
| Brian Bell & Company Ltd | Wholesale/retail | CME | 3.0 | 34 | 55.2 | 34 | 54.6 |
| Capital Insurance Group Ltd | Insurance broker | Net Assets | - | 34 | 3.4 | 34 | 1.1 |
| Capital Way Holdings Ltd | Telecommunications | Net Assets | - | 10 | 8.6 | 10 | 8.0 |
| Coastwatchers Court Ltd | Property | Net Assets | - | 65 | 21.0 | 65 | 18.6 |
| Gazelle International Hotel Ltd | Hotel | Cost | - | 65 | 23.4 | 65 | 23.7 |
| Hunter Ltd | Property | Net Assets | - | 30 | 11.0 | 30 | 10.5 |
| Kumul Hotels Ltd | Hotel | CME | 3.5 | 55 | 95.2 | 55 | 85.9 |
| Moki No.10 Ltd | Real Estate | Net Assets | - | 100 | 23.3 | 100 | 24.5 |
| Morobe Front Holdings Ltd | Property - Development | Net Assets | - | 100 | 6.4 | 100 | 5.9 |
| Pacific Building Mgt Services Ltd | Building maintenance | Net Assets | - | 50 | 0.7 | 50 | 1.2 |
| Paradise Foods Ltd | Food & Snacks | CME | 2.3 | 85 | 130.2 | 85 | 102.1 |
| PNG Water Ltd | Utilities | DCF | - | 30 | 16.7 | 30 | 11.4 |
| Post Courier Ltd | Media | CME | 3.3 | 21 | 5.3 | 21 | 4.2 |
| SP Brewery Ltd | Brewery/manufacturing | CME | 3.3 | 20 | 186.9 | 20 | 147.4 |
| Toyota Tsusho (PNG) Ltd - Ela Motors | Motor vehicle | CME | 3.0 | 4 | 12.4 | 4 | 10.3 |
| Westpac Bank (PNG) Ltd | Banking & finance | CME | 6.0 | 7 | 62.7 | 7 | 57.1 |
| OPH Ltd ** | Property | Cost | - | 65 | 39.2 | 65 | 2.7 |
| Waigani Asset Ltd ** | Property | Cost | - | 65 | 18.6 | 65 | 18.6 |
| | | | | | 724.2 | | 588.4 |

Net assets - net assets on a going concern

CME - current maintainable earnings

DCF - discounted cash flows

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

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

5. INVESTMENTS *continued...*

Unlisted shares are valued at fair value at balance date, as determined by registered independent professional valuers, Deloitte Touche Tohmatsu (2010: Pertusio Partners). 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.

(m) 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 | 90.3 | 51.4 | 9.9 |
| Impact to total portfolio in percentage | 3.0 | 1.7 | 0.3 |

If the share price move up or down by 10% the investment portfolio will increase or decrease by K90.3 million or 3.0%.

If the exchange rate move up or down by 10% the investment portfolio will increase or decrease by K51.4 million or 1.7%.

If the interest rate moves up or down by 1% the investment portfolio will increase or decrease by K9.9 million or 0.3%.

(n) 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) or indirectly (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 financial assets and liabilities that are measured at fair value at 31 December 2011.

| | Level 1 | Level 2 | Level 3 | Total Balance |
|--|----------------|----------|----------------|------------------|
| | K'000 | K'000 | K'000 | K'000 |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Listed securities | 835,547 | - | - | 835,547 |
| Unlisted securities | - | - | 796,637 | 796,637 |
| Total Assets | 835,547 | - | 796,637 | 1,632,184 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | - | - | - | - |
| Total Liabilities | - | - | - | - |

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 POMSIX 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.

Level 3 instruments consist of unlisted investments. A reconciliation of the changes in these investments for the year ended 31 December 2011 is presented in note 5 (d) and (e).

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

| | 2011 K'000 | 2010 K'000 |
|---|----------------|----------------|
| 6. CASH AND CASH EQUIVALENTS | | |
| Cash on hand | 10 | 5 |
| Banks - onshore | 26,532 | 6,122 |
| Banks - offshore | 4,980 | 19,233 |
| | 31,522 | 25,361 |
| 7. TRADE RECEIVABLES & OTHER DEBTORS | | |
| Rental debtors | 37,806 | 30,483 |
| Less: Provision for doubtful debts | (8,056) | (10,070) |
| | 29,750 | 20,414 |
| Staff housing scheme and advances | 788 | 535 |
| Sundry debtors | 14,214 | 14,362 |
| State share of benefits | 70,494 | 106,676 |
| Prepayments and GST refundable | 9,934 | 1,397 |
| Accrued interest income | 3,878 | 3,004 |
| | 129,058 | 146,388 |

(a) Impaired rental debtors

As at 31 December 2011, rental debtors of K8.056 million (2010: K10.070 million) relating to rental debtors were considered impaired and were provided for by management. The ageing of these receivables is as follows:

| | | |
|----------------|--------------|---------------|
| 3 to 12 months | - | - |
| Over 12 months | 8,056 | 10,070 |
| | 8,056 | 10,070 |

Movement in the provision for impairment of trade receivables is as follows:

| | | |
|------------------------------------|--------------|---------------|
| Opening balance | 10,070 | 7,565 |
| Provision for receivables impaired | - | 2,505 |
| Recoveries | (2,014) | - |
| | 8,056 | 10,070 |

The creating and releasing of provision for impaired receivables is included in other expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

As at 31 December 2011, rental debtors of K13.716 million (2010: K10.921 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables are as follows:

| | | |
|----------------|---------------|---------------|
| 3 to 12 months | - | - |
| Over 12 months | 13,716 | 10,921 |
| | 13,716 | 10,921 |

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

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(i).

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 2011 Commercial, Industrial and Residential Property valuations were carried out by registered valuers Savills (NSW) Pty Ltd.

The revaluation surplus of K0.067 million (2010: K0.466 million surplus) was taken to asset revaluation reserve (note 11(e)).

| | HOUSING | | OFFICE BUILDINGS | | | VEHICLES | Total K'000 |
|---------------------------------|------------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|----------------------------|----------------|
| | Land & Buildings K'000 | Plant & Equipment K'000 | Land & Buildings K'000 | Furniture & Fittings K'000 | Plant & Equipment K'000 | Motor Vehicles K'000 | |
| 2011 | | | | | | | |
| COST OR REVALUATION | | | | | | | |
| At 1 January 2011 | 2,830 | 449 | 7,932 | 2,314 | 4,569 | 1,653 | 19,747 |
| Additions | - | 4 | - | 43 | 416 | 773 | 1,236 |
| Revaluation increment | - | - | 67 | - | - | - | 67 |
| Works in progress | - | - | - | - | 47 | - | 47 |
| Disposal | (933) | (74) | - | - | (11) | (355) | (1,373) |
| At 31 December 2011 | 1,897 | 380 | 8,000 | 2,357 | 5,021 | 2,071 | 19,724 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1 January 2011 | 229 | 145 | 456 | 1,666 | 3,162 | 567 | 6,225 |
| Depreciation | 18 | 46 | 1 | 76 | 267 | 450 | 858 |
| Disposals | (26) | (58) | - | - | (1) | (250) | (336) |
| At 31 December 2011 | 222 | 133 | 457 | 1,742 | 3,428 | 766 | 6,747 |
| NET BOOK VALUE | | | | | | | |
| At 31 December 2011 | 1,675 | 247 | 7,542 | 615 | 1,593 | 1,305 | 12,977 |
| 2010 | | | | | | | |
| COST OR REVALUATION | | | | | | | |
| At 1 January 2010 | 2,976 | 190 | 7,466 | 2,295 | 4,179 | 1,434 | 18,540 |
| Additions | - | 265 | - | 19 | 390 | 1,022 | 1,695 |
| Revaluation decrement | - | - | 466 | - | - | - | 466 |
| Adjustments | (60) | - | - | - | - | - | (60) |
| Disposal | (87) | (5) | - | - | - | (803) | (895) |
| At 31 December 2010 | 2,830 | 449 | 7,932 | 2,314 | 4,569 | 1,653 | 19,747 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1 January 2010 | 242 | 133 | 455 | 1,585 | 2,905 | 1,006 | 6,325 |
| Depreciation | 22 | 17 | 1 | 81 | 257 | 243 | 623 |
| Disposals | (35) | (5) | - | - | - | (683) | (723) |
| At 31 December 2010 | 229 | 145 | 456 | 1,666 | 3,162 | 567 | 6,225 |
| NET BOOK VALUE | | | | | | | |
| At 31 December 2010 | 2,600 | 304 | 7,476 | 647 | 1,407 | 1,086 | 13,521 |

* Plant and equipment include K47,120 works in progress

There are no conditions that indicate impairment of property, plant and equipment as at 31 December 2011 and 31 December 2010.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

| | 2011 K'000 | 2010 K'000 |
|-------------------------------------|---------------|---------------|
| 9. TRADE AND OTHER CREDITORS | | |
| Trade creditors | 18,834 | 15,607 |
| Other creditors | 2,667 | 3,112 |
| Rental bond fees | 3,607 | 2,353 |
| Member insurance payable | 6,097 | 6,163 |
| State-share received in advance | 338 | 139 |
| State pension liability | 6,644 | 6,644 |
| | 38,186 | 34,017 |

| | | |
|---------------------------------|--------|---|
| 10. ASSETS HELD FOR SALE | | |
| Properties held for sales | 27,367 | - |

Certain properties of the fund are held for the purpose of sale. These sales are expected to be completed within a period of a year.

11. LIABILITY FOR ACCRUED BENEFITS AND RESERVES

Liability for accrued benefits is represented by contributor funds, contributor housing withdrawals, pensioner funds and retirement savings accounts. Contributor funds are credited with contributions on a cash received basis. For 2011, interest allocated to contributor funds was determined on member balances at a rate of 2% (2010: 10%) 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 | 3,018,079 | 2,767,177 |
| Add: | | |
| Members' contributions received during the year | 104,126 | 83,923 |
| Employer contributions received during the year | 193,834 | 61,560 |
| Transfers from other funds | 889 | 308 |
| Contribution income on exit payments | 263,098 | 234,306 |
| | 561,947 | 380,097 |
| Interest allocation | 55,237 | 258,177 |
| | 3,635,262 | 3,405,451 |
| Deduct: | | |
| Member benefits paid during the year* | (171,996) | (150,907) |
| Member benefit expense - on exit | (263,098) | (234,306) |
| Unemployment benefits paid | (2,101) | (2,159) |
| | (437,194) | (387,372) |
| Balance at the end of the year | 3,198,068 | 3,018,079 |
| *Benefit payment details: | | |
| Resignation | - | (71) |
| Retirement | (154,574) | (135,088) |
| Retrenchment | - | (88) |
| Death | (17,422) | (15,659) |
| | (171,996) | (150,907) |

| | 2011 K'000 | 2010 K'000 |
|--|-----------------|-----------------|
| (b) Contributor Housing Withdrawals | | |
| Balance at the beginning of the year | (71,281) | (70,936) |
| Advances or member withdrawals | (6,979) | (8,496) |
| Repayments received | 7,036 | 8,151 |
| Balance at the end of the year | (71,224) | (71,281) |

| | | |
|--|------------------|------------------|
| (c) Pensioner Funds | | |
| Balance at the beginning of the year | 18,321 | 20,895 |
| Payments during the year | (2,472) | (2,574) |
| Transfer to general reserves | - | - |
| Balance at the end of the year | 15,849 | 18,321 |
| TOTAL CONTRIBUTOR & PENSIONER FUNDS | 3,142,694 | 2,965,120 |

| | | |
|---------------------------------------|---------------|---------------|
| (d) Retirement Savings Account | | |
| Balance at the beginning of the year | 48,827 | 39,866 |
| Transfers during the year | 38,799 | 27,795 |
| Payments during the year | (24,642) | (18,834) |
| | 62,984 | 48,827 |

Interest allocation for RSA is included in Note 10(a).

| | | |
|--|------------------|------------------|
| (e) Reserves | | |
| Retained earnings and general reserve | 23,073 | 54,401 |
| Section 35(2)(c) reserve | 21,278 | 21,278 |
| Revaluation reserve - property, plant and equipment | 3,073 | 3,005 |
| | 47,424 | 78,684 |
| TOTAL LIABILITY FOR ACCRUED BENEFITS AND RESERVES | 3,253,102 | 3,092,631 |

The amounts held in the above reserve account are unallocated benefits for the members. These reserves may be allocated to the members at the discretion of the Trustees after considering the necessary prudential and statutory requirements.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

12. FUNDING ARRANGEMENTS

At the end of 2011 the future unfunded liability of the State to members is estimated to be K2,038 million (2010: K2,060 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 reduce this unfunded liability.

(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 2011 the State fell behind in its obligations in this area by K70.5 million.

(b) Employer contributions

From 2003, employers commenced remitting directly to the Fund the full 8.4 % employer contributions on behalf of their members.

The State 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 2011 the State fell behind in its obligations in this area by K42.2 million. As this shortfall is currently unfunded it is not included in the "Liability for Accrued Benefits" at 31 December 2011.

13. 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 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.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full or can only do so on terms that materially disadvantageous.

The Fund manages this risk by ensuring that it has sufficient liquidity in cash and short term readily convertible cash equivalents to meet financial obligations as and when they fall due.

The table below shows the Fund's financial liabilities into relevant maturity grouping(In K'000):

| Particulars | Less than 1 year | 1-2 years | 2-5 years | over 5 years | Total |
|---------------------------|---------------------|--------------|--------------|-----------------|--------|
| 31 December 2011 | | | | | |
| Benefit payable | 1,663 | - | - | - | 1,663 |
| Trade and other liability | 38,186 | - | - | - | 38,186 |
| | 39,849 | - | - | - | 39,849 |
| 31 December 2010 | | | | | |
| Benefit payable | 1,700 | - | - | - | 1,700 |
| Trade and other liability | 34,017 | - | - | - | 34,017 |
| | 35,717 | - | - | - | 35,717 |

14. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

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

29 March 2012 -K47.9m favourable movement (Domestic: Gain: K16.3m and International: Gain: K31.6m)

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

15. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents

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

| | 2011 K'000 | 2010 K'000 |
|--|---------------|---------------|
| Cash and cash equivalents (note 6) | 31,522 | 25,361 |
| Short term deposits (note 5a) | 382,017 | 383,512 |
| | 413,539 | 408,873 |
| Reconciliation of Cash flow from Operations with Total Revenues less expenses and benefits paid | | |
| Total revenues less expenses after income tax | 23,911 | 263,337 |
| Add/(less) non-cash items: | | |
| Depreciation and amortisation | 1,581 | 1,836 |
| (Gain)/loss on disposal of investment property assets | 1,317 | (1,331) |
| (Gain)/loss on disposal of property plant and equipment | (84) | (188) |
| (Gain)/loss on sale of shares in listed & unlisted equities | 1,300 | (39,152) |
| Fair value (gain)/loss arising from changes in net market value of investments | 100,659 | (118,234) |
| Foreign exchange loss/(gain) | 10,875 | (7,212) |
| Impairment loss on financial assets | - | 3,727 |
| Net cash provided by operating activities before change in assets and liabilities | 139,559 | 102,782 |

Changes in assets and liabilities during the year:

| | | |
|--|----------|---------|
| (Increase)/decrease in receivables | (17,892) | (452) |
| Increase/(decrease) in benefits payable | (37) | 178 |
| Increase/(decrease) in trade and other creditors | 4,169 | (3,430) |
| (Increase)/decrease in current income tax refundable | (1,580) | 4,408 |
| Increase/(decrease) in deferred income tax liabilities | (539) | 1,900 |
| Increase/(decrease) in provisions | (418) | - |
| Cash flow from operating activities | 123,262 | 105,386 |

16. 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

Ms. Marianna Ellingson (8 December 2010)

Mr. Paul Yangen (Acting Appointment - 13 May 2011)

Mr. Leon Buskens (Resigned - 13 May 2011)

16. RELATED PARTY DISCLOSURES *continued...*

- (b) Directors' remuneration comprises an annual stipend and sitting fees. No bonus or other monetary benefits were paid during the year.

Airfares and motor vehicles are provided for non Port Moresby residents when meetings are conducted in Port Moresby.

| 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 | K91,001 | 4/4 | 4/4 | n/a | 7/12 | n/a |
| Kerenga Kua | Deputy chairman | K61,420 | 4/4 | n/a | n/a | n/a | 1/5 |
| Greg Taylor | Director | K146,844 | 4/4 | n/a | 1/2 | 12/12 | n/a |
| Leon Buskens | Managing Director | n/a | 1/4 | n/a | n/a | 2/12 | n/a |
| Marianna Ellingson | Director | K50,666 | 3/4 | n/a | 1/2 | n/a | n/a |

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

16. RELATED PARTY DISCLOSURES *continued...*

(c) 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 (Resigned 13 May 2011) | Managing Director | Director as NSL Nominee | Alotau International Hotel Ltd Coastwatchers Court Ltd Gazelle International Hotel OPH Ltd SP Brewery Ltd Waigani Asset Limited Telikom PNG Ltd |
| Paul Yangen (Appointed 13 May 2012) | Acting Managing Director | Independent Director Director as NSL nominee | Brian Bell & Company Ltd Fernvale Ltd Hunter Ltd Morobe Front Holdings Limited Nambawan Savings & Loan Society Ltd Pacific Building Management Services Ltd Paura Limited Southern Hires Limited |
| Wayne Smith | General Manager Commercial | Director as NSL nominee | Brian Bell & Company Ltd Coastwatchers Court Ltd Fernvale Limited Gazelle International Hotel Ltd Hunter Ltd Kumul Hotels Ltd Moki No.10 Ltd Morobe Front Holdings Ltd OPH Limited Pacific Building Management Services Ltd PNG Water Ltd Waigani Asset Limited |
| Augustine Birie | General Manager Member Services | Director as NSL nominee Director | Nambawan Savings & Loan Society Ltd AB Consulting Limited |

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

16. RELATED PARTY DISCLOSURES *continued...*

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.

| | 2011 K'000 | 2010 K'000 |
|----------------|---------------|---------------|
| Salaries | 3,055 | 2,779 |
| Leave accruals | 451 | 409 |
| | 3,505 | 3,188 |

- (d) During the financial year the Fund earned interest on term deposits of K566,847 (2010: K661,440) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager, Kina Funds Management. As at 31 December 2011, the term deposits placed with Kina Finance Limited was K18.77 million (2010: K16.58 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 K8.6m (2010: K8.9 m) and K3.6m (2010: 3.3 m) respectively. Greg Taylor, a director of the Trustee company, is also director of Kina Asset Management Limited.
- (e) NSL holds controlling equity interests and associated Director positions in the following unlisted entities based in PNG.
- Coastwatchers Court Ltd
 - Gazelle International Hotel Ltd
 - Kumuls Hotels Ltd
 - Moki No. 10 Ltd
 - Morobe Front Holdings Ltd
 - Nambawan Savings & Loan Society Ltd
 - OPH Ltd
 - Pacific Building Management Services Ltd
 - Paradise Foods Ltd
 - Waigani Asset 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.

17. 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 K6.6 million was made as at 31 December 2003. This liability is included in note 9 to the financial statements.

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 claims relating to member withdrawals and compensation from former employees and post employment benefit claims. The board of directors have reviewed these cases and will take the appropriate course of actions to defend them. In the Board's view, none of these claims are expected to result in significant losses to the Fund.

(c) Commitments for Capital Expenditure

| | 2011 K'000 | 2010 K'000 |
|--|---------------|---------------|
| Amounts with firm commitments, and not reflected in the accounts | 10,961 | 27,344 |

(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 but uncalled amounts in relation to this equity investment are \$US8,265,921 (K26,527,348) at 31 December 2011 (2010: \$US11,934,322 (K30,167,649)).

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

18. DIRECTORS' DISCLOSURE

| Name | Nature of Interest | Companies |
|-----------------------|---|--|
| Sir Nagora Bogan, KBE | Director as NSL nominee | Bank South Pacific Ltd Paradise Foods Holdings Ltd Paradise Foods Ltd |
| | Director and Shareholder | In Touch Media Ltd |
| | Shareholder | Kina Assets Management Ltd |
| | Director | Ahi Holdings Limited Mapai Transport Limited Peoples' Advocacy Limited |
| | Director - Provision of services NSL strategic plan Provision of Multimedia Services | Coprez Hodlings Ltd Coprez Communications Ltd |
| Kerenga Kua | Director and Shareholder | Fikor Ltd |
| | - tenant Mogoru Moto Building | Dream Inn |
| | Director and Shareholder | Endeyaydo Limited |
| | Director | Finance Corporation Ltd National Petroleum Company PNG Ltd |
| | Shareholder | Kina Assets Management Ltd President PNG Law Society Nambawan Super Ltd |
| Gregory Taylor | Director as NSL nominee | Kumul Hotels Ltd Paradise Foods Holdings Ltd Paradise Foods Ltd |
| | Director and Shareholder | TFG International Ltd (Australia) |
| | Director | Kina Assets Management Ltd |
| Marianna Ellingson | Director as NSL nominee | Alotau International Hotel Kumul Hotels Ltd Director |
| | Director as NSL nominee | Alotau International Hotel Coastwatchers Court Ltd Gazelle International Hotel Ltd OPH Ltd SP Brewery Ltd Waigani Asset Ltd |
| | Independent Director | Telikom PNG Ltd |

Except for the Managing Director, Leon Buskens/Paul Yangen, 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/Mr. Yangen are paid to NSL.

19. CAPITAL MANAGEMENT

The Capital of the Fund is represented by the members' funds. The amount of the members' funds can change significantly depending on the valuation of the assets and liabilities of the Fund. The Fund's objective in managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide return to members and maintain a strong capital base to support the development of the investment activities of the Fund.

The directors and management monitor capital on a regular basis. The Fund is subject to interest credit and reserving requirements of the Bank of Papua New Guinea and Superannuation Act 2000.

Declaration by Trustee and Management

FOR THE YEAR ENDED 31 DECEMBER 2011

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, are drawn up so as a true and fair view of the state of affairs of the Fund as at 31 December 2011, and its performance for the year then ended.

The Trustee has satisfied themselves that the Nambawan Super Ltd Board has:

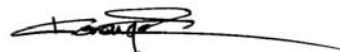
- (a) Identified the key financial and operating risks;
- (b) established systems to control and monitor those risks including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes; and
- (c) satisfied itself that the risk management systems are operating effectively and are adequate in regard to the risk they are designed to control; and
- (d) there are no apparent conflicts of interest with respect to Nambawan Super's engagement of an external auditor which may compromise the independence of the auditor's performance

The Financial Statements have been drawn up in accordance with the requirements of the Superannuation (General Provision) Act 2000 and the requirements of the Trust Deed of Nambawan Super Ltd dated 24 December 2002.

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



SIR NAGORA BOGAN, KBE
Chairman of Board



KERENGA KUA
Deputy Chairman of Board

Dated at Port Moresby the 29 day of March 2012

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 Financial Statements, are drawn up so as to present a true and fair view of the state of affairs of the Fund as at 31 December 2011, and its performance for the year then ended.

The Management have satisfied themselves that the Nambawan Super Ltd Board has:

- (a) Identified the key financial and operating risks;
- (b) established systems to control and monitor those risks including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes; and
- (c) satisfied itself that the risk management systems are operating effectively and are adequate in regard to the risk they are designed to control; and
- (d) there are no apparent conflicts of interest with respect to Nambawan Super's engagement of an external auditor which may compromise the independence of the auditor's performance

The Financial Statements have been drawn up in accordance with the requirements of the Superannuation (General Provision) Act 2000 and the requirements of the Trust Deed of Nambawan Super dated 24 December 2002.

For and on behalf of Nambawan Super Ltd Management



PAUL YANGEN
Acting Managing Director



HEARTLY KANAIAT
Acting General Manager Finance & Administration

Dated at Port Moresby the 29 day of March 2012

DIRECTORY

| | | | |
|---|--|--|--|
| <p>NAMBAWAN SUPER - HEAD QUARTERS Level 6, Era Rumana Building, Champion Parade, Down Town PO Box 483, Port Moresby, NCD</p> <p>General Enquiries: Toll Free: 180 1011 Fax: 321 4406 Email: nslpom@nambawansuper.com.pg</p> <p>Manager Member Services Ph: 309 5245 Manager Member Awareness Ph: 309 5236 Manager Finance Ph: 309 5229 Manager Information Technology Ph: 309 5277 Manager HR & Administration Ph: 309 5210 Manager Property Ph: 309 5254 Company Secretary & Manager Legal Ph: 309 5209 Manager Internal Audit Ph: 309 5267 Manager Nambawan Savings & Loans Ph: 309 5315</p> | <p>ALOTAU Ground Level, Chescorp Building, Sec 21 Lot 10 PO Box 727, Alotau - Milne Bay Ph: 641 0671 Fax: 641 0587 Email: nslalotau@nambawansuper.com.pg</p> | <p>BUKA Suite 2, Level 1, Matanhei Building PO Box 19 Buka, Autonomous Region Bougainville Ph: 973 9801 Fax: 973 9820 Email: nslbuka@nambawansuper.com.pg</p> | <p>GOROKA Suite 32, Level 1, Gouna Centre, Elizabeth Street PO Box 757, Goroka, Eastern Highlands Province Ph: 532 1224 Fax: 532 1918 Email: nslgoroka@nambawansuper.com.pg</p> |
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