

Public Officers
Superannuation Fund
Annual Report 2002



Dated June 30th, 2003



Public Officers Superannuation Fund
PO Box 483 Port Moresby

Contents

Meeting the Challenge of Tomorrow	page 02
Letter to the Treasurer	page 04
Statement of Corporate Governance	page 06
Investment Portfolio	page 08
Membership & Contributions	page 10
Benefit to Members	page 12
The Year's Highlights	page 14
Members of the Board	page 16
The Management Team	page 16
Organisation Structure	page 17
Report of the Auditor General	page 18
Financial Statements	pages 19-34
Declaration by Management	page 35

Meeting the Challenge of Tomorrow

Statement of purpose

POSF ensures all public servants in the public service and statutory entities have a comfortable future and financial security by saving for their retirement.

Its main purpose is to maximise and protect the superannuation benefits for all its members by providing them with the very highest levels of expertise and service.

POSF Limited continues to be the backbone of investment that supports growth and prosperity throughout the nation. The POSF invests in finance and banking, transport, hospitality, medical facilities, public utilities, property, manufacturing and other areas.

This diversity of investment ensures the safety and growth of the members' contributions. It also ensures that the funds managed by the POSF are invested in ways which support the

broadest range of the community through employment and human resource development.

It is on this solid tradition of careful investment that the POSF is now adapting to the changing needs of our country and our members.

Reforms to the superannuation industry have resulted in changes to members' benefits. These include greater protection of members' funds, improved services and products, guaranteed retirement security, increased housing assistance.

We face an exciting time ahead. Our diverse investment portfolio, combined with our increased responsiveness to the needs and wants of our members, ensure the POSF will remain a vital organisation at the heart of life within Papua New Guinea.

And we will continue to meet the challenges of the future.

Letter to the Treasurer

Honourable Bart Philemon, MP
Minister for Finance & Treasury
Department of Finance & Treasury
P O Box 710
WAIGANI

My Dear Minister

Pursuant to section 63 (4) of the Public Finances (Management) Act 1995 and by virtue of section 25 (1) of the Public Officers Superannuation Fund No.31 of 1990 (as amended), we have the honour to submit to you, for your presentation to the National Parliament, and annual report by the board, together with its financial statements, for the year ended 31 December 2002. The Auditor- General's report, as required by section 62 (5), as well as section 25 (2) of the above mentioned Acts respectively, is appended to the financial statements.

Yours faithfully

SIR NAGORA BOGAN
Chairman of the Trustee

LEON BUSKENS
Acting Managing Director



Investing in the Future

- Over 73,000 public servants contribute 6% of their wages to the POSF, thereby ensuring their own financial security.
- The State as employer contributes 8.4% on behalf of its employees..
- The POSF invests the 6% contributions through its approved portfolio of investments and returns interest to contributors after meeting its operating expenses.
- Subject to conditions, contributors can also access a percentage of their funds for housing assistance.

Statement of Corporate Governance

The Board of Directors are trustees of the Fund and are directly accountable for protecting and acting in the best interest of the beneficiaries of the Fund, who are the contributors.

The Board consists of seven members, two representing the State as chief employer, three representing the employees, one representing the contributing authorities, and the Managing Director.

The following were members of the Board of Directors:

Mr Robert Igara
(Chairman, employer representative)

Mr Peter Tsiamalili
(Deputy Chairman, employer representative)

Mr Simon Kenehe
(Teachers Association, employee representative)

Mr Tau Vali
(PEA, employee representative)

Dr Cecilia Nembou
(Authorities representative)

Mr Ces Iewago
(Managing Director)

Vacant
(Police Association, employee representative)

In October 2002, Mr Leon Buskens whose substantive position with the Fund was General Manager (Finance & Administration) was appointed acting Managing Director due to the

suspension of Ces Iewago.

To comply with the requirements of the new superannuation legislation, the statutory board appointed POSF Limited, a licenced trustee, as Trustee of the Fund with effect from 31st December 2002.

On 1st January 2003 the Fund welcomed the Board of Directors of the new Trustee company as listed hereunder:

Chairman

Sir Nagora Y. Bogan KBE

Deputy Chairman

Mr. Kerenga Kua

Directors

Mrs. Aivu Tauvasa
Mr. Greg Taylor
Mr. Ravu Vagi
Mr. Leon Buskens
(Acting Managing Director)

Internal Committees

The POSF Limited has three internal committees :

Supplies and Tender committee
Audit and Compliance Committee
Membership Committee.

Risk Management

POSF is committed to ensuring significant business risks are identified and measures are in place to manage such risks.

Staff Matters

POSF is an equal opportunity employer. At the end year 2002 it had a staff strength of 104. There are procedures which set out duties for each staff member, and administrative in-house systems

In the year POSF had two senior staff attending overseas training for Masters in Business Administration programs in Australia. Over a dozen officers were participating in ongoing degree and diploma programs.

POSF continues to give training a high priority in the fields of computer literacy, finance, investment and customer services.

Contributor Information

Communication is vital link between POSF and its members. POSF communicates with its contributors through the following medium:

- Through its offices in the head office in Port Moresby, and regional offices in Lae, Kokopo and Mt. Hagen.
- Through its information Kiosks.
- Through its official internet website.
- Through quarterly newsletters in the daily newspapers.



Investment Portfolio Report

Economy in Brief

The country witnessed difficult National Elections in 2002. The newly elected government was faced with two major problems, apart from the on-going peace program in the North Solomon Province.

First, there was an enormous task of bringing back macroeconomic stability, and second, to restore peace, law and order in the troubled Highlands provinces of Enga and Southern Highlands following the political unrest during the election period.

In its endeavour to restoring economic stability, the new government introduced a supplementary budget in August 2002, which aimed at correcting the budget blowout due to unprecedented high expenditure levels and low revenue during the first half of the year. The supplementary budget set the framework for the 2003 budget, which saw substantial expenditure cuts with the development budget reprioritized to projects that reflect the government's objective promoting economic growth.

The subdued economic activity continued to impact upon the depreciation of the Kina against its major trading currencies. Over the twelve months to December 2002, the Kina depreciated by 6.0 percent and 5.6 percent against the US and Australian dollars respectively and by 11.4 percent against the Sterling, Euro by 12.5 percent and Yen by 11.9 percent.

BPNG maintained the Kina Facility Rate (KFR) at 12.0 percent for the seven months to July 2002 since its initial reduction in September 2001. However, in August 2002 the KFR was increased to 12.5%, and remained until November 2002 when it was raised to

14.0%. In December 2002, the KFR was further increased by 50 basis points to 14.5% thus forcing the official interest rates upward.

Treasury Bills

During 2002 the Fund switched most of its liquid investment from Term Deposits to Treasury Bills. At the end of December 2002, the Fund's investment in treasury bills was K194 million as compared to K94.3 million in 2001.

The Fund earned K17.8 million income from Treasury Bills during 2002, compared to K15.5 million in 2001.

Government Inscribed Stocks

The Fund has invested in government bonds issued by the Bank of PNG. The government bond market in the country is inactive due to the absence of the secondary market. The Fund has not undertaken any further investments in government bonds since 1997, except for an off-market repurchase from Motor Vehicle Insurance Limited (MVIL) in October 2002.

The total holding as at December 2002 was K54.9 million. Total interest earned was K6.4 million.

The Government is planning to introduce Index Bonds which will be linked to CPI movements and adjustments will be made to the value of the bond to reflect the CPI and compensate the investor accordingly. However the secondary market must still be available to induce investors to take part in this instrument.

The Fund's investments in the government bonds constituted 9.1% of the total investments at the end of December, 2002 and contributed a return of 17.3% for the same year.

Treasury Bills have been attractive investments for the Fund since 1998. The rates increased to over 16% in February 2002. With the increase in the Treasury Bill rates the Fund has switched bulk of its cash in order to maximise returns.

At the end of December 2002 the Fund's investment into Treasury Bill constituted 32% of the total portfolio investment.

Equities Portfolio

The Fund has investments in both quoted (listed) and unquoted (unlisted) shares. The unquoted shares are all PNG based companies while quoted shares are mainly resource companies also based in PNG with listings in the Australian Stock Market.

The unquoted and quoted shares of the domestic and international portfolio are respectively diversified into various sectors of the economy.

Some companies have continuously performed in terms of asset appreciation and dividends, whilst some have not been performed to expectations for various reasons as a result of both micro and macro factors. In addition, the shares listed with the Australian Stock Market have also not been performing to expectations due to domestic and international factors.

Dividends received during 2002 were K16.7 million, an increase of K1.89 million, from 2001, which was K14.85 million. The total value of the equity portfolio was 28.6% of the total investment portfolio at the end of 2002.

Loans Portfolio

The Fund currently has eight loan facilities under its development loan portfolio. Two of these facilities have

been provided for as bad debts this year. One is non-performing and is 100% owned by POSF.

The other five are servicing their loans as required under their respective agreements.

Total interest earned during 2002 was K9.26 million, which represents an average return of 15.01%. Interest charged on these loans vary from fixed

to variable with some being tax exempt. The loan portfolio constituted 9.85% of the total value of the Fund's investment portfolio at the end of December 2002.

Property Portfolio

The property portfolio is one of the major income earners for the Fund. The Fund controls a large segment of the residential and commercial property market in the country. The

Fund owns many of the landmark buildings in the major cities of the country. The fund also holds undeveloped land in it's portfolio.

The Fund is divesting some of its former Angco properties due to non-performance. The value of the property portfolio increased by 21.33% at the end of 2002 relative to 2001. The Property portfolio constitutes 16.% of the total investment portfolio.



Membership and Contributions

POSF received a total of K51.2 million during the year as employee contributions from contributing authorities. This is an increase from the previous year of K33.5 million.

Total membership, inclusive of non-active members at the end of the year was 73,000 members. An increase of 4,384 compared to the end of 2001.

Claims

A total of 4,905 claims were processed and paid out during the year as compared to 3,693 claims in 2001 and the payouts made amounted to K89.3 million as compared to K76.8 million in 2001. The different types of benefits paid were:

Benefit Type	Amount Paid	Claims
Resignation	K35.4 million	1,824
Retirement	K17.1 million	439
Retrenchment	K34.1 million	2,487
Death	K 2.7 million	155
	K89.3 MILLION	4,905

Pensions

In 2002 pension payments made to 1,304 active pensioners amounted to K2.3 million. The non-active pensioners are those pensioners who are suspended during the year from the payroll for six months. These pensioners would be put back on the payroll when they submit their pension reactivation forms.

ORGANISATION

Accountants registration Board
Alotau Town Authority
Auditor General's Office
Bank of Papua New Guinea (BPNG)
Civil Aviation Authority (CAA)
Cocoa Board of Papua New Guinea
Education Department
East New Britain Prov. Government
Finance Department
Industrial Centres Develop. Corp.
Institute of Medical Research
Investment Promotion Authority
IPBC of PNG
Lae City Authority
Legal Training Institute
Lorengau Town Authority
Madang Prov. Government
Madang Town Authority
Milne Bay Prov. Government
Morobe Prov. Government
Mt. Hagen Town Authority
National Capital District Comm.
National Housing Commission
National Parliament
National Broadcasting Commission
National Fisheries Authority
National Forest Service
National Research Institute
New Ireland Province
Oil Palm Industry Corporation
Ombudsman Commission
PNG Electricity Commission
PNG Harbours Board
PNG Investment Corporation
PNG Nautical Training
PNG Telecom Authority (PNGTEL)
POSF Board
Rabaul Town Authority
Simbu Prov. Government
Small Business Development Corp.
Sandaun Prov. Government
Tourism Development Corporation
University of Technology
University of Goroka
University of PNG
University of Vudal
Water Board

CONTRIBUTIONS

2,977
175
129,973
287,216
893,839
43,168
21,720,706
51,281
23,298,675
8,253
81,750
87,136
26,062
96,394
6,857
132
1,299
8,092
12,091
314,187
3,139
301,543
56,753
207,483
314,501
77,967
132,016
35,850
8,429
79,605
137,625
971,687
517,788
15,026
13,847
96,827
197,635
7,703
9,609
18,082
1,172
23,121
348,688
44,122
185,543
52,023
280,351

Total Contributions Received

K 51, 208, 398



Benefits to Members

Housing Advance

The year 2002 saw virtually no housing advance payments being made, following a similar situation last year due to the lack of funding of the state share component.

Towards the end of the year the Fund requested members whose applications were suspended for the previous two years to resubmit fresh quotations if they were still interested in receiving a housing advance. A large number of applicants responded and their applications are at various stages of processing. New applications were also received. No advances were paid however, as the Board had yet to finalise the new guidelines in relation to the Superannuation (General Provisions) Act 2000, and this will be sometime next year.

New housing advance guidelines are being developed to cater for changes in policy and statutory requirements. Included in the new guidelines are :

- Mandatory repayments to be made at the minimum of 2% of applicant's ordinary pay. However, they are encouraged to repay at rates higher than this.

- Applicants must contribute for at least 5 years in order to be eligible.

- A nominal fee to be charged for the processing and the payment of housing advance.

- Applicants may only draw against the total of their contributions and interest balance.

Death & Invalidity Insurance

POSF initiated self insurance cover for death or invalidity to members in 2002 following the expiry of the three year group life cover for members with the underwriter WMI from 1999 to 2001.

This self insurance undertaking by POSF expires in 2003, after which members interested in life cover for themselves will have to fund the premium from additional voluntary members contributions as required by legislation.

Outsourcing of Contributor Services Department

As part of the new legislative requirements, the primary function of the contributor services department was outsourced in late 2002. The processing of members' contributions and exits was taken over by Kina Investment and Superannuation Services Limited (KISS) the Fund Administrator.

Privilege Cards

The Fund introduced a Member Privilege Card in 2002.

The purpose of this card was to allow the holder of the card discounts for any cash purchases made from any of the business houses mentioned on the reverse side of the card. A total of 59,594 cards were produced, and the bulk distributed to the members or to the Departments concerned for redistribution to the members.



The Year's Highlights

The New Superannuation Legislative Regime

With the commencement of the Superannuation (General Provisions) Act 2000 on 9th May 2002 a number of changes have either taken place or are in the process at POSF to meet the statutory requirements of the new superannuation legislation.

Two essential changes are the need to outsource the administration of the Fund to a licenced PNG company, and to appoint a licenced fund investment manager.

New Trustee

As part of the statutory changes a newly established independent licensed trustee company, POSF Ltd, has been appointed as the trustee of the Fund, at the year's end. The new trustee company has been duly licensed by the Central Bank and has a competent commercially experienced Board. The Board includes two nominees of Government, three independent directors who together with the Managing Director of POSF Ltd are all subject to the stringent fit and proper persons statutory requirements under the supervision of the Central Bank.

Fund Administrator - Outsourcing

POSF has completed the transfer of members' fund administration to Kina Investment & Superannuation Services (KISS) after the company was awarded the contract in response to the public tender.

KISS is now responsible for payment of benefits to contributors, collection and receipting of fortnightly contributions

from contributing authorities, administration and payment of pensions on behalf of the State, processing and payment of Housing Advances, Life Insurance and production of member statements each year.

Transfer of Contributions

The transfer of POSF employee contributions of PNGBC, RDB and MVIL was completed in 2002.

The member contributions together with accrued interests were transferred from POSF to the Finance Pacific Superannuation Fund, the new Superannuation Fund of the three entities. The total Fund Share (Contributions and Interest) transferred for PNGBC was K6.8 million, Rural Development Bank employees K1.5 million and for Motor Vehicle Insurance Ltd was K0.08 million.

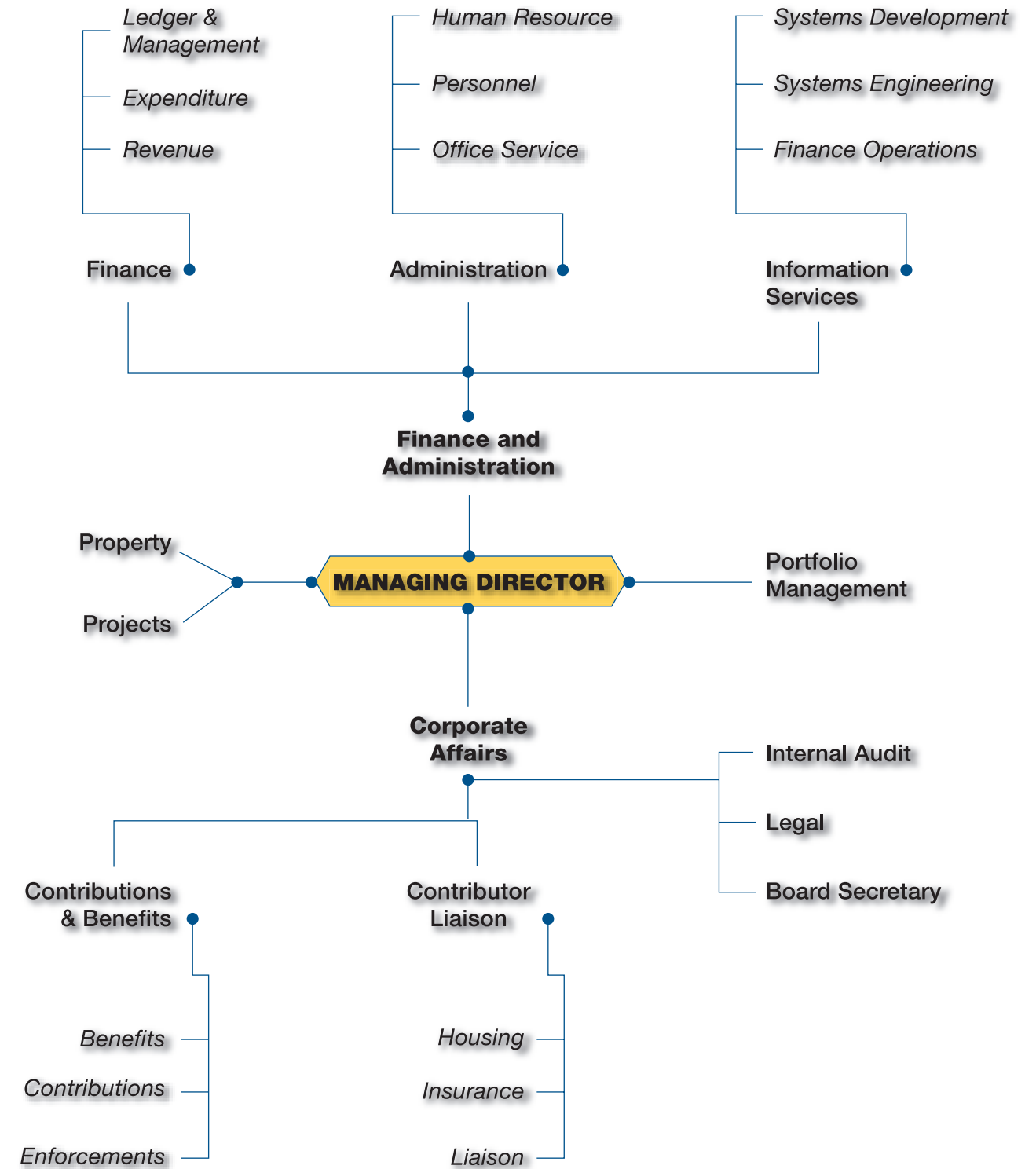


Board of Directors



The Board as at 1st January 2003, (from L - R): Mr. Kerenga Kua (Deputy Chairman), Mr. Ravu Vagi (Director), Mr Greg Taylor (Director), Sir Nagora Y. Bogan KBE (Chairman), Mrs. Aivu Tauvasa (Director), Mr Leon Buskens (Acting Managing Director)

Management Organisation Structure



The Management Team

The management team as at 31st December 2002 was:

Mr Leon Buskens	Acting Managing Director
Mr Wayne Smith	General Manager Corporate Affairs
Ms Asi Pako	Acting General Manager (Finance & Administration)
Mr Heartly Kanaiat	Acting Chief Accountant
Mr Ngat Kekesan	Manager Administration
Mr Ragupathy Muthusamy	Assistant Manager (Systems Development)
Mr Yuanimba Yinanguie	Manager, Property
Mr Joe Baupua	Manager, Contributor Liaison
Mr Kiff Umezo	Manager, Contributions & Benefit
Ms Norah Lavett	Board Secretary
Ms Patricia Taureka	Principal Legal Officer



AUDITOR - GENERAL OF PAPUA NEW GUINEA

TELEPHONE: 301 2203
FAX: 325 2872

LEVEL 6, TISA INVESTMENT P/L
P.O. BOX 423
WAIGANI
PAPUA NEW GUINEA

Financial Statements
for the period ending 31st December, 2002

<p>The Honourable Bart Philemon, MP Minister for Finance and Treasury Department of Finance PO Box 710 WAIGANI National Capital District</p>	<p>Date: <i>June 10, 2003</i> Our Reference: <i>30-27-4</i> Action Officer: Designation: Your Reference: Date:</p>
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Dear Sir,

**PUBLIC OFFICERS SUPERANNUATION FUND -
AUDIT REPORT FOR THE YEAR ENDED 31 DECEMBER, 2002**

In accordance with Section 8(4) of the *Audit Act 1989 (as amended)*. I have audited the accompanying financial statements of the Public Officers Superannuation Fund for the year ended 31 December 2002 as set out on pages 1 to 14 submitted by the Fund under *Section 63(4) of the Public Finances (Management) Act, 1995*. The Fund's Board is responsible for the preparation and presentation of these financial statements and the information contained therein. I have conducted an independent audit of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with generally accepted accounting practice which requires, amongst other things, compliance with International Financial Reporting Standards and Statements of Accounting Standards of the Papua New Guinea Institute of Accountants and other statutory requirements, so as to present a view which is consistent with my understanding of the Fund's financial position, and the results of its operations, its cash flows and changes in equity. I believe that my audit provides a reasonable basis for my opinion. During the course of my audit, I obtained all information and explanations that were required.


The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

I now report that in my opinion:

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Public Officers Superannuation Fund as at 31 December, 2002 and the results of its financial operations, its cash flows and the changes in equity for the year then ended.

Yours faithfully,



MARK M. WANI, MBE
Auditor-General

Contents

Income & Expenditure Statement	page 01
Balance Sheet	page 02
Statement of Changes in Equity	pages 03 - 04
Statement of Cash Flows	page 05
Notes to and forming part of the Financial Statements	pages 06 - 15
Declaration by Management	page 16

01 INCOME & EXPENDITURE STATEMENT

	Note	2002 K	2001 K
Income	3	68,898,982	72,414,162
Expenditure	4	<u>14,641,780</u>	<u>14,554,710</u>
Net operating surplus before movement in revaluation of investments and income tax		54,257,202	57,859,451
Less: Movement in revaluation of investments	5	<u>2,199,508</u>	<u>0</u>
Net operating surplus before income tax		52,057,694	57,859,451
Less: Income tax expense	6	<u>6,147,785</u>	<u>8,763,626</u>
Net operating surplus after income tax		45,909,909	49,095,825
Less: Extraordinary items	7	<u>3,215</u>	<u>3,367,297</u>
Operating surplus after movement in revaluation of investments, income tax and extraordinary items		45,906,694	45,728,528
Retained earnings at beginning of year		32,844	116,938
Amount transferred from Investment Revaluation Reserves		43,365,565	0
Adjusted retained earnings at beginning of year		43,398,409	116,938
Amount transferred from reserves		<u>4,200,000</u>	<u>2,600,000</u>
		93,505,103	48,445,466
Less: Interest credited to Contributors' accounts		53,539,376	48,412,622
Retained Earning at end of year	8	<u>39,965,727</u>	<u>32,844</u>

The accompanying notes form part of these financial statements

BALANCE SHEET

02

	Note	2002 K	2001 K
CONTRIBUTORS FUNDS & TERM LIABILITIES			
Contributors' Funds			
Contributors' accounts	2	637,478,328	576,343,209
Reserves		<u>76,343,824</u>	<u>83,976,506</u>
		713,822,152	660,319,715
Liability for pensions (former funds)	19	17,900,000	17,900,000
Deferred taxation	6	<u>10,751,579</u>	<u>7,973,309</u>
Total Contributors Funds & Term Liabilities		<u>742,473,731</u>	<u>686,193,024</u>
Assets			
Fixed Assets	9	7,887,091	8,569,742
Investments	10	602,905,049	569,377,959
Contributor Housing Advances	11	12,993,570	14,914,998
Current Assets			
Cash at Bank & on hand	12	25,368,500	5,356,142
Receivables	13	99,163,893	95,414,852
Stores & Consumables		10,050	12,215
Total Current Assets		<u>124,542,443</u>	<u>100,783,210</u>
Less: Current Liabilities			
Creditors	14	7,853,132	4,830,835
Provision for Taxation	6	(3,347,289)	1,375,080
Unclaimed Moneys		<u>1,348,579</u>	<u>1,246,970</u>
Total Current Liabilities		5,854,422	7,452,885
Net Current Assets		<u>118,688,021</u>	<u>93,330,325</u>
Total Assets		<u>742,473,731</u>	<u>686,193,024</u>

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Retained Earnings	Investment Revaluation Reserve	Contributors Account	Contributor Housing Advance & General Reserve	Reserve under Sec 35(2) (c)	Total
Balance at 01/01/2001	116,938	35,083,432	527,922,264	21,900,000	21,278,097	606,300,731
Surplus on revaluation quoted shares	-	15,892,168	-	-	-	15,892,168
Surplus on revaluation of Unquoted shares	-	(6,290,182)	-	-	-	(6,290,182)
Deficit on revaluation of investment property	-	(1,319,853)	-	-	-	(1,319,853)
Profit after tax for the period	45,728,528	-	-	-	-	45,728,528
Housing Advance transfer to P & L	2,600,000	-	-	(2,600,000)	-	-
Contributions Received	-	-	33,559,509	-	-	33,559,509
Benefits Payments	-	-	(33,551,186)	-	-	(33,551,186)
Interest Appropriation	(48,412,622)	-	48,412,622	-	-	-
Balance at 31/12/2001	32,844	43,365,565	576,343,209	19,300,000	21,278,097	660,319,715
Reclassification of Investment Revaluation Reserves to Retained Earnings	43,365,565	(43,365,565)	-	-	-	-
	43,398,409	0	576,343,209	19,300,000	21,278,097	660,319,715

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Retained Earnings	Investment Revaluation Reserve	Contributors Account	Contributor Housing Advance & General Reserve	Reserve under Sec 35(2) (c)	Total
Profit after tax for the period	45,906,694	-	-	-	-	45,906,694
Housing Advance Reserve transfer to P & L	2,200,000	-	-	(2,200,000)	-	-
General Reserve transfer to P & L	2,000,000	-	-	(2,000,000)	-	-
Contributions Received	-	-	51,208,398	-	-	51,208,398
Benefit Payments	-	-	(43,612,655)	-	-	(43,612,655)
Interest Appropriation	(53,539,376)	-	53,539,376	-	-	-
Balance at 31/12/2002	39,965,727	0	637,478,328	15,100,000	21,278,097	713,822,152

General Reserve & Housing Advance Reserve are grouped together this year.

The accompanying notes form part of these financial statements

	2002 K	2001 K
Cash flow from operating activities		
Cash receipts in the course of Operations	72,495,083	72,966,371
Cash paid to Suppliers & Employees in the Course of Operations	(14,699,206)	(19,842,157)
Income Tax paid	(8,243,290)	(8,119,794)
Net cash provided by operating activities	<u>49,552,587</u>	<u>45,004,420</u>
Cash flow from investing activities		
Receipt of development loan repayments	3,500,000	17,190,750
Proceeds on maturity of Govt securities	711,365,000	390,806,000
Receipt / (Placement) of term deposits - net	73,000,000	(22,500,000)
Payments for purchase of Govt securities	(795,786,826)	(435,997,779)
Payment for property development	(132,293)	(1,178,742)
Payment for acquisition of equities	(30,860,243)	(636,000)
Proceeds on sale of equities	0	7,167,308
Payment for fixed assets (net)	(127,799)	(214,937)
Development Loans granted	0	(4,898,768)
Net cash used in Investing activities	<u>(39,042,161)</u>	<u>(50,262,167)</u>
Cash flow from activities with Contributors		
Contributions received from Members	51,208,398	33,559,509
Benefits paid (including state share)	(88,755,822)	(76,658,065)
Housing advances paid	(9,889)	(116,000)
Net cash provided by activities with Contributors	<u>(37,557,313)</u>	<u>(43,214,556)</u>
Cash flow from activities with the State		
Cash receipts of State share (Benefits)	39,848,365	43,841,301
Cash receipts of State share (Housing advances)	7,210,880	412,225
Net cash provided by activities with the State	<u>47,059,245</u>	<u>44,253,526</u>
Net increase / (decrease) in cash & cash equivalents held	<u>20,012,358</u>	<u>(4,218,777)</u>
Cash & cash equivalents at the beginning of the year	<u>5,356,142</u>	<u>9,574,920</u>
Cash & cash equivalents at the end of the year	<u><u>25,368,500</u></u>	<u><u>5,356,143</u></u>

Details of reconciliation of operating surplus after income tax to net cash provided by operating activities are provided in Note 17.

1. Statement of Accounting Policies

The following accounting policies, which are in accordance with generally accepted accounting standards, have been adopted in the preparation of the Fund's financial statements.

1.1 Accounting Basis

The financial statements have been prepared under the historical cost convention and therefore do not reflect changes in purchasing power of money, except where indicated.

1.2 Recognition of Investment Income

Interest on government securities, term deposits, loans and rental income is accrued. Dividends from shares are accounted for on a cash received basis.

1.3 Fixed Assets and Depreciation

Fixed assets transferred from the former Funds are recorded at their net book value, and the subsequent additions are recorded at cost. Depreciation is provided on all fixed assets so as to reduce such assets to their residual value at the end of their estimated lives. The principal annual rates are as follows:

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

1.4 Income Tax

Tax effect accounting principles are observed by the company whereby income tax expense for the period is matched with the pre-tax result adjusted for permanent differences. The account "Provision For Deferred Income Tax" records the tax effect of items which will cause taxable income to be higher than book profits in the future and the account "Future Income Tax Benefits" records the tax effect of items which will cause taxable income to be lower than book profits in the future.

1.5 Valuation of Investments

The Board's policy is to revalue the Fund's investments every year.

- i. Quoted shares are valued at 31 December 2002 at last sale price on that date.
- ii. Unquoted shares are valued at fair value as at 31 December 2002 as adopted by the Board. This valuation involved the adoption of an independent professional valuation. The main factors used in the analysis was a combination of dividend yield and net tangible asset backing, as appropriate.
- iii. Land and Buildings are valued at 31 December 2002 by registered valuers Graeme Dunnage & Associates. The basis of the valuation is market value.

1.6 Provision for Doubtful Debts

Provision for doubtful debts comprises of specific provisions on debts that may not be recoverable. Rent debtors component of Receivables shown under Current Assets in the Balance Sheet are stated after deducting the provision for doubtful debts as shown in Note 13.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

2. Contributors' Account

Contributors' Accounts are credited with contributions on cash received basis. Interest is credited to Contributors' Accounts calculated at 10% per annum on the Contributor account balance as at the beginning of the year.

	2002 K	2001 K
Balance brought forward from previous year	576,343,209	527,922,264
Add:		
Contributions received during the year	51,208,398	33,559,509
Interest credited to Contributors	53,539,376	48,412,622
Contributions in arrears	0	0
	<u>104,747,774</u>	<u>81,972,131</u>
Deduct:		
Benefit payments	43,612,655	33,551,186
Benefit payments due but unpaid	0	0
	<u>43,612,655</u>	<u>33,551,186</u>
Balance as at end of year	<u>637,478,328</u>	<u>576,343,209</u>
3. Income		
The following categories of income were credited to the Income & Expenditure Statement:		
Property Rental Income (net)		
Gross rental income	14,639,530	14,933,485
Less:Property maintenance expenditure	<u>(6,424,898)</u>	<u>(6,769,685)</u>
	<u>8,214,632</u>	<u>8,163,800</u>
Interest		
Interest from:		
Government securities	24,263,228	20,210,157
Provincial government loan	0	0
National government loan	3,456,790	1,491,281
Debentures/Loan - Companies	6,241,787	6,983,172
Term deposits	<u>3,371,244</u>	<u>7,324,313</u>
	<u>37,333,049</u>	<u>36,008,923</u>
Dividends from Investments		
Quoted shares (ordinary)	6,754,126	1,071,304
Unquoted shares (ordinary & preference)	<u>9,995,944</u>	<u>13,781,343</u>
	<u>16,750,070</u>	<u>14,852,647</u>
Sundry Income		
Directors fees received	0	7,346
Profits/(loss) on assets disposed	(47,679)	45,477
Capital gain	(34,080)	4,291,804
Interest on state share receivable	6,304,016	8,866,922
Other Income	<u>378,974</u>	<u>177,243</u>
	<u>6,601,231</u>	<u>13,388,792</u>
Total Income	<u>68,898,982</u>	<u>72,414,162</u>

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

4. Expenditure

Net operating surplus before exceptional items and income tax is arrived at after charging the following specific items of expenditure:

	2002 K	2001 K
Management Expenditure		
Staff	5,128,487	6,249,640
Vehicles	152,188	135,374
Travel	107,330	108,302
Professional fees	1,914,636	1,127,369
Directors fees & expenses	98,637	75,852
Conferences	9,262	1,485
Office expenses	835,219	795,436
Staff housing	658,473	753,430
Office building expenses	<u>316,449</u>	<u>533,610</u>
	<u>9,220,680</u>	<u>9,780,498</u>
Contributor Benefit Scheme Expenditure		
Contributor liaison	328,227	700,081
Insurance scheme	1,708,000	2,594,156
Insurance benefits	<u>606,541</u>	<u>1,733,815</u>
	<u>2,642,768</u>	<u>5,028,052</u>
Less: Contributor Life Insurance exp w/back (refer Note 20)	738,156	0
Less:Insurance proceeds	<u>606,541</u>	<u>1,733,815</u>
	<u>1,298,071</u>	<u>3,294,237</u>
Provisions		
Provision for doubtful debts	141,072	717,450
Provision for depreciation of fixed assets	762,771	762,525
Provision for doubtful loan - Sipef Timbers	1,595,505	0
Provision for doubtful loan - Hombrum Piggery	<u>1,623,681</u>	<u>0</u>
	<u>4,123,029</u>	<u>1,479,975</u>
Total Expenditure	<u>14,641,780</u>	<u>14,554,710</u>
5. Movement in Revaluation of Investments		
Surplus (Deficit) on revaluation of Investment Properties	16,696,082	0
Surplus (Deficit) on revaluation of Equity Shares	<u>(18,895,590)</u>	<u>0</u>
	<u>(2,199,508)</u>	<u>0</u>

The opening balances of Investment Revaluation Reserve at January 1 2002 have been restated and reclassified to Retained Earnings in compliance with the Provisions of the IAS 40.

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

6. Income Tax

The income tax charged against the excess of Income over Expenditure of the Fund is determined in accordance with the policy set out in Note 1.4 and relates to:

	2002 K	2001 K
Income Tax Expense		
Current	7,952,462	7,943,962
Deferred	2,309,626	273,345
Prior year expense/ (credit)	<u>(4,114,303)</u>	<u>546,319</u>
Income tax expense for the year	<u>6,147,785</u>	<u>8,763,626</u>
Provision for income tax		
Prima facie tax payable at 25% on Fund surplus and extraordinary items	14,371,192	13,621,365
Tax effect of permanent differences	<u>(4,109,104)</u>	<u>(5,404,058)</u>
Tax effect of timing differences	<u>(2,309,626)</u>	<u>(273,345)</u>
Credit for Interest Withholding Tax	<u>(3,483,775)</u>	<u>(4,459,429)</u>
2001 Provisional Tax Paid	<u>(3,100,000)</u>	<u>(3,008,196)</u>
	<u>1,368,687</u>	<u>476,337</u>
Prior years	<u>(4,715,976)</u>	<u>898,743</u>
Provision for Income tax at end of year	<u>(3,347,289)</u>	<u>1,375,080</u>
Deferred Taxation		
Balance at beginning of year	7,973,309	7,879,065
Movement in year	2,309,626	273,345
Adjustment to prior year	<u>468,644</u>	<u>(179,101)</u>
	<u>10,751,579</u>	<u>7,973,309</u>
Comprising:		
Interest receivable	11,719,069	8,001,932
Rent receivable	724,119	904,260
Consumable stores	3,014	3,054
Depreciation	90,718	(173,639)
Less:		
Employee benefits	<u>(379,287)</u>	<u>(246,083)</u>
Doubtful debts	<u>(440,298)</u>	<u>(516,215)</u>
Doubtful Loans	<u>(965,756)</u>	<u>0</u>
Deferred taxation	<u>10,751,579</u>	<u>7,973,309</u>
7. Extraordinary Items		
Legal settlement of benefit payments	3,215	271,632
Accrued interest income write-off	0	169,253
Investment Project expenses Written Off	<u>0</u>	<u>2,926,412</u>
	<u>3,215</u>	<u>3,367,29</u>

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

8. Retained Earnings

Retained Earnings of K 39,965,727 as at year end represents gain on revaluation of investments from prior periods. Refer Note 5 for further details

9. Fixed Assets

Fixed Assets (ie "Non Investment" fixed assets) are included in the accounts as set out below. (Fixed Assets associated with Investment real estates are included under Investments). Depreciation of Fixed Assets are in accordance with policy set out in note 1.3, and are included in the accounts as follows:

	Housing	Office Building		Vehicles	Total	
	Land & Building	Plant/ Equip & Furniture	Land & Building	Furniture Fixtures & Fittings	Plant & Equipment	
COST						
At 01.01.02	940,550	110,304	3,533,333	2,250,109	3,030,707	1,582,810
Additions	45,280	11,004	25,000	28,250	101,913	0
Reclassification	0	0	0	2,678	4,130	0
Disposals	0	0	0	0	(144,348)	(268,079)
AT 31.12.02	<u>985,830</u>	<u>121,308</u>	<u>3,558,333</u>	<u>2,281,037</u>	<u>2,992,402</u>	<u>1,314,731</u>
DEPRECIATION						
At 01.01.02	114,270	52,905	0	556,708	1,467,634	686,553
Depreciation	9,392	10,198	0	190,573	294,107	258,999
Disposals	(0)	(0)	0	-	(106,851)	(167,941)
At 31.12.02	<u>123,662</u>	<u>63,103</u>	<u>0</u>	<u>747,281</u>	<u>1,654,890</u>	<u>777,615</u>
Depreciation 2001	9,993	11,433	0	62,186	405,618	386,395
NET BOOK VALUE						
At 31.12.02	<u>862,168</u>	<u>58,205</u>	<u>3,558,333</u>	<u>1,533,757</u>	<u>1,337,512</u>	<u>537,116</u>
At 31.12.01	<u>826,280</u>	<u>57,399</u>	<u>3,533,333</u>	<u>1,693,401</u>	<u>1,563,073</u>	<u>896,256</u>

The Board currently uses four levels out of the six levels at Era Rumana for its administrative functions. This reclassification of Era Rumana from Investments to Fixed Assets is in compliance with IAS 40.

The accompanying notes form part of these financial statements

11 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

12

10. Investments

Investments are made up as follows:

	2002 K	2001 K
Shares		
Quoted shares (ordinary)		
At 01/01/2002	60,389,282	44,497,113
Adjustment of securities (Oil Search & Orogen)	(3,427,072)	0
Reclassification from Unquoted (Ramu Sugar)	320,000	0
Revaluation increment/ (decrement)	(668,273)	15,892,169
At 31/12/2002	56,613,937	60,389,282
Unquoted shares (ordinary)		
At 01/01/2002	99,602,010	108,998,236
Reclassification to Quoted Shares	(320,000)	0
Investment(s) for the year		
-Bank South Pacific Limited	29,999,996	0
-Others	860,247	636,000
Divestment(s) for the year	0	(3,655,044)
Revaluation increment/ (decrement)	(14,457,245)	(6,377,182)
At 31/12/2002	115,685,008	99,602,010
Unquoted shares (preference)		
At 01/01/2002	971,001	884,001
Revaluation increment/ (decrement)	(343,000)	87,000
	628,001	971,001
Total Shares	172,926,946	160,962,293
Term deposits	30,000,000	103,000,000
Government Securities	247,470,115	163,048,289
Loans / Debentures		
Provincial Government		
At 01.01.2002	0	77,967
Repayments	0	(77,967)
Additions	0	0
National Government		
At 01.01.2002	10,000,000	14,964,139
Repayments	0	(4,964,139)
Additions / Conversions	0	0
At 31.12.2002	10,000,000	10,000,000
Companies		
At 01.01.2002	53,102,142	60,352,020
Repayments	(3,500,000)	(12,048,646)
Additions	0	4,898,768
Provision for doubtful loan	(2,752,142)	(100,000)
At 31.12.2001	46,850,000	53,102,142
Total Loans / Debentures	56,850,000	63,102,142

The accompanying notes form part of these financial statements

10. Investments (continued...)

	2002 K	2001 K
Property		
Land & buildings		
At 01.01.2002	73,210,579	79,101,661
Additions	413,568	302,104
Divestment(s)	(580,000)	(1,340,000)
Investment (s)	0	0
Reclassification to Fixed Assets (Refer Note 8)	0	(3,533,333)
Revaluation increment / (decrement)	16,696,082	(1,319,853)
At 31.12.2002	89,740,229	73,210,579
Furniture & fittings		
Cost at 01.01.2002	5,045,807	4,341,081
Additions	355,979	154,995
Disposals	(29,248)	(46,354)
Reclassification to Fixed Assets (Refer Note 8)	(2,678)	596,085
Cost at 31.12.2002	5,369,860	5,045,807
Depreciation 01.01.2002 - Furniture & Fittings	1,646,319	1,297,788
Depreciation for year	431,195	381,352
Disposals	(13,907)	(32,821)
Depreciation 31.12.2002	2,063,607	1,646,319
Net Book Value	3,306,253	3,399,488
Plant & Equipment		
Cost 01.01.2002	3,200,787	3,393,708
Additions	83,028	121,939
Disposals	(24,901)	(29,201)
Reclassification to Fixed Assets (Refer Note 8)	(4,130)	(285,659)
Cost 31.12.2002	3,254,784	3,200,787
Depreciation 01.01.2002 - Plant & Equipment	1,383,668	1,188,475
Depreciation for year	270,642	218,273
Disposals	(18,526)	(23,080)
Depreciation 31.12.2002	1,635,784	1,383,668
Net Book Value	1,619,000	1,817,119
Total	94,665,483	78,427,186
Project Investigations	0	170,747
Capital Works in Progress	992,505	667,302
Total Investments	602,905,049	569,377,959

The accompanying notes form part of these financial statements

13

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

	2002 K	2001 K
11. Contributor Housing Advances		
Total advances outstanding	32,164,353	35,363,595
Less: State share liability	<u>19,170,783</u>	<u>20,448,597</u>
	<u>12,993,570</u>	<u>14,914,998</u>
12. Cash at Bank and in Hand		
Bank balance	(1,281,186)	825,256
Cash in hand	1,870	1,450
Bank call deposit	<u>26,647,816</u>	<u>4,529,436</u>
	<u>25,368,500</u>	<u>5,356,142</u>
13. Receivables		
Rent Debtors	2,413,730	3,617,042
Less: Provision for doubtful debts	<u>(1,467,661)</u>	<u>(2,064,859)</u>
	946,069	1,552,183
POSF staff housing scheme	282,294	408,170
Staff Advances (salary)	10,592	7,980
Sundry Debtors	5,237,225	5,150,657
Dept Finance (state share)	88,832,034	82,867,849
Interest Accruals	3,894,377	5,483,297
Associated Funds	<u>(38,698)</u>	<u>(55,284)</u>
	<u>99,163,893</u>	<u>95,414,852</u>
14. Creditors		
Creditors	6,503,863	3,852,100
Accruals	<u>1,349,269</u>	<u>978,735</u>
	<u>7,853,132</u>	<u>4,830,835</u>
15. Capital Expenditure Commitments		
Capital Expenditure Commitments contracted for:		
Commercial Property Developments	1,533,209	3,805,331
Expenditure incurred up to 31.12.2002 & included		
Under Investments:	<u>1,350,170</u>	<u>2,803,667</u>
Payable - not later than one year	<u>183,039</u>	<u>1,001,665</u>
16. Events subsequent to Balance Sheet Date		
(a) In accordance with the Superannuation (General Provisions) Act 2000, the POSF Board appointed POSF Limited as the new Corporate Trustee of the Fund.		
(b) On 31/12/2002 POSF Limited was granted a license by the Central Bank to operate as a Trustee of superannuation funds.		
(c) As a consequence, effective from 1st January 2003 the following were appointed to the Board of the trustee company:		
Chairman	-	Sir Nagora Y Bogan, KBE
Deputy Chairman	-	Mr Kerenga Kua
Director	-	Mrs Aivu Tauvasa
Director	-	Mr Greg Taylor
Director	-	Mr Ravu Vagi
Director	-	Mr Leon Buskens (Acting MD, POSF)

The accompanying notes form part of these financial statements

14

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

(d) Also under the new legislation one of the requirements was the outsourcing of the Fund's Administration and the Investments Management. POSF outsourced the Fund Administration to Kina Investment and Superannuation Services Limited and the Investment Management to Kina Funds Management Limited. Both are licensed by the Central Bank.		
(e) In prior years POSF has been reflecting the net movement in Investment Property revaluations in the Investment Revaluation Reserve. This year, per IAS 40, the net movement is reflected directly in the Income and Expenditure Statement.		
17. Notes to the Statement of Cash Flows		
1. Reconciliation of Cash		
For the purpose of this statement of Cash Flows, Cash includes cash on hand, and on call deposits with banks and, 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 Balance Sheet as follows:		
	2002 K	2001 K
Cash on hand	1,870	1,450
At call deposits	26,647,816	4,529,436
Balance at Bank	<u>(1,281,186)</u>	<u>825,256</u>
	<u>25,368,500</u>	<u>5,356,142</u>
2. Reconciliation of Cash flow from Operations with Operating Surplus after Income Tax		
Operating Surplus after Income Tax	45,906,694	45,728,528
Cash flows in Operating Surplus attributable to Non-operating activities	(4,983,268)	(7,885,960)
Non - Cash flows in Operating Surplus		
Depreciation	762,771	762,525
Charge to Provisions - doubtful debts	141,072	717,450
- doubtful loans	<u>3,219,186</u>	<u>0</u>
Net cash provided by operating activities before change in assets and liabilities	45,046,455	39,322,543
Changes in assets and liabilities during the year		
Increase / (Decrease) in tax provision	(2,095,505)	637,137
(Increase)/Decrease in debtors	4,900,547	5,029,074
Increase / (Decrease) in creditors	1,701,090	15,666
Cash flow from operations	<u>49,552,587</u>	<u>45,004,420</u>

The accompanying notes form part of these financial statements

18. Related Party Disclosures

During the year the following transactions with related parties occurred:

(a) At 31st December 2002, the Fund was owed the following balances from related parties:

	2002	2001
* <i>Moki No.10 Ltd</i>	12,250,000	12,250,000

(b) All other insignificant transactions with subsidiaries and their related parties have been disclosed in the financial statements of those subsidiaries. All transactions with related parties have been done on commercial terms and conditions.

19. Liability for Pensions (former funds)

The Fund continues to carry the amount of K 17.9 million as pension liability for the former Fund. On conversion of the fund from a defined benefit plan to a defined contribution plan, pension effectively became the State's entire responsibility. The intention of Section 35(2) (b) of the POSF Act which deals with this liability is for the Fund to pay the State. However, as Section 35(2) (b) of the Act is currently in conflict with the intention an update of the Act is required before the liability is settled.

20. Liability for Insurance Premiums for WMI

The Fund drew a cheque in 2001 in respect of insurance premiums to WMI. WMI disputed the cheque which was returned to POSF and has remained unpaid. WMI Issued a summons against POSF which we have stayed on 20th June 2002 to instigate arbitration in accordance with the policy.

The issue in dispute is the adjustment of the premiums for July 2001- December 2001 and premium adjustments based on active members for prior years. WMI disagreed with our adjustments. Management is confident of vigorously defending its position.

Despite premiums being paid by POSF for 1998 - 2000, claims approved for these years are held against the full premium outstanding in 2001 that WMI alleges is owed.

21. Resources Investment Finance Limited (RIFL)

During the year the Central Bank appointed a statutory manager to manage Resources Investment Finance Limited as a consequence of RIFL not being able to pay back to depositors their term deposits on maturity. The Fund has a total exposure of K1.0 million with RIFL

In our opinion, the accompanying Balance Sheet, Income & Expenditure Statement, Statement of Changes in Equity and Statement of Cash flows, together with the Notes to and forming part of the accounts, have been properly drawn up so as to respectively exhibit a true and fair view of the state of affairs of the Fund as at 31 December 2002, and a true and fair view of the results of the Fund's operations for the year then ended. We are of the opinion that:

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

SIR NAGORA BOGAN
Chairman of the Trustee

28 May 2003

LEON BUSKENS
Acting Managing Director