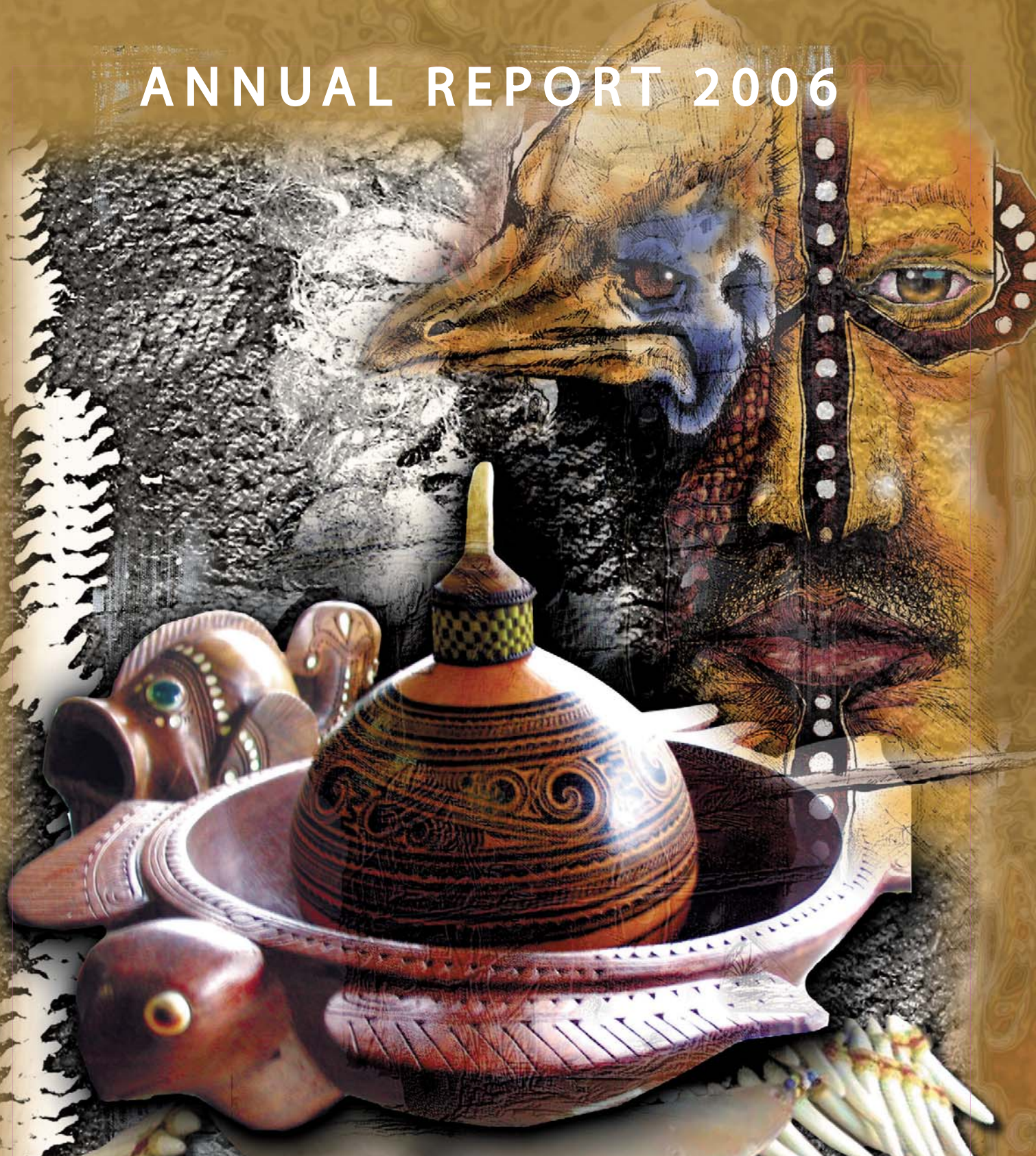


# ANNUAL REPORT 2006



POSE

PUBLIC OFFICERS SUPERANNUATION FUND

# Vision, Mission and Corporate Values

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

**Mission** - To protect and maximize the superannuation benefit for members of the Fund through prudent investment management.

**Corporate Values** - Our corporate values, shape our policies, guide our actions and underpin our respect for members.

**Innovation** - Constantly seeking out new and innovative ways to manage our operations and fully meet customer needs.

**Accountability** - Taking responsibility for our actions in all that 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 defined as:**

**Operational:** Effectively planning, managing, implementing and monitoring the Fund's internal and external processes and systems including external relationships.

**Special Assets:** Tangible and non-tangible and which provide a competitive advantage including adding value to the overall performance of the Fund.

**Change and Growth Support:** Adopting organisational management principles which are conducive to improved skills articulation for niche growth opportunities.

**Relationship Management:** Maintaining strong strategic partnership that optimise growth opportunities, including challenges to pursue the long term objectives of the Fund.

## **Cover Theme:**

*The cover embodies the intricacies of Papua New Guinea's many unique traditional cultures. Artifacts, as featured centre page are an important part of preserving heritage and are of great cultural and historical importance. Plumes and facial decorations assist to identify cultural group while the uniqueness and history of our cultures is captured and preserved in the form of artifacts. Our cover is a reflection of the essential things that compose traditional society and are an important part of our heritage that we must preserve.*

# 2006 Highlights

## FINANCIAL

- Strong financial results - profit after tax of K151.2 million, net asset of K1,516.4 million and reserves of K100.2 million
- **16% interest return to members - real return of 14.4% (inflation of 1.6%)**
- Further diversification of investment portfolio - particularly in international assets
- Appointment of international investment manager - Access Economics

## MEMBER SERVICES

- Roll out of 5 information kiosks to Kavieng, Wewak, Alotau, Goroka, Kimbe
- Regional workshops for HR/Payroll officers in Port Moresby, Lae, Mt Hagen & Rabaul
- Launch of 8-mile housing project (Malolo Housing Estate) with plans for 250 houses
- Increased RSA accounts from K0.9 million to K7.1 million
- Additional 16 private sector companies joined the Fund bringing the total to 36 private companies
- Alliance with Post PNG in enhancing service to members
- Lift in member education and awareness programs - radio, print media and newsletters

## INTERNAL

- Revised 5 year strategic plan to 2011
- Fine tuned organisation structure
- Revised risk management profile
- Commercial property refurbishment program

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# Chairman's Statement

## "LOOKING TO THE FUTURE"

SIR NAGORA BOGAN - KBE  
Chairman



### Interest Payment

The Fund was consistent in its policy of Interest payment by paying 16% interest rate for 2006.

### Portfolio Diversification

Strategically, the Fund is in an extremely strong position with a solid portfolio diversification.

### Value for Members

The Board and management of POSF are committed to further increasing the value of the Fund to its members beyond 2006.

## INTRODUCTION

The overall theme of the 2005 Annual Report was: "Staying On Course". The 2006 Annual Report takes a progressive position under the theme: "Looking To The Future".

Consistent strong financial results over the past few years to 2006 provided a solid platform to boost the net asset value of the Fund and placed the Fund in an even better position to improve the performance of the Fund beyond 2006.

## FINANCIAL RESULTS

Maintaining this progressive stance, I am pleased to report that POSF Limited ended 2006 with yet another strong financial standing with operating profit after tax for the year of K151.2 million (2005: K330.3 million) and reserves totaling **K100.2 million** (2005: K134.6 million) representing **6.6%** of net assets. This financial performance justified the Fund paying 16% interest to its members and with headline inflation reported at 1.6% for the year end, real returns to members was 14.4%.

Net assets increased by K151.4 million which represents a growth of 11.1%, resulting in a total net asset of K1.516 billion at year end.

## INTERNATIONAL PORTFOLIO

Regular review and revision of the Fund's Investment strategy is necessary because of our country's susceptibility to vagaries of international pricing and the constant shift and changes in the local, regional and international economic landscape. As a growing Fund with a large pool of liquid assets in a small and very constricted domestic market - it is prudent that the Fund diversify its portfolio beyond its country borders. This approach helps to mitigate the Fund's risks normally associated with low country rating plus allows the Fund to invest in international markets with hard currency. Thus the Fund has diversified its investments to Australia and beyond, to Europe, North America and Asia.

Managing complexities of international portfolio investment is a serious concern for the Board which has worked hard with the Management and the Fund Manager to screen and identify some of the best in the business to manage the international portfolio which increased from K112.2 million in 2005 to K259.7 million in 2006.

The two international portfolio managers are ABN Amro and Access Economics. Access Economics was engaged as an international portfolio manager during the year after an extensive and systematic process of selection. The partnership with Access Economics was consummated based on a strategic approach to off-shore investments using their return targeted investment portfolio (TIP) approach. A major upside of TIP is its zero correlation with equity stock markets movements as a major tool in managing market inherent risks. Additional attractions were the key targeted return of 12%, global spread in strategically targeted investment portfolios, and the success rate of Access Economics.

## LEADERSHIP AND MANAGEMENT OF THE FUND

Since 2003, so much has been done to grow the Fund's investments. That growth being 151% from K602.9 million to K1.516 billion at year end in 2006. This result can be attributed to many factors, the most significant being; political stability, prudential and workable superannuation reforms, strong macro economic performance and stringent supervision by the Bank of Papua New Guinea.

These external environmental factors have had strong bearing on the Fund's overall performance, but one cannot go past the back room champions who have been resolute, committed and passionate about making it all come together.

The solid position of the Fund is credited to the contribution of my fellow Board of Directors for their astute stewardship, their candor, independence and objectivity; the Managing Director, his Management team and every member of the staff.

# Chairman's Statement

The Fund's employees must be complimented for their diligence, energy, hard work and perseverance in carrying out their duties. Credit is also attributed to all members of the Membership Committee and the Audit and Risk Committee including all important service providers such as the Investment Managers - Kina Finance Management (KFM), Property Facilitators - Ashton Brunswick, and Fund Administrators - Kina Investment & Superannuation Service (KISS); and many other partners and stakeholders who have certainly contributed to the results of the Fund in 2006.

## **COMMON SENSE MUST PREVAIL**

At POSF Limited, we believe that to be complacent is to be careless. It is simply wise to remain grounded, sincere and pragmatic. The ensuing message is that stakeholders must remember that fundamental external macro drivers also contributed to our overall good performance, and that those external factors might not necessarily provide the consistent strong financial returns and/or double digit interest rates and that this scenario might not be sustainable all of the time. It is therefore wise and prudent to keep that message in mind and allow common sense to prevail.

## **MEMBER CHOICES**

In a competitive superannuation environment, we subscribe to one of the basic principle of recognizing and upholding "a member's right to exercise independent decision and free will to join an Authorized Superannuation Fund (ASF) of his/her choice". To that end, we have shown fair respect by facilitating the decision and choice of 16 new private sector companies to join POSF Limited in 2006. This element of members choice, exercised within the structure of the Superannuation Act generates healthy competition amongst Authorized Superannuation Funds and adds another dimension of check and balance in the industry.

## **PRODUCTS AND SERVICES**

The Board and Management have made a commitment to expand member services in terms of scope, intensity, accessibility, quality and simply meeting a specific need or expectation of members. To that end, Retirement Savings Account was introduced because of widespread testimonials and reported incidents of retired members loosing their life time savings due to ignorance, lack of knowledge, lack of discipline or succumbing to social pressure such as wantok system or other customary obligations.

Retirement Savings Account was established as an integrated product and service to ensure retired members set aside their funds in an RSA Account that generates tax exempt interest income with returns that are more attractive and higher than normal commercial bank interest rates and headline inflation.

The product was introduced in late 2005 and increased from 18 accounts totaling K0.9 million to 218 accounts with a balance of K7.1 million in 2006. Concurrent with the successful launch of the RSA product, the Fund has continued to expand its member services with the introduction of specialist Retirement Counseling Service.

In maintaining an innovative stance, the Fund will extend the range of products and services to be concurrently rolled out in 2007 as part of the re-branding exercise.

## **INFLUENCING DEVELOPMENT**

As a Papua New Guinea institution, the Fund is always proud to share the dreams and aspirations of its people and in a small but very strategic way, leveraged its economic muscle to influence positive change in the market place. For example, it has negotiated, in good faith, with some local banks to make lending for housing more affordable and on less restrictive terms for our members and we hope this improved bank lending terms and conditions will be extended to as many people as possible throughout Papua New Guinea.

In 2006 the Fund, through the Superannuation Task Force, sought certain modifications to the Superannuation Act. While the amendments recently passed by Parliament are welcome, the Fund is disappointed that some key recommendations of the Task Force were passed over. However, the Fund welcomes the intention of the Government to consult further on a number of matters where we consider further modification would be in the national as well as member interest.

## **PRIMARY MANDATE**

The vision of the Fund is to build value and maintain the highest level of benefit and service quality for members. Its primary mandate is to facilitate and manage savings for the day and time when a member retires. This ethos must not be diluted by any pressures in making the Fund become a total solution for all of the social problems faced by members. Clearly, this is not fair and the Board is mindful of this overriding statutory responsibility. That responsibility must be balanced by its moral obligation in adopting low risks solutions by forging strategic alliance with members, employers and other stakeholders so that a balanced cohesive approach is used to tackle challenges in such areas as member housing.

Finally, this 2006 **Annual** Report marks the end of an era in the corporate identity of POSFL and the history that goes with it. I am proud to announce that the current name, corporate logo and image of POSF Limited will be retired and new beginnings created with launch of *Nambawan Super* in 2007.

Sir Nagora Y. Bogan, KBE  
CHAIRMAN

# Board of Directors



## **CHAIRMAN - SIR NAGORA BOGAN (KBE)**

*Bachelor Of Law from the University of PNG*

Sir Nagora has been part of the Board since his appointment in December 2002 by the Treasury Department. He is now serving his second term on the Board. Sir Nagora served in Government for over 24 years in various capacities including PNG Ambassador to the United States. He also served as the Commissioner General for the PNG Internal Revenue Commission.



## **DEPUTY CHAIRMAN - MR KERENGA KUA**

*Bachelor of Law from the University of PNG*

Kerenga was nominated by the previous Board in December 2002. He is now serving another term after his reappointment on the 27th June 2005. He is the Executive Partner in charge of Commercial Litigation of Posman Kua Aisi Lawyers and is the President of the PNG Law Society. He also has professional membership of the International Bar Association. He has been a lawyer of the PNG National Supreme Courts of Justice since 1987.



## **DIRECTOR - MR GREG TAYLOR**

*Economics Degree (Hons) from the University of Adelaide, Australia*

Greg is the independent, non-resident director and was appointed to the Board in December 2002 and was reappointed for another term during the year. Greg has wide experience in the Australian Treasury and other senior government posts, including periods at the Organisation for Economic Co-operation and Development and the International Monetary Fund (IMF). From 1997-2000 he was PNG's Executive Director at the IMF. In 2001, he headed the Superannuation Task Force and is still a current member.



## **DIRECTOR - MRS AIVU TAUVASA**

*Masters in Business Administration from Embry-Riddle Aeronautical University, Florida, USA*

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



## **DIRECTOR - MR RAVU VAGI**

*Masters of Development Administration, Australian National University; Certificate in Human Resource, Victoria University of Manchester; Bachelor of Arts (Demography) from the University of PNG.*

Ravu was appointed to the Board in December 2002 as the nominee of the Department of Personnel Management and is serving his second term as Board Director. He is the Deputy Secretary with Department of Personnel Management.



## **DIRECTOR - LEON BUSKENS**

*Masters in Finance from Royal Melbourne Institute of Technology, Australia; Bachelor of Commerce from University of Technology, PNG.*

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

# Corporate Governance

## 1. SUB COMMITTEES

The Board is committed to ensuring that the Fund operates under a system of good governance, accountability and transparency. Good corporate governance depends on the Trustee's policies, procedures and standards being continually reviewed and updated. The Trustee will use its best endeavours to maintain and improve upon the high standards of governance that applied in 2006 and meet additional requirements that may arise.

To adhere to this commitment, the following committees have been created to assist in this process:

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

Work is underway on developing a Charter for a Remuneration and Nomination Committee to be introduced in 2007.

### AUDIT & RISK COMMITTEE (formerly Audit and Compliance Committee)

The role of the Committee is to assist the Trustee objectively review the processes, systems of internal control, management of financial risks, audit process and the process for monitoring compliance with laws and regulations relevant to the role of Trustee of an Authorised Superannuation Fund.

Chairman Mr. David Guinn OBE  
Member Sir Nagora Bogan KBE  
Managing Director (by standing invitation)

### MEMBERSHIP COMMITTEE

This Committee is made up of representatives from contributing employer unions and two members of the Board. The Committee provides an avenue for members to contribute to the decisions-making process of the Fund and assists the Trustee in dealing with complaints and inquiries about the operation and management of the Fund.

It also provides an avenue for members to channel queries about and provide views on the operation of the Fund and its performance. In addition the Committee advises the Trustee on member related issues in terms of information support, publications and general communication requirements.

#### Committee Members.

Mr. Kerenga Kua (Chairman)	-	POSF Representative
Mr. Ravu Vagi	-	POSF Representative
Mr. Willie Kelis	-	PNG Energy Workers Union
Mr. Martin Kenehe	-	PNG Teachers Association
Mrs. Helen Are'e	-	Amalgamated General Workers Union
Mr. Lawrence Namaro	-	PNG Nurses Association
Ms. Eunice Isom	-	Papindo Group of Companies
Mr. Gabriel Paulus	-	National Fire Fighters Association
Mr. Peter Luga	-	Correctional Services Institute
Mr. Tau Vali	-	Public Employees Association

## 2. RISK MANAGEMENT

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

The Trustee has a comprehensive framework in operation. The risk management framework ensures risks are evaluated in a consistent manner and reported through to the senior management to the Audit & Risk Committee. During the year the Trustee continued to identify, assess and monitor key business and operational risks and ensured management plans and controls operated efficiently and effectively.

During the financial year, the Trustee paid premiums to insure all Directors, Officers and Employees of the trustee against claims brought against the individual while performing services for the company.

### 3. STAFF REPORT

At the end of 2006, the Fund had a total establishment of 88, of which eight were in managerial positions. The Fund always places great emphasis on gender equality and is practicing it through equal employment opportunity for all Papua New Guineans. The Fund has its own Staff Manual which sets out the terms and conditions of employment for all employees and has in place a consistent Annual Training Program which encourages and develops all aspects of Human Resources which is essential for maintaining performance standards within the organisation.

During 2006, there were various trainings conducted in the following categories:

#### 1. Management Training Workshops

Risk Management Workshop facilitated Deloitte Touche Tohmatsu  
 Strategic Planning in Alotau  
 Business Plan Workshop held quarterly  
 Managers Annual Workshop

#### 2. In-house Training

Financial Counselling Part 2. (All Staff)  
 Performance Management System (Staff & Management)  
 Emergency Evacuation Training (selected Floor Wardens)  
 POSF Divisional Presentations (All Staff)  
 POSF Induction Program  
 Mapping Process Training (selected Team Leaders & Managers)

#### 3. External Training

Accounting Diploma as ITI (2 x Accounts Staff)  
 Advanced Accounting Diploma at ITI (1 x Accounts Staff)  
 Degree Courses at UPNG Open College (4 x Non-Accounting Staff)  
 Managing People at ITI (2 x Managers)  
 Understanding Treasury Management (1 x Revenue Staff)  
 Diploma in Law at PNGHRI (2 x HR & Legal Staff)  
 Access Computing Courses (Property Staff)  
 Payroll Courses at Able Payroll (Accounts & H.R Staff dealing with payroll)  
 Specialised IT Courses (IT Staff)  
 Driving Classes at Salvation Army (1 x property Team Leader)

#### 4. Professional Membership

Human Resource Practitioners membership at PNGHRI  
 Internal Auditors membership at Institute of Internal Auditors  
 Certified Practising Accountants membership  
 PNG Institute of Valuers & Land Administration  
 PNG Computer Society Inc

### 4. STAFF LEVELS

STAFF TYPE	NATIONAL	EXPATRIATE	TOTAL
Full time	72	Nil	72
Contract	7	1	8
Casual	8	Nil	8
<b>TOTAL</b>	<b>87</b>	<b>1</b>	<b>88</b>

#### EMPLOYEE REMUNERATION

Per BPNG prudential standard 3/2006, the number of employees of the Trustee company whose remuneration and allowances & benefits exceeded K100,000 are listed hereunder in bands of K100,000.

Remuneration includes salaries, housing allowances/benefits and employer superannuation.

	No. of Employees
101,000 - 200,000 (Bands of K100,000)	6
201,000 - 300,000	-
301,000 - 400,000	-
401,000 - 500,000	1
501,000 - 600,000	-
601,000 - 700,000	-
701,000 - 800,000	1
	<b>8</b>



# Managing Director's Statement

## "MEMBERS INTEREST DRIVING TRANSFORMATION IN THE FUND"

LEON BUSKENS  
Managing Director



Dear Members

As Managing Director, I am pleased to report that your Fund ended 2006 with yet another extremely good outcome with the financial result enabling the Fund to pay 16% interest to you, as members.

A number of new products and services were introduced during 2006 as part of our ongoing efforts to value-add to the scope of the Fund, both quantitatively and qualitatively. Of course, achieving good returns and building retirement wealth necessarily involves a series of processes and tasks such as collaborating with key players from both within and outside the organisation. For example; internally, the focus in 2006 was on making sure that our medium to long term strategies bring about positive outcomes to safeguard the well being of the Fund and its contributors. Our priorities therefore, were directed towards effective and efficient management of the organization; from corporate governance, prudential investment and risk management practices, financial and civil society accountability, and investment in our human capital. At the external level, a number of strategic and alliances with key stakeholders were developed and or strengthened. All of these actions were designed to, at the end of the day, bring about an even further and total independence from political interference plus help the Fund continue to operate within the prudential guidelines of the Bank of PNG.

### FINANCIAL RESULTS:

During 2006, the Fund earned an after tax profit of K151.1m (2005: K330.3million) from its operations. An additional amount of K28.4 million or 2.5% nominal interest rate, was drawn from Reserves to bring the total interest rate to 16% which was the extent of interest credited to members at year's end. Some of the improvements in operations was due in part to:

- (i) the active involvement of our representative Board Directors in the performance of each of the unlisted company investments; and
- (ii) contribution from our property facility management, a new model of property management concept the Fund adopted in 2004.

Interest credited to Members (2000 - 2006)

Year	2006	2005	2004	2003	2002	2001	2000
Gross Interest	16%	20%	15.5%	19%	10%	10%	10%
Headline Inflation	1.6%	4.6%	2.4%	8.4%	14.8%	10.3%	10%
Real rate of return	14.4%	15.4%	13.1%	10.6%	-4.8%	-0.3%	0

The real rate of return to members in the last four years has been in the double digit region and averaged 13.4%. The exceptional rate of return over the four years is directly attributable to political and financial stability in the country and strong commodity price growth. Our long term investment objective is to achieve an average after tax return of at least 2% above the headline inflation rate with negative real returns in no more than one year in five.

# Managing Director's Statement

## **STRATEGIC FOCUS:**

During 2006, the Board and senior management collaboratively revised the Fund's 5-Year Strategic Plan to the year 2011, enabling a better realignment of our plans and actions and how the Fund must be strategically progressed. Part of this review resulted in more effective performance management systems of our activities through the annual cycle of Business Work plans.

Our vision, mission and core values were equally tested for their relevance and meaningfulness to members and stakeholders, alike. In all a total of nine (9) broad strategic goals were identified and eventually adopted. The most significant are; enhancing member services and products; improving organizational capability; strengthening and fostering relationships between the Fund and its service providers and taking an innovative and leading role in the area of domestic personal savings.

## **RETIREMENT SAVINGS ACCOUNT (RSA)**

I am pleased to report that there has been a growing acceptance and participation in the RSA products, following the introduction of legislation for which POSF has been the first and only Fund to offer this product to workers in PNG. During 2006, the Fund continued to conduct education and member awareness programs about the RSA as well as providing counseling services. Another 200 members elected to use the RSA facility increasing RSA funds from K0.9m to K7.1m by the end of 2006. RSA members who took up the offer to be part of a large and diversified investment portfolio now have the opportunity to earn competitive rates of return while in retirement. Members opting to leave funds in an RSA also benefit from the 16% interest rate which, for these accounts, is tax free and compares extremely well with any other savings or investment alternatives.

## **MEMBER HOUSING**

Housing for the majority of Papua New Guineans is a critical need and members of our Fund are no exception. The Board of POSF Limited recognizes this and is committed to constantly assessing circumstances and opportunities to address the massive shortfall our country faces. It is not only the shortage but affordability that is an issue at the national level. During 2006, the Fund was able to negotiate with the Bank of South Pacific and Kina Home Finance to allow 90% mortgage funding for POSF members over 10-25 year terms. Prior to that, the lending terms were 10 years or less with 70-80% mortgage funding.

A POSF Limited pilot housing project at Garden Hills in Port Moresby began in early 2006 with the construction of twenty five (25) kit homes supplied by Steamships Hardware. We have since progressed to 8 Mile Malolo Estate, on the outskirts of Port Moresby. Drawing on the experience from the Garden Hills project, the Fund is planning to build up to 250 houses at the 8 Mile premises. Sale of house and land packages is expected to commence in the last quarter of 2007. The Fund also owns 340 hectares of land at 9 Mile which is being earmarked as the next project after 8 Mile's Malolo Estate. The Fund is also looking at similar opportunities in other main centers of the country.

During 2006, the Fund was able to advance a total of K22.6m to 1,544 members as housing withdrawal assistance. In fact for the 6 years to 2006, the Fund has paid out over K50m to over 4,100 members to assist them with their housing needs.

## **PENSIONS**

The Board took upon itself to review and adjust the small number of the pensions it administers for the State from the former Fund. After a lengthy assessment, a total of K3.1m as pension back pay was adjusted for inflation.

The Fund received an advance of K21.7million from the State in respect of non-contributory vested pension benefits for eligible members of the Royal PNG Constabulary, PNG Fire Service and Correctional Services. During the year, a total of K14.1million was paid out to 517 members that met the eligibility requirements.

## **FUTURE CHALLENGES:**

### ***Member Data***

While some improvements were made in the area of the quality of member data (dates of birth, nomination of beneficiaries and addresses) to improve annual statement and education penetration, further improvement is needed. A new strategy to tackle this ongoing issue will be developed in 2007. All members and employers are encouraged to help the Fund optimize results in member services and communication.



### ***Casual & Ancillary Employees Contributions to Superannuation***

A relatively large number of casual and ancillary staff in public sector agencies do not contribute to superannuation. This is in spite of them being on the payroll for more than three months. The Fund began an education and awareness program during 2006 and is working jointly with the Department of Personnel Management to raise the awareness of this important and worthwhile initiative.

### ***Communicating with members/empowering members***

A large proportion of members such as teachers, district and health workers live and work in the rural areas of the country where access to communication is often difficult and limited. We recognize that constantly improving and expanding member education and awareness activities will enable members to better understand, appreciate the purpose and objectives of the Fund. Having this knowledge, we believe, helps members to better plan and make informed choices about their retirement savings. A number of initiatives were commenced in 2006 to expand member communication systems;

- Four (4) regional Employer & HR targeted workshops conducted in Port Moresby, Mt Hagen, Kokopo and Lae.
- A weekly Toktok Supa column in the daily papers including a Tok Pisin version,
- A quarterly member newsletter was launched.
- Advertising on FM & AM radio including a Toktok Supa segment done in Tok Pisin
- Information Kioks launched in Kavieng, Goroka, Alotau, Wewak, and Kimbe with another seven (7) planned launches in 2007 enabling the Fund to have a presence in sixteen (16) provinces out of nineteen (19) in the country.
- A (internet) web enablement for members was developed to help access statements and other pertinent information.

### ***Employer Contributions***

From 2003 onwards, Employers commenced direct remittance of their 8.4% employer contributions to POSF on behalf of their employees. For the State as an Employer, contributions have been gradually introduced with 25% of the 8.4% for years 2003 & 2004, 50% for years 2005 & 2006, 75% for years 2007 & 2008, and 100% from 2009 onwards. The Fund is addressing payment and data issues so as to ensure the process is efficient and sustainable.

### ***Investment Portfolio/Policy***

The Board, Management and Fund Investment Manager meet every quarter to specifically review the investment portfolio and performance of the Fund. The investment policy is reviewed and updated on an annual basis to reflect its relevance to current and future economic scenarios.

### **SUMMARY**

Our journey over the last four years as a Superannuation Fund has been nothing short of remarkable. We have been able to meet the huge challenges and changes in the industry since the reforms were introduced in 2003. Throughout this transition, the Board and Management have at all times, placed members' interests first and foremost. We recognize that change is constant. Change which can be brought about by organizational and macro socio-economic and socio-political conditions also brings about risks and opportunities. Jointly, the Board and Management are committed to ensuring that at all times, they are prepared to mitigate the risks and maximize the opportunities brought about by the challenges.

In conclusion, I wish to sincerely thank the Board for its guidance, counsel, leadership and commitment, our core service partners, Kina Funds Management & Kina Investment & Superannuation Services, and our property facility team (Ashton Brunswick, M&E Partnership, Pacific Architects Consortium) for their support and cooperation. Finally, the employees of POSF Limited have continued to work hard and demonstrate commitment and loyalty and they have truly played a part in yet another excellent end of year, result. To them also, I say Tenk Yu Tru.

**LEON BUSKENS**

**Managing Director.**

# Management Team and Structure

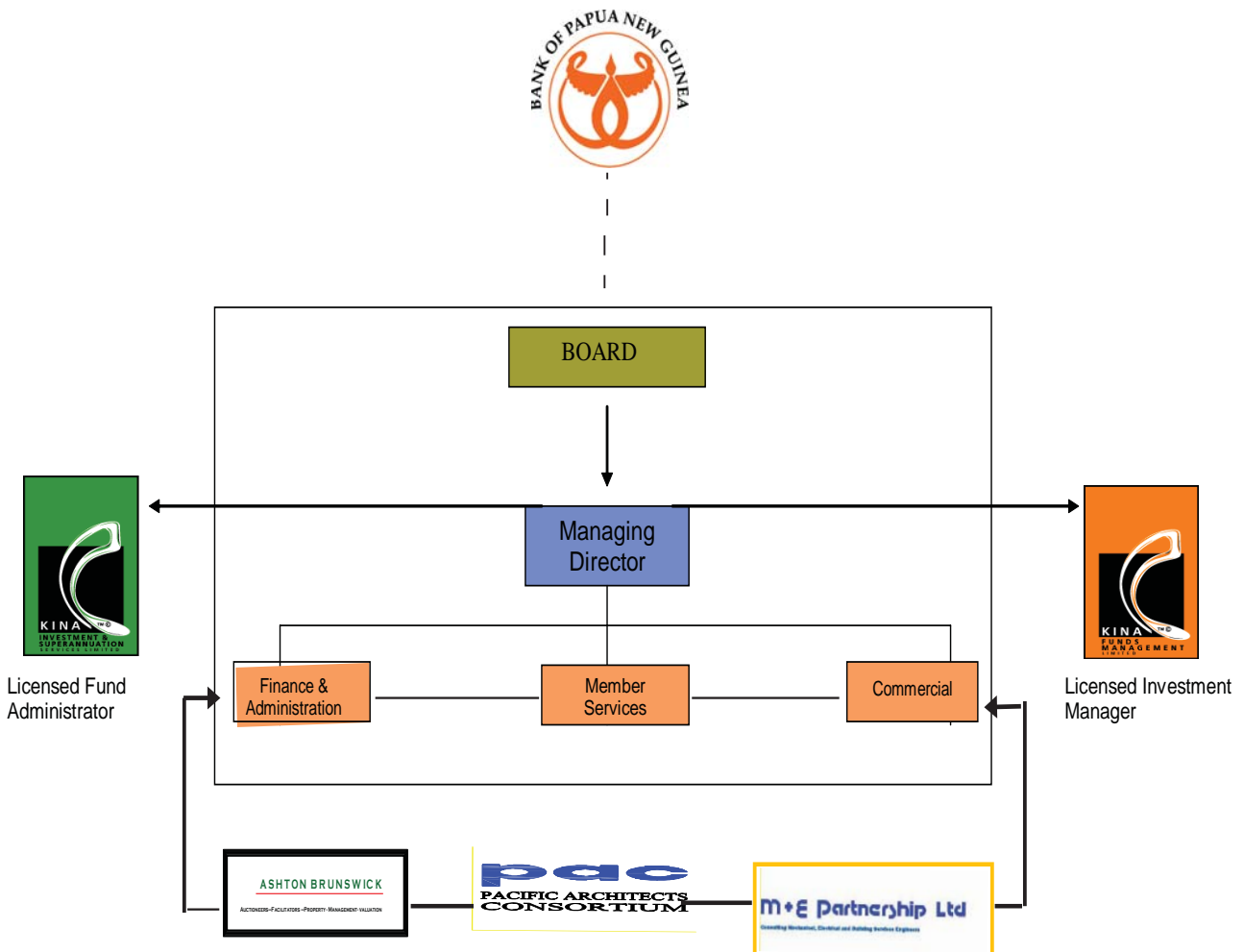
*Management team from left to right front:*

Manager Human Resource & Administration - Loka Kula, General Manager Finance & Administration - Asi Pako,  
 Managing Director - Leon Buskens, Manager Legal - Patricia Taureka

*Middle row:*

General Manager Member Services - John Auna, Manager Finance - Hearty Kanaiat, General Manager Corporate Services - Wayne Smith,

*Back row:* Manager Property - Yuanimba Yinanguie, Manager Member Services & Marketing - Joseph Pupua.



# Comparative Statistics Summary

Balances are in K'000	2006	2005	2004	2003	2002
<b>PROFITS</b>					
Profits before Tax	157.5	341.9	178.2	146.7	52.1
Surplus after Tax	151.2	330.4	166.7	133.0	45.9
<b>BALANCE SHEET</b>					
Net asset	1,516.4	1,365.0	1,034.2	869.2	718.7
Net asset growth	11.1%	32.0%	19%	21%	5%
Reserves	100.2	134.6	32.1	37.0	76.3
<b>MEMBERS</b>					
Employee Contributions	62.9	60.2	44.6	47.1	51.2
Employer Contributions	29.0	36.4	34.1	15.2	0
Retirement Savings Account	7.1	0.9	0	0	0
Total Exit Gross payouts	165.1	103.4	74.2	64.0	89.3
Total Housing Payments	22.6	13.0	3.2	1.08	0
Total Pension Payments	5.5	2.1	2.2	2.1	2.4
Average Number of Pensioners	1190	1,261	1,304	1,304	1,304
Number of Exit Payments	3,548	2,908	2,314	3,854	4,905
Number of RSA Participants	218	19	0	0	0
Number of Housing Claims	1544	994	274	113	2
Number of Members	86,242	80,020	78,101	75,963	73,000
<b>RETURN TO MEMBERS</b>					
Interest Credited to Members	16%	20%	15.5%	19%	10%
Headline Inflation Rates	1.6%	4.6%	2.4%	8.4%	14.8%
Real Return to Members	14.4%	15.4%	13.1%	10.6%	-4.8%
<b>TRUSTEE EXPENSES</b>					
Management Expenses	18.4	16.3	14.4	10.1	9.2
Management Expense Ratio	1.4%	1.4%	1.5%	1.3%	1.3%

# Fund Administrators Statement

## KISS Executive Statement

2006 was again a busy year. The continuing retrenchment program produced a 34% increase in benefit applications and benefit enquiries over 2005. We answered approximately 14,000 calls on our toll free number and attended to over 600 emails

With respect to Performance Standards, 2006 was another challenging year. Increased volumes and people capacity issues such as the transport strike impacted annual service targets.

Administration Operations results for 2006 were:

- 92% of member's contributions processed within 2 days of receipt
- 82% of member's benefits paid into bank accounts within 5 days of submission
- 99% of member's benefits paid into bank accounts within 7 days of submission
- 3,338 benefit payments processed to the value of K165 million
- 5,570 contribution receipts processed to the value of K91.6 million
- K15.8 million in Housing Advances processed
- Added 9,074 new members
- Fund size now over 87,000 members

The Retirement Savings Account attracted over K7.1 million in re-investment which demonstrates that increasingly, retiree's are looking to POSF to continue managing their retirement funds and providing financial security post retirement. Many retired members are also now taking advantage of drawing down a fortnightly income from their lump sum after this feature was introduced during the year.

Currently there are 218 RSA members with the majority based in the Nations Capital and an even distribution throuout all other provinces.

## RSA Membership

Age	- 40	40-45	45-50	50-55	55-60	60-65	65+	TOTAL
Membership	6	11	31	67	75	21	8	218

We took great pleasure in being involved with POSF's Human Resources Personnel Workshops during 2006. These workshops initiated by POSF Member Services were a unique opportunity to get up close and personal with the people who link our members to our services. By empowering Human Resource and Payroll Officers with information of Superannuation rules, regulations and our own processes and procedures, do we and our POSF counterparts create a co-operative environment in which we can all assist our members.

Developments in member services for 2007 are quite exciting. In 2007 we expect to launch the "Web Enablement" of our administration system. This will enable POSF members who have access to the web to look directly at their membership details on-line. Members will be able to check their balance, transactional history, personal details and be able to update information such as their address and contact details. Employers will also have access to manage superannuation information and to remit contributions directly on-line. There will also be financial planning tools such as retirement calculators and investment information.

For our members who don't have access to the web POSF are expanding their network of Information Kiosks throughout PNG. These Kiosks will now not only be able to supply Annual Member Statements, in 2007, members will be able to print out a Monthly Balance Statement containing up to date personal and financial information.

POSF and KISS are committed to increasing services to as many POSF members as possible, not only in urban centres but across the country.

Every member is important.

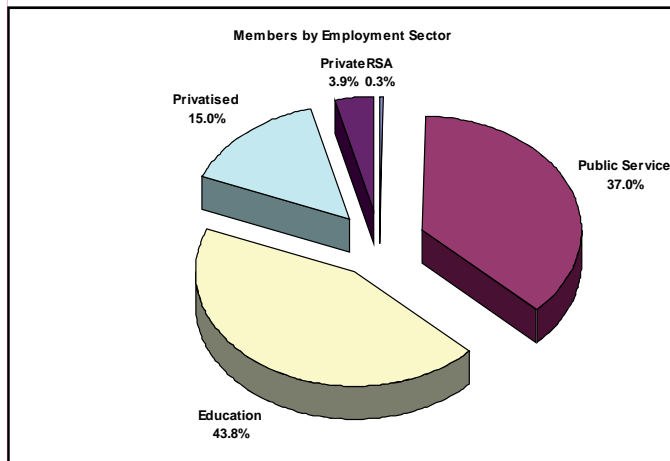
Stephen Brown  
Fund Administration Manager



# Membership & Benefits

## Member Distribution

In comparison to 2005 we have seen a rise in the private sector of around 1.9% due to the transfer of Papindo Group of Companies. Teachers representation stabilised and a drop in the public sector of approximately 2% due to the ongoing retrenchment program. RSA accounts are now represented.



## Age demographics

Age group	Members	2005
0-20	117	139
21-25	971	770
26-30	4,428	3,830
31-35	7,982	7,142
36-40	10,306	8,950
41-45	10,440	10,247
46-50	10,669	9,174
51-55	6,171	5,616
56-60	6,144	2,357
61-65	759	638
66>	29,952	32,704
Total	87,939	81,657

## Cause of Death Demographics

With the increasing amount of data collected we have seen a significant growth in representation of Malaria and AIDS. We are experiencing more death certificates properly disclosing of AIDS as underlying condition leading to death.

We are also attributing the cases of renal failure to Malaria as this is usually the final stage morbidity in malarial infection. Other diseases such as Pneumonia, TB and Meningitis are far more fatal amongst HIV patients and as such maybe masking the real level of deaths attributable to AIDS

## Pensions

	2006
Current:	570
Suspended:	1,474
Total:	2,044
Closed:	148

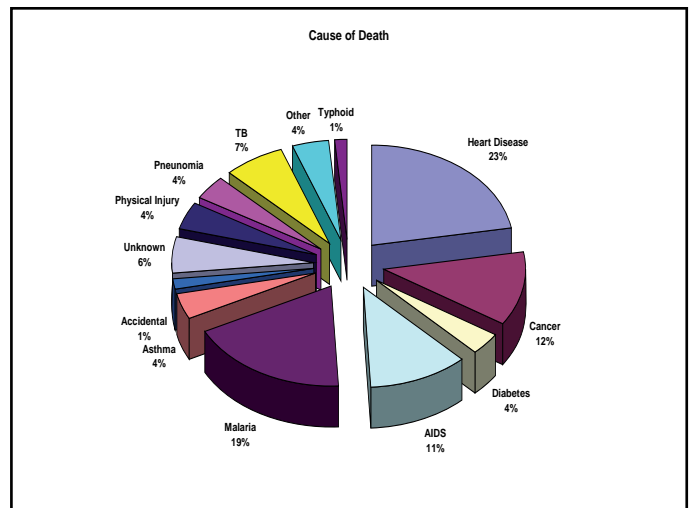
*Closed are pensions that have finished any further obligation.*

## CPI Exercise

As at 31st December 2006, the CPI Exercise summary was as follows:

Pensioners Advised:	1,049
Pensioners Suspended:	926
Pensioners Responded:	502
Pensioners Indexed:	502

**Total CPI Back Payment: K4,802, 854**



# Investment Manager's Statement

KINA FUNDS MANAGEMENT LIMITED



The Fund recorded an investment income of **K182.2** million with a return of **12%** for the year 2006. The investment income includes fair value gains from revaluation of shares and properties.

The Fund's total investment portfolio has grown from K1.34 billion in December 2005 to K1.50 billion in December 2006, an increase of **K160.4** million or 12.01%. The increase was attributed to:

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

KFM remitted a total of K70 million offshore during the year under the current investment strategy. This was done with the aim of providing a counterweight to the impact of the current low interest rates environment in Papua New Guinea on POSF's earnings, to secure greater investment opportunities and to reduce the risk of over exposure to a single asset class by providing greater sector diversity than is available in Papua New Guinea.

To further strengthen offshore investments, KFM and the Trustee engaged an offshore Investment Manager to invest and manage a target investment portfolio on behalf of POSF offshore.

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

Kong Wong  
Kina Funds Management Limited



# Investment Report

## 1. Investment Strategy

### 1.1 Investment Objectives

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

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

### 2.2 Risk Management

In developing the investment strategy, the Board in consultation with the Investment Manager has analysed the risks of various forms of investment and sought to devise means of mitigating the risk. This involves the exclusion of investment in asset forms considered to have unacceptable level of risk and limits on exposure to individual assets. More generally, asset diversification seeks to mitigate risk through diversifying investment across different asset sectors and different markets. The specific determinations within which the Investment Manager is to operate are summarised in the table below.

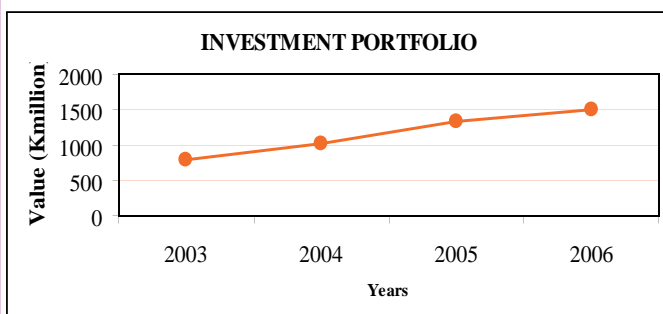
ASSET CLASS	SECTOR RANGE Low – High	NEUTRAL ALLOCATION
Cash	0-5%	2%
Fixed interest	15-35%	23%
Equity – Listed & Unlisted	30-50%	40%
Property	10-30%	15%
International	15-25%	20%

The investment strategy is a life document which is reviewed constantly by the Board in conjunction with the Investment Manager.

## 2. Investment Portfolio Performance

Total investment portfolio as at 31 December 2006 has grown by K160.4 million to **K1,509** million over the year (2005:K1348.6 million). The graph below shows the total investment portfolio from 2003 to 2006.

*Graph 1: Total Investment portfolio*

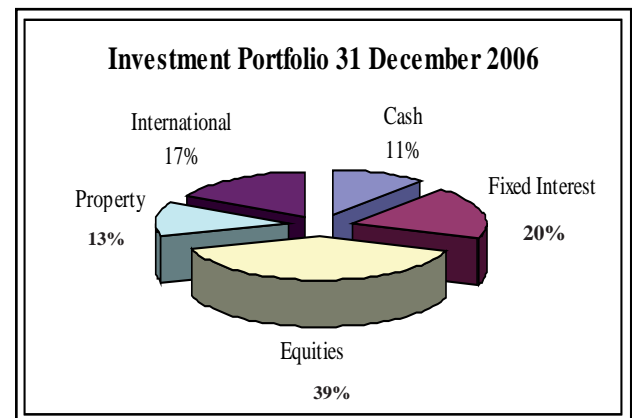


The composition of the investment portfolio by asset class at the end of 2006 compared to year end 2005 is as follows:

**Table: 1 Asset Allocation**

Asset Class	Portfolio Value (Km)		% Holdings		Sector Range Low - High
	31-Dec-06	31-Dec-05	31-Dec-06	31-Dec-05	
Cash	170.8	61.2	11.40	4.80	0-5
Fixed Interest	294.90	439.7	19.11	31.61	15-35
Equities	590.3	573.1			
Property	193.4	162.4	11.98	11.98	10-30
International	259.6	112.2	17.44	13.00	15-25
<b>Total</b>	<b>1,509</b>	<b>1,348.6</b>	<b>100</b>	<b>100</b>	

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



## 3. Domestic Investment Portfolio

### 3.1 Cash Portfolio

The Fund's cash portfolio comprises of Interest Bearing Deposits (IBD) and Treasury Bills (TB) with maturity up to 90 days. The Fund held a total of **K170.8** million or 11.30% of the total investment portfolio. The portfolio is above the sector range of 0 – 5% to ensure regular short maturity dates to take advantage of possible interest rate rise and to cater for other up coming investments both domestic and international.

### 3.2 Fixed Interest

The Fixed Interest Portfolio comprises government, semi government, corporate securities and debt including development loans beyond 90 days. This also includes TB and IBD with maturity of over 90 days. The Fund held **K294.9** million or 20% of the investment portfolio at the end of 2006, which is within the sector range of 15 – 35%.

# Investment Report

## 3.3 Total Equities

The equities portfolio consists of listed and unlisted shares. At the end of 2006, the Fund's equity portfolio was **K590.3** million.

### A. Listed Equities - Onshore

At the end of the year the listed portfolio carried a value K406.24. The portfolio increased by K47.55 million for the year. This includes **K45.8** million of capital gain and K11.28 million of dividends. Table below show equities listed on Port Moresby Stocks Exchange (POMSoX) and Dual listed shares in POMSoX and Australian Stocks Exchange (ASX):

Listed Equities	Stock Exchange	Industry/Sector
Bank South Pacific	POMSOX	Banking/Finance
Credit Corporation	POMSOX	Finance
Highlands Pacific	POMSOX/ASX	Mining
Lihir Gold Ltd	POMSOX/ASX	Mining
Marengo Mining Limited	POMSOX/ASX	Mining
New Britain Palm Oil	POMSOX	Agriculture
Oil Search	POMSOX/ASX	Oil & Petroleum
Ramu Sugar	POMSOX	Agriculture

### B. Unlisted Equities

Independent revaluation of the unlisted share portfolio was carried out by Deloitte Touch Tohmatsu at the end of 2006 which resulted in a capital gain of **K22.3** million or 13.73%. The portfolio was valued at K193.47 million in December 2006.

Income earned in this sector for the year was K37.46 million of which K15.13 million was received from dividend payment from the unlisted companies and gain and loss from sale of unlisted shares.

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

Unlisted Equities	Industry	Percentage Holding
Alotau International Hotel Ltd	<b>Hospitality/Hotel</b>	33
Arnott's Biscuits Holding PNG Ltd	<b>Food &amp; Snacks/manufacturing</b>	17
Avis Rent A Car Ltd.	Motor Vehicle Hire	6
Big Rooster Ltd	Fast Food	100
Brian Bell & Co. Ltd.	<b>Wholesale/ Retailing Merchandise</b>	34
Burns Philip (Ela Motors)	Motor Vehicle	4
Coastwachers Court	<b>Real Estate - Residential</b>	65
Hunter Ltd	<b>Real Estate - Commercial</b>	30
Kumul Hotels Ltd	<b>Hospitality/Hotel</b>	55
Marsh Insurance Services Ltd	Insurance Broker	10
Moki No.10 Pty Ltd	<b>Real Estate - International</b>	100
PNG Water Ltd	Utilities	30
Post Courier Ltd	Media	21
SP Brewery Ltd.	Manufacturing	20
Westpac Bank Limited	Banking & Finance	7

# Investment Report

## 3.4 Property Portfolio

The property portfolio of the Fund constitutes commercial, residential, industrial and vacant land. Total portfolio was valued at **K193.4 million**, which constitutes **12.8%** of total portfolio and is within the sector range of 10% - 30% as required in the investment strategy. The property portfolio when compared to 2005 increased by **K31 million** or **19%**.

Property portfolio experienced significant activity in 2006 with the implementation of the Facility Management exercise and the approval of some major new development and redevelopment projects.

Additional approvals for major new development and redevelopment projects are aimed at the current market demand and the prevailing conducive investment environment. However, these activities are guided by the requirements set out in the Fund's Investment Strategy and are aimed at diversification as a means of risk management.

A number of redevelopment projects are also in the planning stage and we are committed to fully implementing them with support from all service providers. It is anticipated that some of these projects will continue into the next financial year.

The following are the property portfolio:

Properties	Location
<b><u>Commercial</u></b>	
Aopi Centre	Port Moresby
Burns House	Port Moresby
Era Rumana	Port Moresby
Mogoru Moto	Port Moresby
Revenue Haus	Port Moresby
Squash Center	Port Moresby
Vulupindi Haus	Port Moresby
IPI Building	Lae
Vele Rumana	Lae
Lightfoot Arcade	Madang
<b><u>Industrial</u></b>	
Bowmans (Gordons Industrial)	Port Moresby
Madang Service Station (BP)	Madang
Angco L1 S5 (Banz) Mangi Coffee	Mt Hagen
Angco L1 S6 (Banz) MangiCoffee	Mt Hagen
Angco L2,3&5 S6 (Banz) Mangi Coffee	Mt Hagen
PNG Motors (Eriku)	Lae
Angco L5,6,19 & 20 S34	Lae
Kauka Heights - Sec: 81 Lot: 06	Port Moresby
Portion 1539 Granville	Port Moresby
Portion 989 Bomana	Port Moresby
Sec: 82 Lot: 03	Goroka

Properties	Location
<b><u>Residential</u></b>	
Bayside Apts	Port Moresby
Devon Lodge	Port Moresby
Lawes Rd Apts	Port Moresby
Pacific Vista	Port Moresby
Touaguba Apts	Port Moresby
Webb St. Apts	Port Moresby
Portion 212	Lae
<b><u>Land</u></b>	
Bomana Prop.- Portion 1568	Port Moresby
Bomana Prop. - Portion 2124 frmly 1215	Port Moresby
Bomana Prop. - Portion 2156 frmly 881	Port Moresby
Bomana Prop. - Portion 2157 frmly 1216	Port Moresby
Bomana Prop. - Portion 2158 frmly 1216	Port Moresby
Bomana Prop. - Portion 2159 frmly 1216	Port Moresby
Garden Hills Estate	Port Moresby
Hunter Land (30%)	Port Moresby
8-Mile Malolo Estate	Port Moresby
Kauka Heights - Sec: 81 Lot: 06	Port Moresby

#### 4. International Investment Portfolio

This consists of Call accounts and term deposit, listed and unlisted Managed Fund, listed and unlisted Collateral Debt Obligation (CDO), listed Hybrid Securities and listed and unlisted Equities. Holding was K261.07 million or 17.44% of the total portfolio within the sector range of 15% - 25%.

KFM and the Trustee engaged an offshore Investment Manager to invest and manage a target investment portfolio on behalf of POSF offshore.

Table below shows equities, CDO, hybrid securities and managed fund Listed in Australian Stock Exchange (ASX):

Listed Equities	Stock Exchange	Industry/Sector
Adelaide Bank	ASX	Banking/Finance
Allco Hybrid Investment trust	ASX	Investment/Finance
Allco Max Securities & Mortgage Trust	ASX	Investment/Finance
Alpha Financial Products Ltd	ASX	Managed Income Notes
Babcock & Brown Limited	ASX	Banking/Finance
Bougainville Copper	ASX	Mining
Commonwealth Bank of Australia	ASX	Banking/Finance
Macquarie Infrastructure Group	ASX	Construction
Macquarie Media Group	ASX	Communication
Mahogany Capital Limited	ASX	Debt Securities
Mirvac Property Trust	ASX	Property Diversified Fund
Multiplex Sites Trust	ASX	Property Diversified Fund
Nexus Bonds Limited	ASX	Managed Floating Income Notes
QM Technologies	ASX	Communication
RiverCity Motorway Group	ASX	Infrastructure
Sydney Road Group	ASX	Infrastructure
Telstra Corporation Ltd	ASX	Communication

Table below shows investment in unlisted equities:

Unlisted Equities	Industry
ABN AMRO Social Infrastructure Trust	Infrastructure
AMP Capital China Fund	Infrastructure
FKP Core Plus Fund	Property
Smarte Carte	Carte Hire
Isle of Man Steam Packet (IoMSP)	Shipping

# Independent Auditors Report



## Report on the financial statements

We have audited the accompanying financial statements of the Public Officers Superannuation Fund ("POSF") which comprise the balance sheet as at 31 December 2006 and the statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

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

## Auditor's responsibility

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

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

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

## Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation ("General Provisions") Act 2000 and other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997.

## Report on other legal and regulatory requirements

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

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

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

By: J C Seeto

Registered under the Accountants Act 1996

Port Moresby

31 March 2007

PricewaterhouseCoopers  
ABN 52 780 433 757

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PORT MORESBY  
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# Financial Statements

AS AT 31ST DECEMBER 2006

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Statement of net assets

Statement of cash flows

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Standards (IFRS) and Bank of Papua New Guinea  
Superannuation Prudential Standard 3/2006

Declaration by trustee and management

## STATEMENT OF CHANGES IN NET ASSETS FOR YEAR ENDED 31ST DECEMBER 2006

	Note	2006	2005
		K	K
<b>REVENUE</b>			
Investment income			
Interest	3(a)	41,892,961	50,220,078
Dividends	3(b)	33,887,234	21,533,138
Property rentals	3(c)	28,111,472	23,969,370
Net gain on financial assets at fair value through profit or loss	3(d)	78,295,967	242,795,580
		182,187,634	338,518,166
Contribution income			
Employer contributions		29,014,053	36,431,322
Members' contributions		62,951,975	60,171,820
	11(a)	91,966,028	96,603,142
Other income	3(e)	8,106,996	1,835,488
Other (losses)/ gains - net		1,015,727	1,128,309
<b>Total</b>		<b>283,276,385</b>	<b>438,085,105</b>
Less:			
<b>EXPENSES</b>			
General and administrative expenses	4(a)	19,861,986	30,782,218
Benefits paid (including housing withdrawals)		95,082,298	55,801,230
Direct investment expenses	4(b)	10,830,639	9,622,361
<b>Total</b>		<b>125,774,923</b>	<b>96,205,809</b>
Total revenue less expenses and benefits paid before Income tax		157,501,462	341,879,296
Income tax expense	5(a)	6,342,296	11,509,748
Total revenue less expenses and benefits paid after income tax		151,159,166	330,369,548
Fixed Asset Revaluation Reserve		253,500	491,382
		151,412,666	330,860,930
Net assets available to pay benefits at the beginning of the year		1,365,016,300	1,034,155,370
<b>NET ASSETS AVAILABLE TO PAY AT THE END OF THE FINANCIAL YEAR</b>	11	<b>1,516,428,966</b>	<b>1,365,016,300</b>

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

## STATEMENT OF NET ASSETS

### FOR YEAR ENDED 31ST DECEMBER 2006

	Note	2006 K	2005 K
<b>INVESTMENTS</b>			
Held to maturity	6(a)	258,239,177	381,670,716
Others investments held to maturity	6(b)	310,020,545	197,660,838
Loans and debentures	6(c)	23,850,000	33,850,000
Financial assets at fair value through profit or loss	6(d-e)	723,555,193	572,995,583
Investment properties	6(f)	189,757,541	162,385,317
Investments held for sale	6(f)	3,612,305	-
<b>Total investments</b>		<b>1,509,034,761</b>	<b>1,348,562,454</b>
<b>OTHER ASSETS</b>			
Cash and cash equivalents	7	9,958,763	84,887,642
Trade receivables & other debtors	8	30,660,549	20,825,113
Property, plant and equipment	9	8,231,479	7,831,613
<b>Total other assets</b>		<b>48,850,791</b>	<b>113,544,368</b>
<b>TOTAL ASSETS</b>		<b>1,557,885,553</b>	<b>1,462,106,822</b>
<i>Less:</i>			
<b>LIABILITIES</b>			
Benefits payable		997,023	1,056,998
Trade and other creditors	10	33,669,997	89,652,328
Current income tax liabilities	5(b)	5,561,919	5,382,056
Deferred income tax liabilities	5(c)	1,227,647	999,140
<b>TOTAL LIABILITIES</b>		<b>41,456,587</b>	<b>97,090,522</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	11	<b>1,516,428,966</b>	<b>1,365,016,300</b>

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



## STATEMENT OF CASH FLOW FOR YEAR ENDED 31ST DECEMBER 2006

	Note	2006 K	2005 K	
<b>CASH FLOW OPERATING ACTIVITIES</b>				
Interest received on fixed interest securities	3(b)	33,807,418	44,928,542	
Dividends received		33,887,234	21,533,138	
Property rentals received		24,855,772	25,054,766	
Employer contributions received		29,014,053	36,431,322	
Member contributions received		62,951,975	60,171,820	
State Share of benefit payments received		43,930,927	125,343,576	
Other income and receipts		10,473,767	1,348,241	
General administration expenses paid		(74,356,819)	(37,783,756)	
Trust share of benefits paid (incl. housing withdrawals)		(95,082,298)	(56,697,013)	
State share of benefits paid		(44,937,078)	(57,093,876)	
Income tax paid		(5,933,925)	(13,770,825)	
<b>Net cash provided by operating activities</b>		15	<b>18,611,026</b>	<b>149,465,935</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Receipt of development loan repayments		10,000,000	12,250,000	
Proceeds on maturity of Government securities		306,119,985	928,882,164	
Payment of purchase of Government securities		(182,688,446)	(856,311,020)	
Placement of other fixed interest securities – net		(112,359,708)	(96,979,196)	
Payment for acquisition of shares in listed equities		(23,023,392)	(66,695,029)	
Payment for acquisition of shares in unlisted equities		-	(1,079,458)	
Payment for acquisition on shares in unlisted equities - offshore		(68,498,125)	-	
Proceeds on sale of shares in listed equities		11,398,622	1,294,015	
Payment for investment property development & acquisition		(15,337,850)	(3,757,740)	
Payment for investment property assets		(8,117,866)	(1,052,531)	
Payment for property, plant and equipment		(852,789)	(1,852,435)	
Proceeds on sale of investment properties		42,743	1,427,043	
Proceeds on sale of investment property assets		119,389	332,122	
Proceeds on sale of property, plant and equipment		488,171	-	
Direct investment expenses paid		(10,830,639)	(9,622,362)	
<b>Net cash used in investing activities</b>		<b>(93,539,905)</b>	<b>(93,164,427)</b>	
<b>Net increase / (decrease) in cash &amp; cash equivalents held</b>		<b>(74,928,879)</b>	<b>56,301,508</b>	
Cash and cash equivalents at the beginning of the year		84,887,642	28,586,134	
Cash and cash equivalents at the end of the year		9,958,763	84,887,642	

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

## 1. GENERAL INFORMATION

Public Officers Superannuation Fund ("POSF" or "Fund") 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 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 POSF Limited, the Fund's Corporate Trustee.

POSF Limited is domiciled in PNG and the registered office is :  
Level 6, Era Rumana  
Champion Parade  
PO Box 483  
Port Moresby

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These financial statements are presented in accordance with the requirements of the Act and the Papua New Guinea Companies Act 1997 and comply with generally accepted accounting practice, including applicable financial reporting standards approved for use in Papua New Guinea ("PNG") by the Accounting Standards Board ("ASB"). The ASB has approved all current International Financial Reporting Standards ("IFRS") as financial reporting standards. All amounts are expressed in PNG Kina rounded to the nearest Kina.

- (a) **Basis of preparation**  
The financial statements have been prepared under the historical cost convention, as modified by the fair value adjustments to investments and other financial assets and liabilities at fair value through the Statement of changes in net assets. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Some of the comparative information has been conformed for consistency with the current year presentation. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the accounting for pensioner funds and certain liabilities.

## (b) REVENUE RECOGNITION

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

## (c) FOREIGN CURRENCY TRANSLATION

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

## (d) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise mainly residential and office buildings, and motor vehicles. All these assets are shown at cost, less subsequent depreciation, except for certain properties which are maintained for administrative purposes. These properties are measured at fair value basis. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of changes in net assets during the financial period which they are incurred. Depreciation is provided on all property, plant and equipment so as to reduce such assets to their residual value at the end of their estimated lives. The Fund uses the reducing balance method. The principle annual rates are as follows:

Buildings	4.5%
Furniture & Fittings	At rates varying from 11.25% to 30%
Office Fittings	At rates varying from 11.25% to 20%
Motor Vehicles	30%

## (e) INVESTMENTS

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

- Listed shares are valued at balance date by reference to their market value and in the case of foreign denominated shares, are translated using the closing rate on that date. Unlisted shares are valued at fair value at balance date, as determined by an independent professional valuer. The main factors used in determining fair value include a combination of dividend yield, net tangible asset backing and future maintainable earnings, as appropriate. Investment properties are valued at fair value at balance date, determined by qualified independent professional valuers. The methods used to determine fair value is mainly based on 'market value for existing use'.
- The Fund's interest in an incorporated joint venture is accounted for using the proportionate consolidated method. Under this method, POSF's share of the assets, liabilities, income and expenses is combined on a line by line basis with other similar items in these financial statements. Further details relating to the joint venture are set out in note 6 (g). The Fund's interest in controlled entities are treated as plan assets or investments of the Fund available for sale and therefore not consolidated in these financial statements.
- (f) **RECEIVABLES**  
Receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Fund will not be able to collect all provision for impairment of receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is based on management's best estimates and amounts due according to the original terms of receivables. The amount of the provision is based on management's best estimates and is recognized in the Statement of changes in net assets.
- (g) **CASH AND CASH EQUIVALENTS**  
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and where applicable, bank overdrafts.
- (h) **INCOME TAX**  
Tax effect accounting procedures are followed using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Income tax on temporary differences is set aside to the deferred tax liability and deferred tax asset accounts at current enacted tax rates. Deferred tax assets relating to deductible temporary differences and tax losses are only carried forward as an asset to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.
- (i) **PROVISIONS**  
A provision is recognized when there is a present obligation to transfer economic benefits as a result of past events. The amount provided is the best estimate of the expenditure that would be required to settle the obligation that existed at the balance sheet date.
- (j) **FINANCIAL INSTRUMENTS**  
Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors and investments. These instruments are generally carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.
- (k) **EMPLOYEE BENEFITS**  
Liabilities for employees' entitlements to wages and salaries, annual leave, and other employee entitlements are accrued at nominal amounts calculated having regard to period of service, statutory obligations, and on the basis of current wage and salary rates.
- (l) **TRADE AND OTHER CREDITORS**  
Trade and other creditors represent liabilities for goods and services provided to the Fund prior to the end of the financial period and which are unpaid. The amounts are unsecured.
- (m) **BENEFITS PAYABLE**  
Benefits payable are benefits attributable to members but had not been paid by balance date.
- (n) **LIABILITY FOR ACCRUED BENEFITS**  
The liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries, inclusive of any statutory reserves, and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of liabilities as at the reporting date.
- (o) **COMPARATIVE FIGURES**  
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006 K	2005 K
<b>3. INCOME</b>		
The following categories of income were credited to the Statement of changes in net assets:		
<b>INVESTMENT INCOME</b>		
(a) Interest		
<i>Interest from:</i>		
Government securities	26,151,298	39,170,768
National Government loan	976,660	1,467,000
Debentures and/or loans	3,135,591	2,874,365
Term deposits	11,629,412	6,707,945
	41,892,961	50,220,078
(b) DIVIDENDS FROM INVESTMENTS		
Shares in listed securities	15,571,342	9,452,749
Shares in unlisted securities	18,315,892	12,080,389
	33,887,234	21,533,138
(c) PROPERTY RENTAL		
Gross rental income	28,111,472	23,969,370
(d) CHANGES RECOGNISED IN RELATION TO FINANCIAL ASSETS AT FAIR VALUE THROUGH CHANGES IN NET ASSETS		
Shares in listed securities	45,824,904	171,967,145
Shares in unlisted securities	21,956,300	52,305,829
Investment properties	10,514,763	18,522,606
	78,295,967	242,795,580
<b>TOTAL INVESTMENT INCOME</b>	<b>182,187,634</b>	<b>338,518,166</b>
(e) OTHER INCOME		
Directors fees received	128,900	41,621
Loss on assets disposed	(8,654)	(351,933)
Foreign exchange gain	4,900,346	-
Other income	3,086,404	2,145,800
	8,106,996	1,835,488

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR YEAR ENDED 31ST DECEMBER 2006**

	2006 K	2005 K
<b>4. EXPENSES</b>		
Expenses charged to the Statement of net assets comprised of:		
<b>(a) GENERAL AND ADMINISTRATIVE EXPENSES</b>		
<i>Management expenses</i>		
Staff	4,421,204	5,377,913
Vehicles	160,030	168,560
Travel	95,038	44,299
Professional fees	1,063,348	1,089,105
Directors fees & expenses	444,017	480,358
Conferences	78,016	71,940
Office expenses	1,310,189	1,261,471
Staff housing	641,078	556,168
Office building expenses	175,229	166,734
	<b>8,388,149</b>	<b>9,216,548</b>
<i>Outsourcing expenses</i>		
Fund administration		
Investment management	1,659,997	1,447,148
	<b>6,161,659</b>	<b>2,903,874</b>
<i>BPNG license fees</i>	<b>7,821,656</b>	<b>4,351,022</b>
	<b>1,522,703</b>	<b>1,243,017</b>
<i>Contributor expenses</i>		
Contributor liaison	574,114	315,410
Life insurance expense	305,100	2,837,799
	<b>879,214</b>	<b>3,153,209</b>
<i>Other expenses</i>		
Bad debt written off	264,848	478,037
Depreciation on property plant and equipment	663,679	684,391
Loss on foreign exchange	-	11,509,278
Investment Monitoring expenses	321,737	146,717
	<b>1,250,264</b>	<b>12,818,423</b>
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>19,861,986</b>	<b>30,782,219</b>
<b>(b) DIRECT GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Maintenance expenditure on investment properties	10,830,639	9,622,361

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006 K	2005 K
<b>5. INCOME TAX</b>		
The income tax charged on total revenues less expenses and benefits paid is determined as follows:		
<b>(a) INCOME TAX EXPENSE</b>		
Profit before tax	157,501,462	341,879,295
Prima facie tax at 25%	39,375,365	85,469,824
Permanent differences:		
Accounting profit on fair value changes in investment properties	(2,628,691)	(4,630,652)
Accounting profit on fair value changes in equity investments	(16,945,301)	(56,068,244)
Foreign Exchange (gain)/ losses on capital account	(300,173)	2,877,320
Section 216 Dividend rebate	(7,773,979)	(5,383,285)
Exempt dividends - section 42(3)	(697,830)	-
Tax depreciation on investment properties	(311,371)	(350,057)
Benefit paid to members	23,770,575	13,950,307
Employer contributions	(7,253,513)	(9,107,831)
Employee contributions	(15,716,527)	(15,042,955)
Others	(266,054)	(250,900)
Adjustment recognised in the current year in relation to prior years	(4,910,205)	46,221
Income tax expense for the year	6,342,296	11,509,748
<b>(b) PROVISION FOR INCOME TAX</b>		
Prima facie tax payable at 25% (2005: 25%) on total revenues less expenses and benefits paid before income tax	39,375,365	85,469,824
Tax effect of permanent differences	(28,122,864)	(74,006,297)
Tax effect of temporary differences	(438,219)	(952,420)
Tax paid - credit for interest withholding tax	(5,933,925)	(5,878,758)
Tax paid	-	(9,000,834)
	4,880,357	(4,368,485)
Prior year (over)/under provision	681,562	9,750,541
	5,561,919	5,382,056
<b>(c) DEFERRED TAX LIABILITY</b>		
Opening balance at the beginning of the year	999,140	91,030
Movement in year	(438,218)	952,418
Prior year	666,725	(44,308)
Closing balance at the end of the year	1,227,647	999,140
<i>Comprising:</i>		
Interest receivable	3,356,193	3,241,864
Rent receivable	1,674,231	886,338
Consumable stores	2,512	2,513
Prepaid insurance	16,770	-
Depreciation	(275,035)	(271,785)
<i>Less:</i>		
Employee benefits	(380,771)	(464,587)
Provision for doubtful debts / loans	(922,856)	(772,601)
Insurance payments – death claims	(1,443,202)	(1,547,602)
Other accruals	(800,195)	(75,000)
Deferred taxation	1,227,647	999,140

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006 K	2005 K
<b>6. INVESTMENTS</b>		
Investments are made up as follows:		
(a) Held to maturity investments	258,239,177	381,670,716
(b) Others investments held to maturity		
Onshore term deposit	179,662,487	77,219,000
Less: Provision for doubtful deposit	(1,000,000)	(1,000,000)
	178,662,487	76,219,000
Offshore term deposit	99,190,962	90,730,939
Offshore fixed interest deposits	22,709,434	21,486,893
Institutional notes and bills	9,457,663	9224006
	310,020,546	197,660,838
(c) Loans and debentures		
<i>National Government</i>		
Balance at the beginning of the year	10,000,000	10,000,000
Payments received	(10,000,000)	-
Balance at the end of the year	-	10,000,000
<i>Companies</i>		
Balance at the beginning of the year	23,850,000	36,100,000
Payments received	-	(12,250,000)
Balance at the end of the year	23,850,000	23,850,000
	23,850,000	33,850,000
(d) Financial asset - unlisted shares (onshore)		
Balance at the beginning of the year	162,612,870	114,613,583
Investments during the year	-	1,079,458
Reclassification to investment properties:	-	(5,386,000)
Divestment during the year	(663,000)	-
Fair value gain from change in net market value	22,326,000	52,305,829
(e) Financial asset - unlisted shares (offshore)		
Investments during the year	70,692,295	-
Fair value loss from change in net market value	(369,700)	-
Balance at the end of the year	254,598,465	162,612,870
(f) Financial asset - listed shares		
Balance at the beginning of the year	410,382,713	172,959,495
Investments during the year	23,023,392	66,695,029
Divestments during the year	(10,274,280)	(1,238,956)
Fair value gain from change in net market value	45,824,904	171,967,145
Balance at the end of the year	468,956,729	410,382,713
(g) Investment properties		
<b>LAND AND BUILDINGS</b>		
Balance at the beginning of the year	152,894,000	128,539,489
Additions	11,031,594	1,350,009
Divestments for the year	-	(1,579,000)
Reclassification from unlisted shares	-	5,386,000
Reclassification from work in progress	-	674,896
Fair value gain (Refer Note 3(d))	10,514,763	18,522,606
Reclassification to 'Investments Held for Sale'	(1,529,000)	-
Balance at the end of the year	172,911,357	152,894,000

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006	2005
	K	K
<b>6. INVESTMENTS (continued)</b>		
<b>FURNITURE &amp; FITTINGS</b>		
Cost at the beginning of the year	5,670,276	5,693,356
Additions	182,240	318,170
Disposals	(44,331)	(341,250)
Reclassification	-	-
Cost at the end of the year	5,808,185	5,670,276
Accumulated depreciation	3,103,433	2,894,579
Depreciation charge for the year	346,612	378,603
Disposals	(9,381)	(169,749)
Total	3,440,664	3,103,433
Net Book Value	2,367,520	2,566,843
<b>PLANT &amp; EQUIPMENT</b>		
Cost at the beginning of the year	4,186,598	3,648,166
Additions	1,712,331	734,307
Disposals	(40,968)	(195,875)
Reclassification	-	-
Cost at the end of the year	5,857,961	4,186,598
Accumulated depreciation	2,211,575	2,111,101
Depreciation charge for the year	327,264	257,809
Disposals	(9,281)	(157,335)
Total	2,529,558	2,211,575
Net book value	3,328,386	1,975,023
Total investment properties	178,607,264	157,435,866
Capital works in progress on investment properties (*)	11,150,277	4,949,451
	<b>189,757,541</b>	<b>162,385,317</b>
<b>INVESTMENTS HELD FOR SALE (**)</b>	<b>3,612,305</b>	<b>-</b>
<b>TOTAL INVESTMENTS</b>	<b>1,509,034,761</b>	<b>1,348,662,454</b>

(\*) POSF entered into a joint venture operation called Coastwatchers Court Limited to construct and develop investment properties for residential housing. POSF has a 65% participating interest in this joint venture. The property construction commenced during 2006 and is due for completion in late 2007. POSF's proportionate interest in this investment is accounted for on a proportional consolidation basis. As at 31 December 2006, POSF's contribution to this investment is largely represented by an amount of approximately K9.2 million which has been included in 'Capital work in progress - investment properties'.

(\*\*) During the year the Fund completed the Garden Hills housing project and the properties are now held for sale to the Fund members. The sale arrangements will be implemented once all the necessary administrative arrangements are completed. Also included in this balance are a number of surplus properties earmarked for sale in the near future.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	2006	2005
	K	K
<b>7. CASH AND CASH EQUIVALENTS</b>		
Bank balance	562,715	72,426,011
Cash in hand	2,759	2,259
Bank call deposit	9,393,289	12,459,372
	<b>9,958,763</b>	<b>84,887,642</b>
<b>8. TRADE RECEIVABLES &amp; OTHER DEBTORS</b>		
Rental debtors	6,696,922	3,545,349
Less: Provision for doubtful debts	(914,085)	(1,018,212)
	5,782,837	2,527,137
Staff housing scheme and advances	388,966	185,439
Sundry debtors	1,069,977	3,650,972
Department of Finance (State share)	2,732,805	1,861,144
Accrued interest income	20,685,964	12,600,421
	<b>30,660,549</b>	<b>20,825,113</b>

**9. PROPERTY, PLANT & EQUIPMENT**

	HOUSING		OFFICE BUILDING			VEHICLES	Total
	Land & Building	Plant & Equipment	Land & Building	Furniture & Fittings	Plant & Equipment	Motor Vehicles	
<b>COST</b>							
At 1 January 2006	1,454,497	219,983	3,969,000	1,559,632	1,808,290	1,314,226	10,325,628
Additions	36,895	17,209	-	18,190	672,690	107,804	852,789
Revaluation increment	-	-	253,500	-	-	-	253,500
Disposal	-	-	-	-	(58,459)	(63,637)	(122,096)
At 31 December 2006	1,491,392	237,192	4,222,500	1,577,822	2,422,521	1,358,393	11,309,821
<b>DEPRECIATION</b>							
As at 1 January 2006	162,342	98,913	449,460	503,735	726,028	553,538	2,494,016
Depreciation	17,967	19,490	1,473	119,354	263,963	241,432	663,679
Disposals	-	-	-	-	(44,559)	(34,794)	(79,354)
At 31 December 2006	180,309	118,403	450,933	623,089	945,432	760,176	3,078,341
<b>NET BOOK VALUE</b>							
At 31 December 2006	1,311,083	118,789	3,771,567	954,734	1,477,089	598,217	8,231,479
At 31 December 2005	1,292,155	121,070	3,519,540	1,055,898	1,082,262	760,688	7,831,613

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006	2005
	K	K
<b>10. TRADE AND OTHER CREDITORS</b>		
Trade creditors	8,014,934	5,682,116
Other creditors	3,743,290	1,186,671
Rental bond fees	1,643,350	1,400,238
Member insurance payable	5,772,807	6,190,407
State-share received in advance * (net)	6,165,149	68,692,988
State pension liability	6,720,000	6,720,000
Employee provisions	1,610,467	1,858,346
	<b>33,669,997</b>	<b>91,730,766</b>
<p>*Additional notes            State share received in advance comprise of:            K 0.4 million - States' share of retrenchment under the 2004 and 2005 retrenchment program.            K 5.8 million - State share under Section 45A benefits</p>		
<b>11. LIABILITY FOR ACCRUED BENEFITS AND RESERVES</b>		
<p>Liability for accrued benefits is represented by contributor funds, contributor housing withdrawals and pensioner funds. Contributor funds are credited with contributions on a cash received basis. For 2006, interest allocated to contributor funds was determined on member balances at a rate of 16% (2005:20%) based on a time weighted basis. Contributor housing withdrawals comprise of withdrawals from contributor funds, which are repaid from members' entitlements at the time of exit, or by way of additional contributions at a minimum rate of 2%.</p>		
<b>(a) CONTRIBUTOR FUNDS</b>		
Balance at the beginning of the year	1,185,329,071	949,222,028
Add:		
Members contributions received during the year	62,951,975	60,171,820
Employer contributions received during the year	29,014,053	36,431,322
Interest allocation	179,605,047	184,918,397
	<b>1,456,900,146</b>	<b>1,230,743,567</b>
Deduct:		
Member benefits paid during the year	(74,215,797)	(45,414,496)
Unemployment benefits paid	(905,194)	-
Balance at the end of the year	<b>1,381,779,155</b>	<b>1,185,329,071</b>
<b>(b) CONTRIBUTOR HOUSING WITHDRAWALS</b>		
Balance at the beginning of the year	(25,485,872)	(14,203,353)
Advances or member withdrawals	(22,300,475)	(12,985,297)
Repayments received	2,339,169	1,702,278
Balance at the end of the year	<b>(45,447,178)</b>	<b>(25,485,872)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006	2005
	K	K
<b>(c) PENSIONER FUNDS</b>		
Balance at the beginning of the year	69,648,232	66,331,648
Add:		
Allocated during the year from retained earnings	3,099,350	3,316,584
Balance at the end of the year	72,747,582	69,648,232
	1,409,079,559	1,229,491,433
<b>(d) RETIREMENT SAVINGS ACCOUNT</b>		
Balance at the beginning of the year	895,781	-
Transfers During the Year	6,223,295	895,781
Balance at the end of the Year	7, 119,076	895,781
<b>(e) RESERVES NOT ALLOCATED</b>		
Section 35 (2) (c) reserve	21,278,096	21,278,097
General reserve	78,207,353	112,859,607
Fixed asset revaluation reserve	744,882	491,382
	<b>100,230, 331</b>	<b>134,629,086</b>
<b>TOTAL LIABILITY FOR ACCRUED BENEFITS AND RESERVES</b>	<b>1,516,428,966</b>	<b>1,365,016,300</b>

#### Additional note on reserves:

- (i) Section 35 (2) (c) – this is the residual balance after the allocation of the former fund net assets in 1991. The net assets were allocated to member balances (being contributions and an agreed interest rate) and also to an actuarially determined balance to fund pensions - the resulting surplus balance of net assets was allocated to a reserve as required by this section.
- (ii) Fixed Asset revaluation reserve (increment) - this reserve represents increment in the valuation of properties that are used as administration office and property used to accommodate senior managers and senior staff.
- (iii) At the end of 2005 year, the Central Bank allowed the maximum level of reserves for POSF at 10% of assets for purposes of section 71A of the Superannuation General Provisions Act 2000, to be reduced progressively over the next 3 years back to the permitted level of 2%. At the end of 2006 this has reduced to **6.6%**.

## 12. FUNDING ARRANGEMENT

At the end of 2006 the potential liability of the State to members is estimated to be K1,596 million (2005: K1,391 million) , which is not included in the “Liability for Accrued Benefits”.

#### (a) Exited members

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

#### (b) Employer contributions

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

## 13. FINANCIAL INSTRUMENTS

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

### (a) Use of Derivative Financial Instruments

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

### (b) Credit Risk Exposures

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

### (c) Interest Rate Risk Exposures

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

### (d) Currency Risk Exposures

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

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

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

## 14. EVENTS SUBSEQUENT TO STATEMENT OF ASSETS DATE

As at 31 March 2007 the listed equity fair value gain was K 42.3 million.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

	2006	2005
	K	K
<b>15. NOTES TO THE STATEMENT OF CASH FLOWS</b>		
Cash and cash equivalents		
For the purpose of this Statement of Cash Flows, Cash includes cash on hand, and on call deposits with banks and is net of bank overdrafts. Cash as at the end of the year as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Assets as follows:		
Cash on hand	2,759	2,259
At call deposits	9,393,289	12,459,372
Balance at Bank	562,715	72,426,011
	9,958,763	84,887,642
Reconciliation of Cash flow from Operations with Total Revenues less expenses and benefits paid		
Total revenues less expenses and benefits paid after income tax	151,159,166	330,369,548
Add/(less) non-cash items:		
Depreciation on property, plant and equipment	663,679	683,406
Depreciation on investment property assets	673,876	636,412
Loss on disposal of property, plant and equipment	42,743	351,933
Loss on disposal of investment property assets	66,637	199,976
Loss on disposal of investment property	-	151,957
Profit on sale of shares in listed equities	(1,015,727)	(1,124,241)
Profit on sale of shares in unlisted equities	-	(360,000)
Direct investment expenses	10,830,639	9,622,360
Fair value gain arising from changes in net market value of investments	(78,295,967)	(242,795,580)
Other	-	282,250
Net cash provided by operating activities before change in assets and liabilities	84,125,046	98,018,021
Changes in assets and liabilities during the year:		
(Increase)/decrease in receivables	(9,835,436)	(7,982,458)
Increase/(decrease) in benefits payable	(59,976)	(5,519)
Increase/(decrease) in trade and other creditors	(55,982,331)	62,896,267
Increase/(decrease) in current income tax liabilities	135,216	(4,368,485)
Increase/(decrease) in deferred income tax liabilities	228,507	908,109
Cash flow from operating activities	18,611,026	149,465,935

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

## 16. RELATED PARTY DISCLOSURES

The Trustee of the Fund throughout the year was POSF Limited. The names of persons who were directors of the trustee company at any time during the financial year are:

Sir Nagora Bogan, KBE	Mr Kerenga Kua
Mr Ravu Vagi	Lady Aivu Tauvasa
Mr Greg Taylor	Mr Leon Buskens

(b) During the financial year the Fund earned interest on term deposits of K148,118 (2005: K19,999) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager, Kina Funds Management. As at 31 December 2006, the term deposits placed with Kina Finance Limited was K5.0 million (2005: K4.7 million). These transactions were carried out on commercial terms and rates.

(c) During the financial year the Fund charged interest to its wholly owned unlisted investment, Moki N0.10 Limited amounting to K1,225,000 (2005: K1,225,000), based on an annual interest rate of 10% . As at 31 December 2006, the loan receivable from this investment is K12,500,000 (2005: K12,500,000).

(d) Big Rooster (PNG) Limited is a wholly owned investment of POSF. As at 31 December 2006 Big Rooster owed POSF a sum of K13,916 which is included under debtors.

(e) Lawes Road apartments is jointly owned by POSF and Comrade Trustee (50% each). POSF manages the apartments and as at 31 December 2006 owed K452,256 (2005: K395,796) to Comrade Trustees.

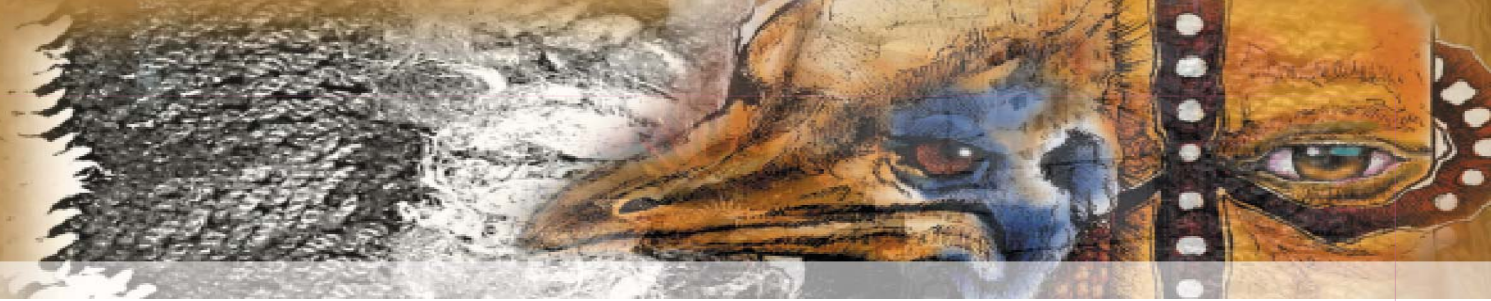
## 17. CONTINGENT LIABILITIES

(a) Related interest on pensions over invoiced to the State The Fund over invoiced the Independent State of Papua New Guinea ("the State") for its share of pension payments and therefore a provision based on management's best estimates of K6.72 million was made as at 31 December 2003.

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

### (b) Litigation Claims

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



18. DIRECTORS DISCLOSURE		
Name	Nature of Interest	Companies
Sir Nagora Bogan	Director  Director/CEO Manager Director as POSF nominee Member	Coprez Holdings Limited, Inventive Nook Ltd Coprez Communications Ltd <b>James Cook Limited</b> Ahi Holdings Limited In Touch Media Limited FM Morobe Limited Bank South Pacific Lutheran Church of PNG
Kerenga Kua	Director  Partner Provision of Legal services  Director of POSF nominee	Endeyaudo Limited <b>Fikor Limited</b> Finance Corporation Limited Posman Kua Aisi Lawyers POSF Limited Kina Funds Management Ltd ANZ Bank (PNG) Limited QBE Insurance (PNG) Limited Big Rooster (PNG) Limited
Gregory Taylor	Director Director as POSF nominee	TFG International Ltd (Australia) Kumul Hotels Limited Marsh Insurance Limited
Ravu Vagi	Director as POSF nominee	Big Rooster
Leon Buskens	Shareholder Director as POSF nominee       Independent Director	Bambi Elementary School Big Rooster Brian Bell & Company Limited Moki No.10 Limited Alotau International Hotel SP Brewery Limited Credit Corporation Limited Coastwatchers Court Ltd Telikom Limited Transparency International

#### DIRECTORS REMUNERATION

Name of Director	Total Remuneration	Board Meetings Attended	Audit & Risk Committee Meetings Attended	Membership Committee Meetings Attended
Sir Nagora Bogan	K41,780	4/4	4/4	-
Kerenga Kua	K31,000	4/4	-	3/4
Aivu Tauvasa	K30,172	3/4	-	-
Greg Taylor	K66,243	4/4	-	-
Ravu Vagi	K28,000	4/4	-	1/4

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2006

## 19. SENIOR MANAGEMENT DISCLOSURES

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

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

## 20. SPECIAL DISCLOSURE

### Reconciliation between International Financial Reporting Standards (IAS 26) and BPNG Superannuation Prudential Standards 3/2006.

Preparation of financial statements of POSF in the prior years were done in compliance with International Reporting Standards (IFRS).

Effective 30th June 2006, the Bank Papua Ne Guinea issued Superannuation Prudential Standard 3/2006 - "Financial Statements - Format & Disclosure Requirements" for compliance by all superannuation funds in Papua New Guinea.

The distinctive difference between the two formats is that under the applicable IFRS, contribution income and benefits payments are taken directly to the Statement of Changes in net assets whereas under BPNG Prudential Standard 3/2006 these are taken to the Statement of Changes in Member Funds.

Due to this difference in the treatment, profit before income tax under the applicable IFRS and BPNG Prudential Standards differs by K3,116,269, reconciled as follows:

	Applicable IFRS	BPNG Prudential Standards 3/2006
Operating Income	191,310,357	191,310,356
Contribution Income	91,966,028	-
	283,276,385	191,310,356
Less:		
Operating Expenses	30,692,625	30,692,625
Benefit Payments	95,082,298	-
	125,774,923	30,692,625
Net Income Before Tax	157,501,462	160,617,731





## DECLARATION BY TRUSTEE

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

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



SIR NAGORA BOGAN  
Chairman of the Board



Deputy Chairman of the Board

## DECLARATION BY MANAGEMENT

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

We are of the opinion that:

- (a) the result of the Fund's operations for that year have not been materially affected by the items, transactions or events of the 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.



LEON BUSKENS  
Managing Director



ASI PAKO  
General Manager Finance & administration



## HEAD OFFICE

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Managing Director	Leon Buskens	Telephone: 309 5201	leonb@posf.com.pg
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### MOMASE REGION - LAE - Aruai Doko

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### NEW GUINEA ISLANDS REGION - RABAUL - Senny Lukara

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### FUND ADMINISTRATOR - Stephen Brown / Margaret Mairi

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### INVESTMENT MANAGER - Kong Ei Wong / Gadisah Igah

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