



Nambawan
Super



2012
Annual Report

2012 Highlights

FINANCIAL RESULTS

An outstanding result in a challenging investment climate

- After tax net return K351 million
- Net assets increased to around K3.8 billion, up nearly half a billion Kina from 2011
- Interest of 11% credited to Members' accounts, representing a real return of 9.4%
- Interim interest rate of 3% declared for Members leaving the Fund in 2013

ASSET MANAGEMENT

Diversification strategy again proven effective

- Solid returns from domestic shareholdings
- Strong performance from property portfolio
 - Low vacancy rates
 - Increase in rental income
 - Significant reduction in rental arrears

MEMBER SERVICES

Continuing growth in membership

- 131,578 Members at 31 December 2012 (up around 2% from 2011)
- Average Member account balance K28,449, again the highest of all PNG-based super funds
- 300 Employer Members (188 from private sector and 112 from public sector)
- Nambawan Super Savings & Loan Society membership 5,242

Effective systems to streamline processes

- Project SENIS successfully implemented
- State super contributions automated through Government payroll system
- Nambawan Savings & Loans Society connected to BSP Kundu Pei to simplify transfer of loan funds to Members

Ongoing focus on Member access and communications

- New Nambawan Super offices opened in Kundiawa and Wabag
- Member Call Centre introduced, giving Members toll free phone access for enquiries
- Excellent response to introduction of Your Say section in Member newsletter Toktok Super
- Increased number of information sessions presented at worksites and conferences around PNG

RETIREMENT SAVINGS ACCOUNT (RSA)

Membership up; balance of funds up

- The RSA had 2,562 Members as at 31 December 2012.
- Balance of funds in RSA at 31 December 2012 was K89 million (up 10% from the end of 2011)
- 648 exiting super fund Members rolled over entitlements into the RSA during 2012
- Average account balance in the RSA at the end of 2012 was K45,500

NAMBAWAN SUPER SAVINGS & LOAN SOCIETY (NSLS)

Strong growth marks second full year of operation

- 5,242 Members at end 2012 (up from 3,180 in 2011)
- Total funds on deposit K10.7 million (up from K1.3 million)
- Total loans to Members K1.2 million (up from K169,000)

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Vision

To be the leading Superannuation Fund in Papua New Guinea, committed to building value and maintaining the highest level of benefits and quality of service for Members.

Mission

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

Corporate Values

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

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

Accountability - Taking responsibility for what we do and say.

Team Work - Working together in the knowledge and understanding that collectively our decisions and actions can make a difference.

Transparency - Ensuring that our decisions are guided by policies fully endorsed and accepted by our Members.

Professionalism - Committing to continuously improving, learning and applying world's best practice in whatever we do.

Integrity - Engendering fairness, honesty and respect for others and upholding the principles of good governance.

Our Key Competencies are:

Operational - Effectively planning, managing, implementing and monitoring the Fund's internal and external processes and systems including our business relationships.

Special Assets - Maximising the value of our tangible and non tangible assets to provide a competitive advantage including adding value to the overall performance of the Fund.

Supporting Change & Growth - Adopting organisational management principles which are conducive to allow niche growth opportunities.

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

Chairman's Statement

SIR NAGORA BOGAN, KBE | Chairman

NAMBAWAN SUPER DELIVERS HEALTHY REAL RETURN FOR 2012

Nambawan Super Limited recorded an after tax net return of K351 million for the year ended 31 December 2012, enabling the Board to declare an interest crediting rate of 11% for Members, including RSA Members. With inflation down to a very low 1.6% for the year, the declared rate represents a very attractive 9.4% real return, the highest real return since 2007.

As reported in the Highlights section, the net return was a massive K327 million higher than the K24 million return achieved in the very difficult year to 31 December 2011. As well, the value of the Fund's investment portfolio rose around half a billion Kina from the end of 2011, to K3.8 billion at the end of 2012.

These results confirm the effectiveness of Nambawan Super's very disciplined investment strategy, which has the objective of "providing an after tax return of at least +2% above CPI with negative returns in no more than one in five years".

The investment returns achieved across the portfolio during 2012 demonstrate why a diversified mix of assets, carefully selected and rigorously monitored, is a prudent long-term strategy for a superannuation fund.

Good results in part of the portfolio balanced out the impact of lower returns in other asset classes. Just as we would expect, and take into account when making investment decisions, at any one time the different asset classes are in different positions on their economic cycles - some up, others down.

In the context of income, the solid returns produced from domestic listed and unlisted equities (shares) and strong commercial property rentals counteracted lower interest rates and declining residential income.

Generally speaking, asset value does not necessarily translate to income potential. In the 2012 year, even though valuations on the

Fund's commercial property portfolio declined by K11 million, income from commercial rentals remained stable and vacancy rates low through 2012, which resulted in solid income figures. This is another clear validation that diversification is a sound investment strategy, confirming the value of holding both income-producing and capital growth assets in the Fund's portfolio.

I invite you to refer to the Investment Manager's Statement in this Report for more detail about the performance of the Nambawan Super Fund portfolio.

As a proud Papua New Guinea organisation, Nambawan Super continues to seek out and support high quality local investments. By the end of 2012 PNG-based assets represented more than 87% of the total portfolio. The advantages of such an approach go well beyond achieving strong returns for our Members. By investing locally our country also benefits now and into the future, through employment growth, capacity development, wealth creation and the retention of capital.

Nambawan Super is also a strong supporter of the National Government's policy on financial inclusion. We want to see as many people as possible with access to quality financial services – deposit accounts, loans, superannuation – regardless of where they live or work in PNG. So it is very gratifying for us to see an increase in the number of Fund Members. By the end of 2012 the number of employee Members had risen from 128,230 in 2011 to 131,578 in 2012, an increase of more than 2%.



We also welcomed 19 new Employer Members over the course of the year, bringing the total of Employer Members to 300, up from 281 in 2011. Nambawan Super now has 112 Employer Members from the public sector and 188 from private enterprise. I congratulate these organisations on their decision to entrust Nambawan Super with looking after their employees' superannuation contributions.

It is also good to see the increase in voluntary contributions made by Members over the course of 2012. Your employer may not be obliged to make super contributions if there are less than 15 employees. However if you are an employee in this situation we heartily recommend that you look after your own best interests by joining the Fund and making voluntary contributions.

As in previous years, Nambawan Super Members have the highest average balance of any other PNG-based superannuation fund, K28,449 at the end of 2012, a substantial increase from the average balance of K25,892 at the end of 2011.

It is very good to see that the balance of funds held in the Retirement Savings Account (RSA) has grown 10% from K81 million at the end of 2011 to K89 million at the end of 2012. Membership of the RSA grew 14% from 2,241 at the end of 2011 to 2,562 by the end of 2012. The average account balance in the RSA at the end of the year was K45,500.

Chairman's Statement

SIR NAGORA BOGAN, KBE | Chairman

We strongly encourage Members to consider leaving at least some of their super payout in the tax-friendly RSA, so that their hard-earned super can continue growing to help provide a financially secure retirement lifestyle for Members and their families.

Your Board's responsibilities include considering strategic business or investment opportunities that will deliver quality customer service or value to our Members.

For example, Nambawan Super is strictly devoted to providing Members with a disciplined way to save over the long term. By contrast, Nambawan Savings & Loans Society (NSLS) takes care of Members' short and medium term financial needs. At 31 December 2012 NSLS had 5,242 Members, accounting for K10.7 million in deposits, and loans to NSLS Members stood at K1.2 million.

In summary, 2012 was a year of substantial achievement in spite of significant challenges.

At the very core of Nambawan Super is our commitment to our primary role – to preserve and maximise Members' superannuation benefits. By achieving solid and sustainable results.

To this end, we look forward to continuing to take care of your future, aiming to achieve solid and sustainable results by following our disciplined investment process and by managing Nambawan Super prudently and ethically.

Commencing in late 2012 your Board has initiated a strategic review to ensure the Fund's growth is congruent with changes in the economy and its operating business environment. This includes a restructure of the top management and commencement of the process to formulate a completely new corporate strategy to take the fund to the next level of growth and innovation.

On behalf of your Board I would like to express sincere thanks to all service providers, the dedicated Nambawan Super staff led by acting Managing Director Andrew Esler, who have all worked hard to produce the outstanding results achieved in the year ended 31 December 2012, and last but not least, the Directors of the Board.

Sir Nagora Bogan, KBE

Chairman of Board

Board of Directors



Standing L-R: Professor Albert Mellam | Mr Leon Buskens | Professor David Kavanamur | Mr Bruce Scott

Sitting L-R: Mr Anthony Smare | Sir Nagora Bogan | Ms Marianna Ellingson

Corporate Governance

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

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

The Trustee's primary responsibility to Fund Members is to ensure the Fund is run according to the principles of good governance. To achieve this objective, the Board implements five key governance principles across the entire operation of the Trustee and the Fund. These principles are compliance with the law, effective leadership, integrity, accountability, risk management.

Nambawan Super is an authorised superannuation fund (ASF), regulated and monitored by the Bank of Papua New Guinea (BPNG) and subject to Prudential Standards released by BPNG from time to time.

During 2012 BPNG released Superannuation Prudential Standard 7/2012 Corporate Governance for industry comment. The Standard, which all ASFs will have to comply with from 1 January 2013, sets out specific requirements for Board structure as well as Board responsibilities including investment, risk management and remuneration policies.

As a major participant in the superannuation sector in PNG, the Trustee was involved in discussions with BPNG about the requirements and implementation of the Standard.

However, in line with the Trustee's commitment to good governance, Nambawan Super implemented a number of changes during 2012, in advance of the effective date of the new Standard. These included increasing the number of Directors from four to eight (the Standard requires a minimum of five directors) and engaging an external governance specialist to review the existing structure and policies and recommend improvements.

Four independent standing committees help the Board meet its responsibilities.

The Audit & Risk Committee provides an objective assessment of the financial and operational activities of the Trustee, supporting the Board in carrying out its accounting, auditing and financial reporting responsibilities.

At 31 December 2012 the Committee comprised Mr David Guinn as chairman and Sir Nagora Bogan and Mr Anthony Smare as committee members.

The Remuneration and Nomination Committee has two key roles: to help the Board set appropriate, fair and responsible remuneration practices and to identify suitable candidates to fill vacancies on the Board, Standing Committees and from the Executive Management as they arise.

At 31 December 2012 the Committee comprised Ms Marianna Ellingson as chairperson and Mr Anthony Smare and Professor David Kavanamur and Professor Albert Mellam as committee members.

The Investment Committee is charged with ensuring the Fund's investment portfolio composition is in line with the investment strategy. The Committee reviews the activities of the specialist investment managers and the performance of the assets of the Fund. It also considers the merits of significant investment opportunities and initiatives for new income streams.



Standing L-R: David Kavanamur | Leon Buskens | Martin Kenehe | Leuth Nidung | Damien Aiybaibai | Dumo Mamata

Sitting L-R: Eimi Kaptigau | Santee Margis | Pauline Laki | Helen Are'e.

At 31 December 2012 the Investment Committee comprised Mr Syd Yates as chairman and Sir Nagora Bogan and Mr Bruce Scott and Mr Leon Buskens as committee members.

The Membership Committee helps the Trustee deal with member enquiries or complaints about the operation and management of the Fund. It provides a forum for Members to give their views and recommendations on the Fund's activities and offerings. The Committee discusses and sets guidelines for benefits and advises the Trustee on Members' information and communication needs.

During the year the Membership Committee discussed and made determinations on a wide range of issues on behalf of Members, including timely recording of Members' contributions, reducing the State contribution arrears, benefit payments, Nambawan Savings & Loans Society and Retirement Savings Account issues, Housing Advances, Member communications, group life insurance and proposed superannuation legislative amendments.

The composition of the Committee is key to its ability to represent Fund Members' interests and give them a strong voice. As well as a Member of the Trustee Board, the Committee also includes representatives of a number of influential PNG unions and large private organisations.

At the end of 2012 the Committee comprised Leon Buskens, Director of Nambawan Super Limited as chairman, David Kavanamur, Director of Nambawan Super Limited, Martin Kenehe from PNG Teachers Association, Santee Margis from PNG Energy Workers Union, Helen Are'e from Amalgamated General Workers Union, Mamato Dumo from PNG Firefighters Union, Lowa Tambua from PNG Police Association, Eunice Ison from Papindo Trading Limited, Damien Aiyebaibai from Correctional Services Employees' Association, Eimi Kaptigau from PNG Nurses Association and Tau Vali from the Public Service Association.

Managing Director's Statement

ANDREW ESLER Acting Managing Director



The main operational focus of Nambawan Super Limited throughout 2012 was bedding down the business and administration processes and member service enhancements introduced in 2011.

One of the key achievements in 2012 was the implementation of Project SENIS, which opened the way to a range of administration system improvements to benefit Members, including streamlining transactions, more timely communication and enhanced information security.

The new system also enabled us to start planning for future Member service enhancements, including improving the processes relating to Housing Advances.

Communicating effectively with our Members continues to be one of our highest priorities. To this end, over the course of 2012 Nambawan Super offered a wide range of ways for Members to access information about their super accounts – face-to-face, telephone, online, mobile phone text and Toktok Super, our regular newsletter.

With the opening of two new branches during the year, Nambawan Super completed the branch office rollout program. Offices are now located in Alotau, Buka, Goroka, Kavieng, Kimbe, Kiunga, Kokopa, Kundiawa, Lae, Madang, Manus, Mendi, Mt Hagen, Popondetta, Vanimo, Wabag and Wewak, as well as the shopfront at Head Office in Port Moresby. The next development phase for our offices will be concentrate on enhancing the services they provide.

During 2012, Member Services staff conducted a well-attended series of work-site information sessions, including accompanying officers from the Department of Personnel Management involved

in the roll out of their new general orders. Nambawan Super was also a prominent information booth holder at a number of important conferences, seminars and public exhibitions.

The now bi-monthly newsletter Toktok Super again provided a well-received platform for news and information to Members. The 'Your Say' section, introduced into Toktok Super at the start of 2012, has proven to be a very popular and well-appreciated reader forum, inviting and responding to a growing number of reader comments and questions.

Nambawan Super also encouraged Members to use the toll free Member Call Centre facility, the online enquiry service available through the website as well as the SuperText service accessible via Members' Digicel mobiles. And to make it easier for Members to update their contact details or claim the valuable discounts we have negotiated with leading PNG businesses, we introduced a Member ID card. The roll out of this initiative continued throughout 2012 and will be an ongoing process as new employer members join Nambawan Super.

Nambawan Super worked closely with the Department of Treasury on several projects designed to protect the interests of our public sector employee Members. As a result of this cooperation the State's superannuation contributions are forwarded automatically each fortnight through the Government payroll system. This major breakthrough means employer contributions are paid

directly into Members' super accounts in a timely manner, where they can start growing straight away for the long term benefit of the Member, rather than being manually processed and usually not paid until the end of the year.

Streamlining transactions through effective systems was a strong theme during 2012. Nambawan Savings & Loans Society (NSLS) connected to BSP's Kundu Pei facility so loan funds approved by NSLS can be transferred electronically into the Member's nominated bank account, eliminating the need for manual cheques.

Another example was the outsourcing of the property management function to a firm experienced in commercial leasing, tenancy activities and coordinating building maintenance. Using a specialist in these increasingly complex and time-consuming aspects of property asset management has freed up our own staff, allowing us concentrate on our core activities. The wisdom of this outsourcing decision was demonstrated in 2012, in better performance from our rental activities – an increase in rental income, low vacancy rates and a significant reduction in rental arrears.

Membership growth is a positive indicator of how Nambawan Super is perceived in the market.

During the year 19 new private sector employers selected Nambawan Super as their superannuation partner.

Managing Director's Statement

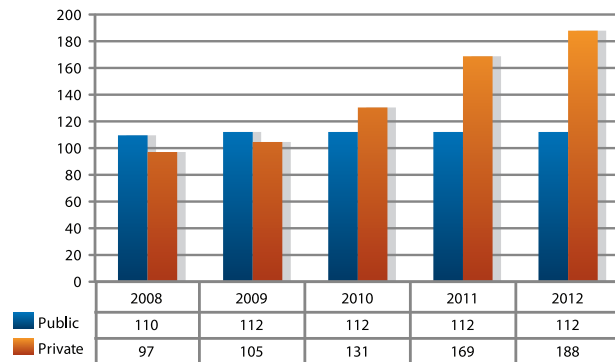
ANDREW ESLER Acting Managing Director

The charts (below) show the growing number of employers, Fund members, average account balances and voluntary contributions from 2008 to 2012.

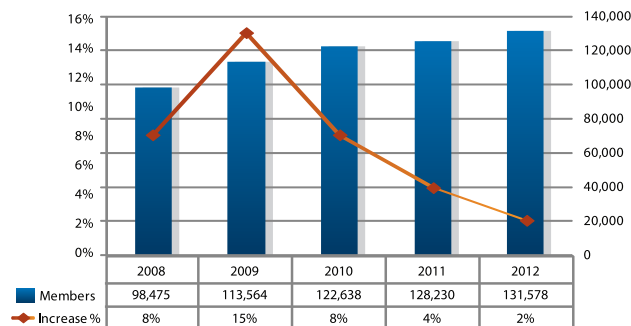
Voluntary contributions

Year	Members Contributing	Value of Contributions
2008	742	0.5m
2009	1,399	1.0m
2010	2,435	2.3m
2011	3,543	4.1m
2012	5,445	13.9m

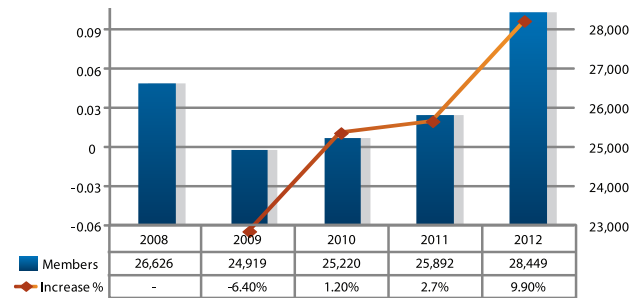
Contributing employers



Membership movement year on year.



Average Member account balances



In his statement, our Chairman noted the increase in voluntary contributions recorded during 2012. Over the past 5 years the number of Members making voluntary contributions has increased by 633%. The amount of voluntary contributions has grown 2,625% over the same period

All in all, 2012 will go down as a year of very positive achievements. And this brings me to remind Members about expectations.

The real return achieved for the 2012 year was outstanding, and the declared interest rate will be a significant boost to Members' account balances.

However, there were a number of circumstances contributing to the very strong result that may not be repeated in 2013. For a start the inflation rate for 2012 was a very low 1.6%. Government forecasts for 2013 predict inflation at the significantly higher rate of around 5%.

Changes in the inflation rate may affect the real investment performance. Historically, low inflation tends to boost the performance of equity investments (such as shares), as was the case in 2012. However, it has the opposite effect on interest rates; as inflation generally means lower returns from cash and fixed interest investments. Whilst cash and fixed interest investments may achieve better returns as inflation rises, the real return of all investments drops.

Other factors that may contribute to lower investment results going forward may include the slowing down of the PNG economy as the LNG project construction phase winds down, or any decline in global demand for commodities.

Bearing in mind many Members are likely to have their superannuation arrangements in place for decades, short term results, whether high as in 2012 or low as in 2011, are smoothed out. We strongly encourage Members to set reasonable and realistic expectations for the performance of their super fund by focusing on the long term. The investment objective for Nambawan Super Fund makes this very clear, aiming to provide an after-tax return of at least +2% above CPI with negative returns in no more than one in five years.

However, regardless of the economic conditions, you can rest assured Nambawan Super will continue to look after Members' best interests.

In the meantime, on behalf of Members I would like to express thanks to all the people and organisations that have contributed to the smooth running and solid performance of Nambawan Super over the course of 2012. Many people have been involved in the design and successful implementation of our enhanced systems; your commitment and hard work are sincerely appreciated.

I acknowledge the insightful and valuable guidance provided by our Chairman and Board Members.

Finally, I wish to thank the staff and management team of Nambawan Super for their ongoing dedication to our Members' best interests and their hard work in achieving the outstanding 2012 results.

Well done!

Andrew Esler
Acting Managing Director

Our People

Nambawan Super exists to look after the best interests of Members. To do so we need to attract and retain people with the right qualifications, skills and abilities and provide the right work environment to allow them to reach their potential. Twenty-one new employees joined Nambawan Super during 2012.

Staffing in 2012

Staff Level	National	Expatriate	Total
Full time	43	-	43
Contract	76	2	78
TOTAL	119	2	121

Learning and development

Nambawan Super operates in a dynamic environment. Our business is influenced by external factors, such as the current economic climate and legislative or regulatory changes. As well, we implement changes to enhance our services and offerings to Members. With change a constant factor in our operations, our people need to be equipped with the information and resources to stay in step with the demands of our operation.

Accordingly, learning and development continued to be a key priority for Nambawan Super during 2012. Over 20 percent of our staff members undertook learning and development activities over the course of the year, including short courses, conference and seminar attendance, extension studies and overseas training.

Senior Management Salaries

The following table shows the number of employees whose remuneration package, including housing allowance and other benefits, and employer contribution to superannuation, exceeded K130,000 during 2012.

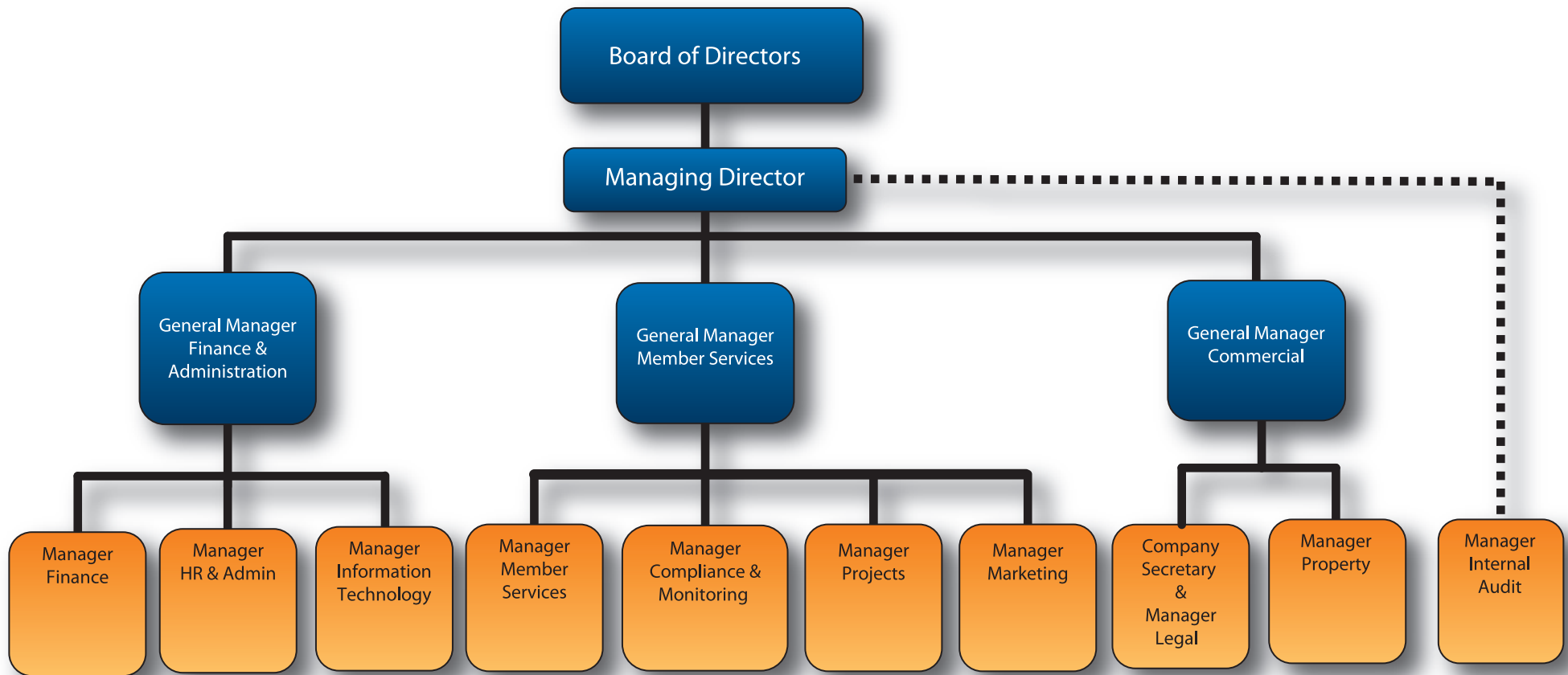


Standing L-R: Steven Avel, Manager Member Services | Heartly Kanaiat, Acting General Manager Finance & Administration | Russell Tato, Manager Internal Audit | Jeffrey Levongo, Manager Strategy and Projects | Terence Wilson, Manager Savings and Loan Society | Johnson Manary, Manager Information Technology | Dennis Sapak, Manager Marketing | Thomas Opa, Manager Compliance and Monitoring.

Sitting L-R: Patricia Taureka, Company Secretary and Manager Legal | Wayne Smith, General Manager Commercial | Andrew Esler, Acting Managing Director | Odilia Ngatama, Human Resources and Administration.

Salary range	Number of employees
130,000 – 139,999	2
160,000 – 179,999	3
210,000 – 239,999	4
350,000 – 359,999	1
900,000 – 1,049,999	3

Organisational Structure



Comparative Statistics Summary

		2012	2011	2010	2009	2008
PROFITABILITY						
Total investment income	K(m)	412	72	313	241	190
Total expenses	K(m)	45	34	36	35	25
Income tax expense	K(m)	16	14	14	16	15
Net profit after income tax	K(m)	351	24	263	190	150
BALANCE SHEET						
Net assets	K(m)	3,743	3,235	3,093	2,830	2,622
Net asset growth%	%	15	5	9	8	16
Reserves	K(m)	47	47	79	73	67
Reserves as a % of Net Assets	%	1.24	1.46	2.54	2.58	2.54
Retirement Savings Account balance	K(m)	89	81	61	59	34
RETURN TO MEMBERS						
Rate of return on funds employed	%	15	6.8	7.9	13.3	12.5
Interest credited to members	%	11	2	10	10	11.5
Headline inflation rate	%	1.6	6.9	7.2	5.7	11.2
Real return to members	%	9.4	-4.9	2.8	4.3	0.3
MEMBERSHIP						
Number of members		131,578	128,230	122,638	113,564	98,475
Average wealth per member	K	28,449	25,892	25,218	24,920	26,626
Number of RSA participants		2,562	3,327	1,787	1,406	836
Average number of pensioners		382	448	650	694	722
MEMBER CONTRIBUTION & BENEFITS						
Contributions	K(m)	584	562	380	274	413
Gross exit payouts	K(m)	443	425	381	255	203
Number of exit payments		5,291	4,502	5,238	3,513	3,732
Total pension payments	K(m)	2	2	3	3	4
TRUSTEE EXPENSES						
Management expenses	K(m)	45	34	36	35	25
Management expense ratio (MER)	%	1.3	1.0	1.21	1.27	1.0
Fund Administration fee	K(m)	7.6	4.6	3	3	2.1
Investment Management fee	K(m)	8.9	8.6	9	9	8.2
Number of staff		121	133	119	115	96

Fund Administrator's Statement

KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED



As the Fund Administrator, Kina Investment & Superannuation Services Limited is pleased to provide to the Board of Nambawan Super Limited the administration report for the 2012 Financial Year.

YEAR IN REVIEW

2012 was evolutionary in the partnership between Nambawan Super and Kina Investment & Superannuation Services as we were able to implement the new strategy of Nambawan Super taking responsibility for managing the relationship between the member and the Fund. The new software implemented at the end of 2011 provides Nambawan Super with visibility not only to each member's account but visibility to any process or application affecting the member that is being actioned by the Fund Administrator. This transparency extricates Nambawan Super members from the Fund Administrator as the trustee is now responsible for approving all applications and has all information required to accurately respond to members' enquires without delay or referral.

This technology coupled with the significant physical presence of 18 branches that Nambawan Super has throughout the country means that members will no longer endure significant costs and time to be able to speak to a member service officer to obtain information on their entitlement for retirement.

As access to the internet is becoming more affordable, we are seeing a strong increase in the number of members that are signing up and utilising the online service. We expect to see this trend continue in future years resulting in internet based services becoming the focus moving forward for product development and customer service delivery. Nambawan Super's "SuperText" service is also growing in popularity with a 44% increase in subscription in 2012 as it is a simple, fast way for members to receive their balance.

With access to member balances via the Nambawan Super website and now the SuperText service along with enquiring via the Nambawan Super contact centre or entering into the array of branches across the country, members are able to monitor their superannuation balance growth for a healthy retirement.

MEMBERSHIP

Membership for the fund in 2012 grew by 2%. Total membership as at 31 December 2012 was 131,578 consisting of 117,022 active and 14,556 inactive members, compared to total membership of 128,230 at the end of 2011.

Given the lack of infrastructure in Papua New Guinea, keeping track of members' postal addresses and contact details is a great challenge for the fund but, as the new software not only provides the trustee with visibility to the members account and the status of work being actioned by the Fund Administrator, it also provides the Trustee with the ability to update certain components of a member's biographical profile without referral. This allows the Trustee to capture this data at the point of contact with the member each time the member engages the Trustee either via the contact centre or at the extensive branch network throughout PNG.

We did receive and process however over 11,200 member update forms in 2012. It is the funds objective to continue encouraging members to complete and lodge these forms so we have the most up to date contact and beneficiary details recorded.

RETIREMENT SAVINGS ACCOUNT

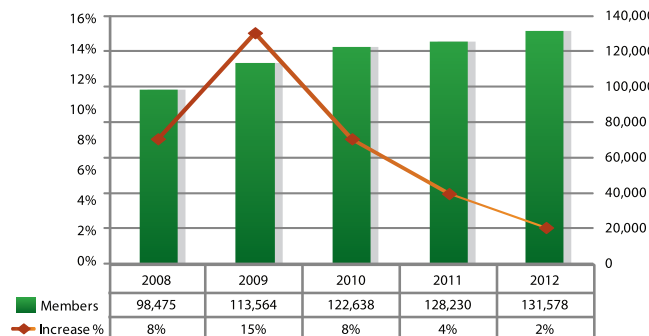
The retirement savings account continues to grow in 2012 with 12% of all members eligible to withdraw their superannuation entitlement electing to leave a portion of their entitlement with the Fund in the Retirement Savings Product. The average balance rolled into the product in 2012 was K45,500 and the total pool of funds now exceed K89.1 million.

HOUSING ADVANCE

In 2012, K5.82 million in housing advances were allocated to 529 members who applied for the purpose of building a new dwelling, improving or extending an existing dwelling on either urban or customary land. There are currently 9,044 members repaying their housing advance.

CONTRIBUTIONS

Total contributions for the year were K325million from 300 employers and government departments. Whilst electronic delivery of contribution listings is on the increase we would like to see greater support on this by employers remitting contributions to the Fund to ensure contributions are allocated to members' accounts as expeditiously as possible.



Fund Administrator's Statement

■ KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED



BENEFITS PAYMENTS

The total number of benefit payments for 2012 were 5,291 totalling K402 million and consisted of:

Exit Type	No Members 2010	No. Members 2011	No. Members 2012
Resignation, Retrenchment, Retirement	4,398	2,952	3,478
Death	830	236	414
Unemployment	1,553	1,314	1,399

It is pleasing to note that the average full withdrawal benefit for members leaving Nambawan Super now exceeds K102,000.

2013 FORECAST

As we see the slowdown in economic activity relating to the construction and development of the PNG LNG project we expect to see less new employers entering the PNG economy and therefore joining the Fund in 2013. We do anticipate some growth in membership from the government however, especially in the teaching sector and infrastructure as PNG comes to terms with the need for better education facilities from the swelling of students attending school and infrastructure required for the 2015 Pacific Games.

With respect to services we see the need to further look at opportunities to expand our internet service offering to members and employers. We would like members to be utilising this service more to update their details and obtain their account balance as opposed to entering a branch.

We still feel that it is time for some change in the superannuation legislation and even though this was not achieved in 2012 we believe that change is required and along with the other members of the Papua New Guinea superannuation framework we will lobby to see product development within superannuation including but not limited to insurance products.

Kina Investment & Superannuation Services is committed to supporting Nambawan Super to be the most successful and respected superannuation fund in Papua New Guinea.

SEAN YOUNG

Group Manager Superannuation Services
Kina Investment & Superannuation Services

Investment Manager's Statement

KINA FUNDS MANAGEMENT LIMITED



The Fund has continued its growth and this report outlines the drivers of performance and provides an allocation breakdown on the Fund's holdings.

1. Investment Strategy

The Fund's primary purpose is to preserve and maximise superannuation benefits of members through prudent investment management. The investment strategy guides the investment decisions of Kina Funds Management (KFM) as the Investment Manager. The Fund's objective is to provide an after-tax return of at least +2% per annum above CPI with negative returns in no more than one in five years. The headline CPI for Papua New Guinea for 2012 was 1.6% so this objective was easily met last year.

2. Investment Portfolio Performance

The Fund's investment portfolio increased to K3,642.8 million as at 31 December 2012, an increase of K521 million or 16.7% from K3,121.8 million at end of December 2011. The increase in the portfolio was mainly due to investment income of K430.2 million, the K199.3 million received for partial repayments for unfunded liabilities from the State, but partially offset by the net withdrawal from the Fund.

The investment income was mainly due to the gain from valuation of listed and unlisted equities, and the dividend and interest income, but partially offset by the valuation loss on properties and exchange rate loss. The negative contribution from currency effect was also noticeable the previous year.

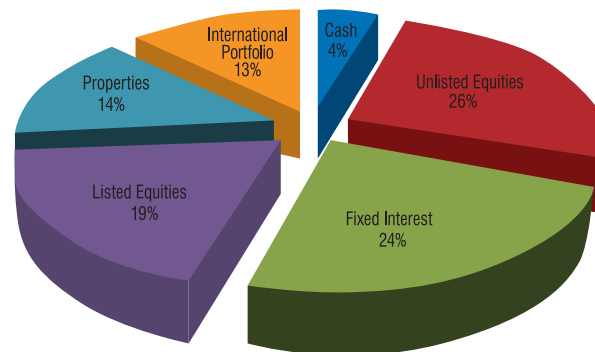
3. Portfolio Composition

The Fund continually maintains and chooses investments to diversify our risks. This table compares the mix of investments in the portfolio as at 31 December 2012 with the asset class breakdown at the end of the previous year.

Table 1: Composition of Investment

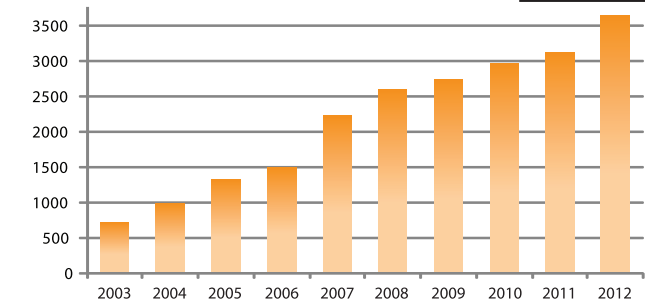
Asset Class	Portfolio Value (K million)		Percentage Holdings	
	31/12/12	31/12/11	31/12/12	31/12/11
Cash	159.8	366.7	4.4	11.8
Fixed Interest	930.9	625.2	25.5	20.0
Unlisted Equities	939.9	724.8	25.8	23.2
Listed Equities	695.2	666.6	19.1	21.4
Property	452.4	437.8	12.4	14.0
International	464.6	300.6	12.8	9.6
	3,642.8	3,121.8	100.0	100.0

Graph 1: Asset Allocation within the Fund's portfolio



The chart below shows the increase in the investment portfolio since 2003. The investment portfolio value has increased four times since 2003 averaging 22.4% growth per annum.

Graph 2: Investment Portfolio



4. Portfolio Composition by Asset Class

4.1 Cash

The Fund's domestic cash portfolio comprises bank at call and term deposits, government securities and loans with a term less than 90 days to maturity at the time of issue. As at 31 December 2012, the Fund held K159.8 million in this asset class, which represents 4.4% of the total portfolio, above the target allocation of 3% as outlined in the investment strategy. The Fund began purchasing Central Bank Bills via the secondary market to generate higher returns compared to term deposit rates during the year. The Fund continues to spread its maturities of Cash and Fixed Interest investments in order to cater for liquidity. Low returns on these assets continued in 2012 due to persistency high levels of domestic liquidity.

4.2 Fixed Interest

The Fixed Interest Portfolio comprises bank term deposits, government securities and loans with term equal or more than 90 days to maturity at the time of issue. As at 31 December 2012, the value of fixed interest securities in the Fund was K930.9 million, which represented 25.5% of the total portfolio. This result is above the target allocation of 21% outlined in the investment strategy. The fund manager

Investment Manager's Statement

chose to overweight this investment category in 2012 due to low cash returns and the poor outlook for domestic property. We constantly participate in longer term maturities of bank term deposit and government securities to reduce cash and maximise returns. Fixed interest is used as secondary cash buffer. Certain securities and bank deposits can be liquidated if an immediate cash requirement arises.

4.3 Equities

The Domestic Equities Portfolio consists of listed and unlisted equities. As at 31 December 2012, the Fund's equities portfolio stood at K1,635 million. This represents an increase of K243.8 million or 17.5% from the K1,391.3 million total for 2011.

4.3.1 Listed Equities

As at 31 December 2012, the Domestic Listed Equities portfolio was valued at K695.2 million which represented 19.1% of the portfolio. The portfolio increased by K28.7 million for the year mainly due to the increase in share prices of City Pharmacy Limited, Credit Corporation, Bank of South Pacific (BSP) and Oil Search. The Fund is actively decreasing our exposure to our less liquid holdings in the domestic equities portfolio; particularly BSP because of our over exposure.

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

Table 2: Domestic Listed Equities

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

4.3.2 Unlisted Equities

The value of the Fund's unlisted equities portfolio at the end of the year was K939.9 million, up by K215.1 or 29.7% from K724.8 million at 31 December 2011. Strong valuation gains were seen in SP Brewery, Paradise Foods and Westpac.

Table 3: Domestic Unlisted Equities

Unquoted Ordinary Shares	Industry/Sector	Holdings (%)
Alotau International Hotel Ltd	Hotel	34
Brian Bell & Co. Ltd	Wholesale/Retail/Merchant	34
Capital Life Insurance Company Ltd	Insurance	34
Capital Way Holdings Ltd	Telecommunications	10
Gazelle International Hotel Ltd	Hotel	65
Kumul Hotels Ltd	Hotel	55
Pacific Management Services Ltd	Building Maintenance	50
Paradise Foods Ltd	Food & Snacks/Manufacturing	85
PNG Water Ltd	Utilities	30
Post Courier Ltd	Media	21
SP Brewery Ltd	Manufacturing	20
Toyota Tsusho (PNG) Ltd	Motor Vehicle	4
Westpac Banking Corporation (PNG) Ltd	Banking /Finance	7

4.4 Properties

- Commenced implementing five-year property plan to optimise the property portfolio.
- Commenced divesting properties which were underperforming and did not meet the strategy.
- Commenced refurbishment of commercial and residential properties.
- Outsourced facilities management and leasing functions to a specialist property management firm to optimise performance of existing assets.
- Implemented a property management software system to enable more accurate management of the portfolio.
- Completed IPI which is a landmark building in Lae.
- Completed 156 lot subdivisions in 8 Mile, Port Moresby.
- Completed the design phase of the VeleRumana redevelopment.
- Completed the schematic design and achieved Physical Planning approval of the proposed Kokopo Commercial development.
- Progressed the OPH commercial development in Port Moresby in joint venture with Lamana Development Limited (Lamana).
- Completed the new Lands Department Building in joint venture with Lamana.
- Commenced the Vulupindi Annexure commercial development in joint venture with Lamana.

Investment Manager's Statement

Table 4: Property Portfolio as at 31 December 2012:

Properties	Location	Description
COMMERCIAL BUILDINGS		
Era Rumana (S20 L6&7 Champion Parade)	Port Moresby	7 Level Commercial Office Complex in the CBD
Mogoru Moto (S20 L8&9 Champion Parade)	Port Moresby	9 Level Commercial Office Complex in the CBD
Aopi Centre (S390 L12,13 & 14 Waigani Drive)	Port Moresby	A 6 Level Twin Tower Office Complex on Waigani Drive. Currently leased to the Health and Lands Department
Vulupindi Haus (S405 L15 Waigani Drive)	Port Moresby	6 Level Commercial Office Complex in Waigani. Leased to the Finance & National Planning Department
Revenue Haus (S20 L11 Champion Parade)	Port Moresby	9 Level Commercial Office Complex in the CBD
Burns House (S19 L20 Champion Parade)	Port Moresby	4 Level Mixed Office & Retail Space in the CBD
The former Century 21 office (S25 L34 Hunter St)	Port Moresby	Freestanding Commercial Building, Opposite Crowne Plaza. Town CBD
Port Tower (S3 L21 Hunter Street)	Port Moresby	9 level Mixed Use Commercial/ Residential Complex in the CBD
Vele Rumana (S6 L19&20 4th Street, Top Town)	Lae	6 Level Commercial Office Complex in the CBD subject of major refurbishment
INDUSTRIAL PROPERTIES		
S15, 16& 17 L64 (Gordons - Warehouse)	Port Moresby	NSL Data Storage Facility
S64 L41 (Huon Road)	Lae	Retail Shop & Service Station; subject of divestment
Angco L5, 6, 19&20 S34 (Macdhui Street)	Lae	Industrial Warehouse
L23 S50 (Milfordhaven Road)	Lae	Industrial Warehouse
RESIDENTIAL APARTMENTS		
Bayside Apartments (Portion 178)	Port Moresby	42 x 2&3 Bedroom Residential Units located at Koki; Complete refurbishment of 42 units
Lawes Road (S7 L24) (50%)	Port Moresby	20 x 2&3 Bedroom Units located on Lawes Road; subject of divestment
Pacific Vista (S42 L14)	Port Moresby	7 x 3 Bedroom Executive Apartments located on Ogoa Street
Cedar Units (S33 L11 Hibiscus St.)	Lae	8 x 3-Bedroom Units; subject of divestment
Hibiscus Street, Eriku (S33 L11)	Lae	6 Residential Units; subject of divestment
Portion 212 (Portion 212, Boundary Road)	Lae	40x 2&3 bedroom residential units. Subject of refurbishment

Properties	Location	Description
VACANT PROPERTY		
Bautama Land	Port Moresby	Vacant undeveloped land along Magi Highway; subject of divestment
Taurama Land (Old Squash Club)	Port Moresby	Vacant commercial land along Hubert Murray Highway; subject of divestment
PROPERTIES IN HOLDING COMPANIES		
Coastwatchers Court Ltd	Port Moresby	Holding company that owns 31 constructed apartments on Touaguba Hill. NSL owns 65% of the company
Hunter Ltd	Port Moresby	Holding company that owns the Defens Haus in the CBD NSL owns 30% of the company
Moki No.10 Ltd	Australia	Holding company that owns Cairns Conservatory Building NSL owns 100% of the company
Morobe Front Holdings Ltd	Lae	Holding company that owns the Lae Waterfront Land as its sole asset. NSL owns 100% of the company
UPCOMING DEVELOPMENTS		
4 Mile Land	Port Moresby	Currently assessing options
9 Mile Land (Portion 989, 1568, 2124, 2156 & 2159)	Port Moresby	On-going efforts and consultation with NCDC and Lands Department for a proposed "satellite town" development. Subject of a title dispute.
Old Parliament House Ltd	Port Moresby	Joint development with Lamana for a 9 storey commercial building. Anticipated completion 31 December 2013
Waigani Asset Ltd	Port Moresby	Joint development with Lamana for 4 storey building; Completed anticipating occupancy 30 September 2013
Touaguba Apartments (S63 L22 Daugo Drive)	Port Moresby	PNew 12 unit residential construction
IPI	Lae	A mixed use commercial building
Kokopo Market Land (S22 L7&8)	Kokopo	Final business case being reviewed

Investment Manager's Statement

4.5 International Portfolio

The International Portfolio includes bank at call accounts, term deposits, listed equities, unlisted equities and properties. The total International Portfolio holding as at 31 December 2012 was K464.6 million which represents 12.8% of the total investment portfolio.

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

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

Listed equities within the international portfolio as at 31 December 2012 (market value of K356.9 million):

Table 5: International Listed Equities

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

The existing investments within the portfolio were carefully selected to contribute to the quality of their respective asset class and purchased at reasonable value to be held for medium to long periods. This maximizes tax-efficiency and allows the accumulation of dividend and interest income, as well as valuation gain to build wealth for NSL members. The Fund targets combinations of assets with low correlation for diversification and blending of investment styles. The Fund has gradually purchased

global equities through 2012 to bring its allocation to international equities to roughly target allocation. Strong gains in high yielding stocks such as bank shares were partially offset by currency weakness.

The International Portfolio also includes several alternative investments with a total value of K48.1 million, selected and managed by Access Capital Advisors (ACA), an Australia-based investment manager specialising in alternative investments. Independent valuers conduct annual valuations of the investments, which are also subject to ACA's internal assessment process. As with many alternative investments, the value of the ACA portfolio was significantly affected by the global financial crisis and difficult trading conditions over the last few years. These alternative investments include:

Table 6: ACA Managed Investments

Description	Industry/Sector
Carrix Inc	Container- Marine – US
FKP Core Plus Fund 1	Property Trust – Australia
FKP Core Plus Fund 2	Property Trust – Australia
R.M Williams Agricultural Holdings	Agriculture – Australia
Smarte Carte	Airport trolley hire – US
Spirit Realty Capital	Property/Finance – US
Southern Water	Infrastructure, Water, Sewerage – UK
Tata Realty Initiative Fund 1	Property Trust – India

These investments will be sold as opportunities arise.

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012

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Independent Auditor's Report

to the members of Nambawan Super

Report on the financial statements

We have audited the accompanying financial statements of Nambawan Super (the Fund), which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in members funds and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Trustee's responsibility for the financial statements

The directors of Nambawan Super Limited, being the Fund's Trustee, are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea, the Superannuation (General Provisions) Act 2000 and the financial statement requirements embodied in the Companies Act 1997 and for such internal controls as the Trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Fund's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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:

1. comply with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the financial statement requirements embodied in the Companies Act 1997 and other generally accepted accounting practice in Papua New Guinea; and
2. give a true and fair view of the financial position of the Fund as at 31 December 2012, and its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

We confirm in relation to our audit of the financial statements for the year ended 31 December 2012:

1. we have obtained all the information and explanations that we have required; and
2. in our opinion, proper accounting records have been kept by the Fund as far as appears from an examination of those records.

Restriction on distribution or use

This report is made solely to the Fund's members, as a body. Our audit work has been undertaken so that we might state to the Fund's members those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Fund and the Fund's members, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

G E Burns
Engagement Leader

S C Beach
Partner
Registered under the Accountants Registration Act 1996

Port Moresby
23 May 2013

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 K '000	2011 K '000
REVENUE			
Investment income			
Interest	3(a)	72,364	56,198
Dividends	3(b)	108,620	96,892
Property rentals	3(c)	58,971	54,165
Net gains/(losses) on assets at fair value	3(d)	193,705	(103,276)
Foreign exchange losses	3(e)	(3,495)	(14,484)
		430,165	89,495
Investment and fund administration expenses			
Property administration expenses		1,696	2,332
Direct investment property expenses		18,022	18,075
Fund administration fees		7,564	4,570
Investment manager's fees		8,874	8,612
Investment monitoring expenses		1,104	1,415
		37,260	35,004
		392,905	54,491
Other income	3(f)	455	280
		393,360	54,771
LESS: MANAGEMENT EXPENSES			
Advertising		435	386
Auditor's remuneration - statutory audit services		347	320
Bad and doubtful debts and loans		(250)	(2,014)

	Note	2012 K '000	2011 K '000
BPNG license fees		1,790	695
Conferences		80	76
Contributor expenses		566	823
Depreciation on property plant and equipment		837	858
Directors' fees & expenses		1,630	705
Donations		52	178
Office building expenses		3,223	606
Office expenses		2,730	2,091
Professional fees		2,216	1,022
Staff		10,582	9,041
Staff housing		1,528	1,261
Travel		202	467
Vehicles		244	248
Other		16	131
		26,228	16,894
Total revenue less expenses paid before income tax		367,132	37,877
Income tax expense	4(a)	16,111	13,966
Profit for the year		351,021	23,911
Other Comprehensive income			
Revaluation of property plant & equipment - (deficit)/surplus		(1,625)	67
Total Comprehensive income		349,396	23,979

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

Statement of Changes in Members' Funds

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Contributors' Funds K'000	Pensioners' Funds K'000	Retirement Savings Account K'000	Retained & General Reserves K'000	Revaluation Reserve K'000	Total K'000
Balance as at 31 December 2010		2,946,798	18,321	48,827	75,679	3,005	3,092,630
Member contributions	11(a)	561,947	-	-	-	-	561,947
Benefit payments		(398,339)	(2,472)	(24,642)	-	-	(425,453)
Members interest allocation	11(a)	55,237	-	-	(55,237)	-	-
Profit for the year		-	-	-	23,911	-	23,911
Other comprehensive income		-	-	-	-	67	67
Transfers		(38,799)	-	38,799	-	-	-
Balance as at 31 December 2011	11	3,126,844	15,849	62,984	44,353	3,072	3,253,102
Member contributions	11(a)	584,304	-	-	-	-	584,304
Benefit payments		(414,993)	(2,214)	(26,205)	-	-	(443,412)
Members interest allocation	11(a)	350,259	-	-	(350,259)	-	-
Profit for the year		-	-	-	351,021	-	351,021
Other comprehensive income		-	-	-	-	(1,625)	(1,625)
Transfers		(32,051)	-	32,051	-	-	-
Balance as at 31 December 2012	11	3,614,363	13,635	68,830	45,115	1,447	3,743,390

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

Statement of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 K '000	2011 K '000
INVESTMENTS			
Short-term deposits	5(a)	173,002	382,017
Held to maturity (government securities)	5(b)	873,701	566,235
Other investments held to maturity	5(c)	6,245	12,490
Loans	5(d)	57,019	58,995
Financial assets at fair value	5(e-h)	2,040,171	1,632,184
Investment properties	5(i)	452,251	437,834
Total investments		3,602,389	3,089,755
OTHER ASSETS			
Cash and cash equivalents	6	40,245	31,522
Receivables	7	108,538	129,058
Income tax refundable	4(b)	7,429	9,108
Assets held for sale	10	24,047	27,367
Property, plant and equipment	8	10,949	12,977
Total other assets		191,208	210,032
TOTAL ASSETS		3,793,597	3,299,787
LIABILITIES			
Benefits payable		1,601	1,663
Creditors	9	45,531	38,186
Provisions		1,847	2,086
Deferred income tax liabilities	4(c)	1,228	4,750
TOTAL LIABILITIES		50,207	46,685
NET ASSETS		3,743,390	3,253,102
Members' accounts and Pensioner funds	11(a-c)	3,627,998	3,142,693
Retirement Savings Account	11(d)	68,830	62,984
Reserves	11(e)	46,562	47,425
TOTAL MEMBERS' FUNDS		3,743,390	3,253,102

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

For and on behalf of the Board



Sir Nagora Bogan, KBE
Chairman of Board of the Trustee



Anthony Smare
Director

Dated: 17 May 2013

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 K '000	2011 K '000
Cash flow from operating activities			
Interest received		69,044	55,323
Dividends received	3(b)	108,620	96,892
Property rentals received		76,952	47,292
Other income and receipts		151	196
Direct investment expenses		(37,260)	(35,004)
General administration expenses paid		(18,046)	(25,932)
Income tax paid	4(b)	(17,954)	(15,505)
Net cash provided by operating activities	15	181,507	123,262
Cash flow from financing activities			
Employer contributions received	11(a)	199,970	193,834
Member contributions received	11(a)	122,096	105,015
Fund share of benefits paid (including housing withdrawals)		(161,353)	(151,785)
Housing advance repayments	11(b)	6,384	7,036
State share of benefit payments received		114,035	174,298
State share of benefits paid		(115,525)	(138,078)
Payment from Retirement Savings Account	11(d)	(26,107)	(24,642)
		139,500	165,678
Cash flow from investing activities			
Receipt of loan repayments	5(d)	14,146	4,708
Loans advanced	5(d)	(12,170)	(16,385)
Proceeds on maturity of Government securities	5(b)	455,444	318,857
Payment for purchase of Government securities	5(b)	(755,678)	(487,895)
Net investment in term deposits	5(c)	6,200	61
Payment for acquisition of shares in listed equities	5(g-h)	(86,369)	(89,337)
Payment for acquisition of shares in unlisted equities - offshore	5(f)	(131,106)	(19,070)
Payment for acquisition of shares in unlisted equities - onshore	5(e)	(79,273)	(36,497)
Proceeds on sale of shares in listed equities		90,784	34,604
Proceeds on sale of shares in unlisted equities		-	934
Return of capital from unlisted equities		-	26,579
Payment for investment property development & acquisition	5(i)	(29,083)	(36,343)
Payment for the purchase of property, plant and equipment	8	(900)	(1,236)
Proceeds on sale of investment properties		5,990	15,627
Proceeds on sale of property, plant and equipment		715	1,121
Net cash used in investing activities		(521,300)	(284,273)
Net (decrease) /increase in cash & cash equivalents held		(200,293)	4,666
Cash and cash equivalents at the beginning of the year		413,539	408,873
Cash and cash equivalents at the end of the year	15	213,246	413,539

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

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL INFORMATION

Nambawan Super is an approved Fund under the Superannuation General Provisions Act 2000 ("Act"). The Fund is primarily a defined contribution (or accumulation) fund which provides benefits to its members in accordance with the Act. The majority of the contributors are from the public sector with the "State" as the major employer, however since the introduction of the Superannuation reforms, membership now includes private sector organisations.

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

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

NSL is domiciled in PNG and the registered office is :

Level 6, Era Rumana
Champion Parade
PO Box 483
Port Moresby

The financial statements have been authorised for issue by the directors on 17 May 2013. The Board of Directors have the power to amend the financial statements after its issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

These financial statements are presented in accordance with the requirements of the Act, the Papua New Guinea Companies Act 1997, the Superannuation Prudential Standard 3/2008 and comply with generally accepted accounting practice, including applicable financial reporting standards approved for use in Papua New Guinea ("PNG") by the Accounting Standards Board ("ASB"). The ASB has approved all current International Financial Reporting Standards ("IFRS") as the applicable financial reporting standards.

All amounts are expressed in PNG Kina rounded to the nearest thousand Kina.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property and equipment and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the accounting for pensioner funds/unfunded liability and market value of investments.

(b) Revenue recognition

Investment income

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

Contribution income

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

(c) Foreign currency translation

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

The rates used as at 31 December 2012 were:

AUD	0.4783	(2011:0.4880)
USD	0.4970	(2011:0.4804)
GBP	0.3026	(2011:0.3116)

(d) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the Statement of Comprehensive Income during the period in which they are incurred.

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

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

Buildings	4.5%
Furniture & fittings	At rates varying from 11.25 % to 30.00 %
Office equipment	At rates varying from 11.25 % to 30.00 %
Motor vehicles	30%

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

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

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

(e) Investments and other financial assets

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in investments.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. If the Fund were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

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

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

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value at acquisition plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income as gains or losses from investment securities.

Subsequent measurement

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

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of "financial assets at fair value through profit or loss" category are presented in the Statement of Comprehensive Income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income as part of revenue from continuing operations when the Fund's right to receive payments is established.

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

Impairment

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

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

(f) Receivables

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

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

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with banks. Other short-term highly liquid investments with original maturities of three months or less are classified under investment assets.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

(h) Income tax

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

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

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

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

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

(i) Provisions

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

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

(j) Financial instruments

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

(k) Employee benefits

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

(l) Creditors

Creditors represent liabilities for goods and services provided to the Fund prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

(m) Benefits payable

Benefits payable are benefits attributable to members but not paid by balance date.

(n) Liability for accrued benefits

The liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries, inclusive of any statutory reserves, and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of liabilities as at the reporting date. It excludes the state's unfunded liability.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Internal Revenue Commission. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the Internal Revenue Commission is included with other receivables or payables in the statement of financial position. Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities are recoverable from, or payable to the Internal Revenue Commission, are presented as operating cash flows.

(p) Investment properties

Investment properties are valued at fair value at balance date, determined by qualified independent professional valuers. The methods used to determine fair value is mainly based on 'the market value for highest and best use'. Savills (NSW) Pty Limited were engaged to undertake the valuation exercise in December 2012. Changes in fair value are recorded in the Statement of Comprehensive Income as part of the fair value gain.

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

(q) Assets held for sale

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

(r) Comparative figures

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

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

The following new standards and amendments were applicable for the first time during the accounting period beginning 1 January 2012:

- Amendments to IFRS 7 'Financial instruments: Disclosures' on transfers of assets introduces additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments mainly affect entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendment was not relevant to the Fund.
- Amendment to IAS 12, 'Income taxes', on deferred tax introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Fund has consistently determined deferred tax on this basis.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2012 or later periods,

- Amendments to IAS 19, 'Employee benefits' (effective 1 January 2013) require the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. The Fund does not have a defined benefit pension scheme.
- Amendment to IAS 1, 'Financial statement presentation' (effective 1 July 2012) regarding other comprehensive income requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not effect the measurement of any items recognised in the Statements of Financial Position and Comprehensive Income.
- IFRS 9, 'Financial Instruments' (effective 1 January 2013) is the first phase of replacing IAS 39, 'Financial Instrument' with a that is less complex and principles based. The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not expected to change the Fund's existing accounting policy for its financial assets and liabilities.
- IFRS 10, 'Consolidated Financial Statements' (effective 1 January 2013) replaces all of the guidance on control and consolidation in IFRS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities. The standard introduces a single definition of control that applies to all entities. The Fund does not and is not required to consolidate any interest.
- IFRS 11, 'Joint arrangements' (effective 1 January 2013) introduces a principles based approach to accounting for joint arrangements. As the Fund is not a party to any joint arrangements, this standard will not have any impact on its financial statements.
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013) includes the disclosure requirements for all forms of other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. Application of this standard will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Fund's investments.
- IFRS 13, 'Fair value measurement' (effective 1 January 2013) aims to improve the consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Application of the new standard may impact the fair value measurement of certain investments and the type of information disclosed in the notes to the financial statements.
- IAS 27 (revised 2011) 'Separate Financial Statements' (effective 1 January 2013) is now a standard dealing solely with separate Financial Statements. Application of this standard will not affect any of the amounts recognised in the Fund Financial Statements.
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Fund is not a party to any joint ventures and has no associates.
- Amendment to IFRS 7, 'Financial instruments: Disclosures' on offsetting financial assets and financial liabilities (effective 1 January 2013) enhance current offsetting disclosures.

This is unlikely to affect the accounting for any of the Fund's current offsetting arrangements, but may require a number of additional disclosures in relation to those arrangements.

- Amendment to IFRS 1, 'First time adoption', on government loans (effective 1 January 2013) is not relevant to the Fund.
- Annual improvements 2011 (effective 1 January 2013) include minor changes to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The Fund does not expect that any adjustments will be necessary as of result of applying the revised rules.
- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities (effective 1 January 2014) provides an exemption to investment entities from consolidating controlled investees. The Fund has consistently adopted this treatment in previous years.
- IFRIC 20, 'Stripping costs in the production phase of a surface mine' (effective 1 January 2013), not relevant to the Fund.

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

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

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

Fair value of financial assets that are not quoted in an active market is determined by independent experts using valuation techniques, primarily earning multiples and net asset values. Management reviews these valuations used to determine fair value for appropriateness. The carrying value of unquoted financial assets may be materially different to the values received on disposal.

Investment properties

Investment properties are valued at fair value at balance date, determined by qualified independent professional valuers. The methods used to determine fair value is mainly based on 'the market value for highest and best use'. Savills (NSW) Pty Limited were engaged to undertake the valuation exercise in December 2012. Changes in fair value are recorded in the Statement of Comprehensive Income as part of the fair value gain.

Interest in controlled entities

The Fund's interest in controlled entities and entities in which it holds significant influence are treated as plan assets or investments of the fund and these investments are measured at fair value. The Fund does not consolidate or equity account for controlled entities or those entities in which it holds significant influence.

Receivable from the State

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

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

In addition, the State has a liability to the Fund for members contributions in relation to previous years (see note 12). The Fund has not recognised this as an asset and only recognises the receivable on the member's exit from the Fund.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 K '000	2011 K '000
3 INCOME		
The following categories of income were credited to the Statement of Comprehensive Income:		
INVESTMENT INCOME		
(a) Interest		
<i>Interest from:</i>		
Government securities	57,185	30,858
National Government loan	1,849	2,840
Debentures and/or loans	4,861	4,125
Term deposits	8,469	18,375
	<u>72,364</u>	<u>56,198</u>
(b) Dividends from investments		
Shares in listed equities	35,574	28,731
Shares in unlisted equities	73,046	68,161
	<u>108,620</u>	<u>96,892</u>
(c) Property rental		
Gross rental income	58,971	54,165
(d) Changes recognised in relation to assets at fair value		
Unrealised fair value gain/(loss) -		
Shares in listed equities	62,848	(151,016)
Shares in unlisted equities	141,979	76,669
Investment properties	(10,706)	(26,312)
Held to maturity financial assets	(45)	-
Realised fair value gain/(loss) -		
Listed investments	257	(1,300)
Investment properties	(628)	(1,317)
	<u>193,705</u>	<u>(103,276)</u>
(e) Foreign exchange losses		
Foreign exchange losses	(3,495)	(14,484)
	<u>430,165</u>	<u>89,495</u>
(f) Other income		
Directors' fees received	138	84
Gain on disposal of property, plant and equipment	304	84
Other income	13	112
	<u>455</u>	<u>280</u>

	2012 K '000	2011 K '000
4 INCOME TAX		
The income tax charged on total revenues less expenses and benefits paid is determined as follows:		
(a) Income tax expense		
Profit before tax	367,132	37,877
Prima facie tax at 25%	91,783	9,469
Permanent differences:		
Tax effect of:		
Accounting loss on fair value changes in investment properties	(48,556)	25,057
Dividend rebate	(27,155)	(24,217)
Depreciation on investment properties	(928)	(618)
Foreign exchange loss - capital account	874	3,621
Other	93	654
Prior year adjustments	-	-
Income tax expense for the year	<u>16,111</u>	<u>13,966</u>
(b) Provision for income tax		
Opening balance receivable	(9,108)	(7,528)
Current year income tax provision	19,633	12,880
Tax payments	(17,954)	(15,505)
Prior year adjustments	-	1,045
Closing balance at the end of the year	<u>(7,429)</u>	<u>(9,108)</u>
Current year income tax expense comprise:		
Current year income tax provision	19,633	12,880
Deferred tax expense	(3,522)	1,087
Prior year adjustments	-	-
	<u>16,111</u>	<u>13,967</u>
(c) Deferred tax liability		
Opening balance receivable	(9,108)	(7,528)
Opening balance at the beginning of the year	4,750	5,289
Movement during the year	(3,522)	1,087
Prior years adjustments	-	(1,626)
Closing balance (receivable)	<u>1,228</u>	<u>4,750</u>
Comprising:		
Interest receivable	1,800	970
Rent receivable	4,956	9,452
Consumable stores	18	15
Prepaid insurance	160	185
Depreciation	183	174
Fixed assets	(700)	(464)
Less:		
Employee benefits	(462)	(522)
Doubtful debts/loans	(1,008)	(2,344)
Insurance payments - death claims	(1,336)	(1,337)
Other accruals	(2,383)	(1,379)
Net deferred tax liability	<u>1,228</u>	<u>4,750</u>

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 K '000	2011 K '000		2012 K '000	2011 K '000
5 INVESTMENTS					
(a) Short term deposits					
Term deposits (maturities within 90 days) - onshore	142,345	340,167			
Term deposits (maturities within 90 days) - offshore	30,657	41,850			
	173,002	382,017			
(b) Held to maturity financial assets - onshore					
<i>Government Inscribed Stocks & Treasury Bills</i>					
Balance at the beginning of the year	566,235	391,458			
Purchases during the year	755,678	487,895			
Maturities during the year	(455,444)	(318,857)			
Accumulated amortisation of premium	7,232	5,739			
Balance at the end of the year	873,701	566,235			
Investments in government inscribed stock and treasury bills are carried at amortised cost. They are held to their maturity which varies between 2013 and 2029 and have a face value of approximately K866m. (2011: K562m). These deposits are held at an average coupon rate of 12% (2011: 11%).					
(c) Held to maturity financial assets - offshore					
Balance at the beginning of the year	12,490	11,799			
Withdrawals	(6,200)	(61)			
Gain due to the effect of exchange rate movements	-	752			
Fair value loss from change in net market value	(45)	-			
Impairment of financial assets	-	-			
Balance at the end of the year	6,245	12,490			
Other investments held to maturity are held at cost. They are held to maturity which varies between 2011 and 2013 and carry a fixed interest rate of 5% (2011: 5%)					
(d) Loans					
<i>Companies</i>					
Balance at the beginning of the year	60,067	48,390			
Advances made	12,170	16,385			
Payments received	(14,146)	(4,708)			
Loan balance at the end of the year	58,091	60,067			
Provisions for doubtful loans	(1,072)	(1,072)			
Balance at the end of the year, net of provisions	57,019	58,995			
The loans attract interest at an average rate of 10% (2011: 10%). Interest is repayable monthly and the principal amount is repayable in accordance with the respective loan agreements, with maturities varying between 2013 and 2018.					
(e) Financial assets - unlisted shares (onshore)					
Balance at the beginning of the year	724,277	588,425			
Investments during the year	79,273	36,497			
Prior year adjustment	-	42			
Fair value gain from change in net market value	136,392	99,313			
Balance at the end of the year	939,942	724,277			
(f) Financial assets - unlisted shares (offshore)					
Balance at beginning of year	72,359	101,476			
Investments during the year	131,106	19,070			
Divestments during the year	(5,904)	(25,543)			
Fair value gain/(loss) from change in net market value	5,542	(22,644)			
Balance at the end of the year	203,103	72,359			
(g) Financial assets - listed shares (onshore)					
Balance at the beginning of the year	666,566	735,966			
Investments during the year	9,474	25,476			
Divestments during the year	(32,327)	(20,277)			
Fair value gain/(loss) from change in net market value	51,536	(74,599)			
Balance at the end of the year	695,249	666,566			
(h) Financial assets - listed shares (offshore)					
Balance at the beginning of the year	168,981	206,617			
Investments during the year	76,895	63,861			
Divestments during the year	(55,311)	(25,079)			
Fair value gain/(loss) from change in net market value	11,312	(76,418)			
Balance at the end of the year	201,877	168,981			
Total financial assets at fair value	2,040,171	1,632,184			
(i) Investment properties					
<i>Properties at fair value</i>					
Balance at the beginning of the year	378,535	438,272			
Additions	384	7,885			
Transfer from capital work in progress	152	4,712			
Transfer to assets held for sale	-	(27,367)			
Disposals and write offs	(2,878)	(17,932)			
Depreciation on investment properties	(602)	(723)			
Fair value loss from change in net market value	(11,030)	(26,312)			
Balance at the end of the year	364,561	378,535			
<i>Capital work in progress - properties under construction (at cost)</i>					
Balance at the beginning of the year	59,299	38,499			
Additions	28,699	28,458			
Transfer to properties	(152)	(4,712)			
Disposals and write offs	(156)	(2,946)			
Balance at the end of the year	87,690	59,299			
Total investment properties	452,251	437,834			
TOTAL INVESTMENTS	3,602,389	3,089,755			
Amounts recognised in Statement of Comprehensive Income for investment properties:					
Rental income	58,971	54,165			
Direct operating expenses	(18,022)	(18,075)			
Net rental income	40,949	36,090			

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

5. INVESTMENTS *continued...*

(j) Asset Allocation	Portfolio Value (K million)		Percentage Holdings	
	31-Dec-12	31-Dec-11	31-Dec-12	31-Dec-11
Onshore				
Fixed Interest	874	566	25	21
Equities				
Listed	695	667	20	24
Unlisted	940	724	27	26
Property	452	438	14	17
Assets held for sale	24	27	-	-
Loans and debentures	57	59	2	2
Offshore				
Fixed Interest	6	12	-	-
Equities				
Listed	202	169	6	6
Unlisted	203	72	6	3
Total excluding short-term deposits	3,453	2,735	100	100

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

Investment	Type	% Shareholding	% of net assets 2012	Value K(million) 2012	Value K(million) 2011
Bank South Pacific Ltd	Listed equity	9.92	10.1	379.7	356.2
Bank of PNG	GIS & T/Bills	N/A	23.3	873.7	566.2
SP Brewery	Unlisted equity	20	5.4	202.4	186.9

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

5. INVESTMENTS *continued...*

(l) Valuation methodology and earnings multiples applied

Unlisted equities	Industry	Valuation Method	Earnings Multiple	% shareholding 2012	Value K(million) 2012	% shareholding 2011	Value K(million) 2011
Alotau International Hotel Ltd	Hotel	Net Assets	-	34	5.2	34	4.0
Brian Bell & Company Ltd	Wholesale/retail	CME	3.0	34	78.6	34	55.2
Capital Insurance Group Ltd	Insurance broker	Net Assets	-	34	4.6	34	3.4
Capital Way Holdings Ltd	Telecommunications	Net Assets	-	10	8.6	10	8.6
Coastwatchers Court Ltd	Property	Net Assets	-	65	24.7	65	21.0
Gazelle International Hotel Ltd	Hotel	Net Assets	-	60	21.0	65	23.4
Hunter Ltd	Property	Net Assets	-	30	12.3	30	11.0
Kumul Hotels Ltd	Hotel	CME	3.5	55	106.4	55	95.2
Moki NO.10 Ltd	Real Estate	Net Assets	-	100	22.8	100	23.3
Morobe Front Holdings Ltd	Property - Development	Net Assets	-	100	6.4	100	6.4
Pacific Building Mgt Services Ltd	Building maintenance	Net Assets	-	50	1.2	50	0.7
Paradise Foods Ltd	Food & Snacks	CME	2.3	85	164.0	85	130.2
PNG Water Ltd	Utilities	DCF	-	30	18.0	30	16.7
Post Courier Ltd	Media	CME	3.3	21	8.0	21	5.3
SP Brewery Ltd	Brewery/manufacturing	CME	3.3	20	202.4	20	186.9
Toyota Tsusho (PNG) Ltd - Ela Motors	Motor vehicle	CME	3.0	4	16.2	4	12.4
Westpac Bank (PNG) Ltd	Banking & finance	CME	6.0	7	103.2	7	62.7
OPH Ltd **	Property	Cost	-	65	45.0	65	39.2
Waigani Asset Ltd **	Property	Cost	-	65	18.6	65	18.6
					867.2		724.2

Net assets - net assets on a going concern

CME - current maintainable earnings

DCF - discounted cash flows

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

Unlisted shares are valued at fair value at balance date, as determined by registered independent professional valuers, Deloitte Touche Tohmatsu. The main factors used in determining fair value include a combination of dividend yield, net tangible asset backing and future maintainable earnings as appropriate. Changes in fair values are recorded in the Statement of Comprehensive Income as part of the fair value gain.

m) Sensitivity analysis

Particulars	Movement to share price by +/- 10%	Movement to exchange rates by +/- 10%	Movement to interest rate by +/- 1%
Impact to Total portfolio in kina value	110.0	70.1	11.1
Impact to total portfolio in percentage	3.2	2.0	0.3

If the share price moves up or down by 10% the investment portfolio will increase or decrease by K90.3 million or 3.2%.

If the exchange rate moves up or down by 10% the investment portfolio will increase or decrease by K51.4 million or 2.0%.

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

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

5. INVESTMENTS *continued...*

(n) Fair value estimation

The following fair value measurement hierarchy applies:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, derived from prices) or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Fund's financial assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1	Level 2	Level 3	Total Balance
	K'000	K'000	K'000	K'000
Assets				
Financial assets at fair value through profit or loss				
Listed securities	897,126	-	-	897,126
Unlisted securities	-	-	1,143,045	1,143,045
Total Assets	897,126	-	1,143,045	2,040,171
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	-	-
Total Liabilities	-	-	-	-

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

- Quoted market prices or dealer quotes for similar instruments
- Other techniques such as multiples of future maintainable earnings, net asset values or discounted cash flow analysis are used to determine value of the remaining financial instruments.

Level 3 instruments consist of unlisted investments. A reconciliation of the changes in these investments for the year ended 31 December 2012 is presented in note 5 (d) and (e).

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

	2012 K'000	2011 K'000
6 CASH AND CASH EQUIVALENTS		
Cash on hand	11	10
Bank - onshore	17,483	26,532
Banks - offshore	22,751	4,980
	40,245	31,522

7 RECEIVABLES		
Rental debtors	19,826	37,806
Less: Provision for doubtful debts	(2,958)	(8,056)
	16,868	29,750
Staff housing scheme and advances	532	788
Sundry debtors	6,144	14,214
PNG State share of benefits	71,985	70,494
Prepayments and GST refundable	5,811	9,934
Accrued interest income	7,198	3,878
	108,538	129,058

(i) Impaired rental debtors

As at 31 December 2012, rental debtors of K2.958 million (2011: K8.056 million) relating to rental debtors were considered impaired and were provided for by management.

The ageing of these receivables is as follows:

3 to 12 months	719	-
Over 12 months	2,239	8,056
	2,958	8,056

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

Opening balance	8,056	10,070
Provision for receivables impaired	-	-
Recoveries	(5,098)	(2,014)
	2,958	8,056

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

(ii) Past due but not impaired

As at 31 December 2012, rental debtors of K6.596 million (2011: K13.716 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables are as follows:

3 to 12 months	-	-
Over 12 months	6,596	13,716
	6,596	13,716

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

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

8. PROPERTY, PLANT AND EQUIPMENT

Non-investment fixed assets used in the operations of the Fund are included in property, plant and equipment, as set out below. Property, plant and equipment associated with investment properties are included under Investments. Refer Note 5(i)

The valuation of land and buildings is at fair value being the amount for which the asset could be exchanged between willing parties in an arm's length transaction based on current market prices in an active market for similar properties in the same location and condition. The 2012 Commercial, Industrial and Residential Property valuations were carried out by registered valuers Savills (NSW) Pty Ltd. The revaluation decrement of K1.625 million (2011: K0.067 million surplus) was applied against the asset revaluation reserve (note 11(e)).

	HOUSING		OFFICE BUILDINGS			VEHICLES		Total K'000
	Land & Buildings K'000	Plant & Equipment K'000	Land & Buildings K'000	Furniture & Fittings K'000	Plant & Equipment K'000	Motor Vehicles K'000		
2012								
COST OR REVALUATION								
At 1 January 2012	1,897	379	7,999	2,357	5,021	2,071	19,724	
Additions	-	3	-	34	228	593	858	
Revaluation increment	-	-	(1,625)	-	-	-	(1,625)	
Works in progress	-	-	-	-	42	-	42	
Disposal	-	(6)	-	(7)	(4)	(933)	(950)	
At 31 December 2012	1,897	376	6,374	2,384	5,287	1,731	18,049	
ACCUMULATED DEPRECIATION								
At 1 January 2012	221	133	456	1,742	3,428	767	6,747	
Depreciation	15	35	1	72	275	439	837	
Disposals	-	-	-	(1)	-	(483)	(484)	
At 31 December 2012	236	168	457	1,813	3,703	723	7,100	
NET BOOK VALUE								
At 31 December 2012	1,661	208	5,917	571	1,584	1,008	10,949	
2011								
COST OR REVALUATION								
At 1 January 2011	2,830	449	7,932	2,314	4,569	1,653	19,747	
Additions	-	4	-	43	416	773	1,236	
Revaluation decrement	-	-	67	-	-	-	67	
Works in progress	-	-	-	-	47	-	47	
Disposal	(933)	(74)	-	-	(11)	(355)	(1,373)	
At 31 December 2011	1,897	379	7,999	2,357	5,021	2,071	19,724	
ACCUMULATED DEPRECIATION								
At 1 January 2011	229	145	455	1,666	3,162	567	6,224	
Depreciation	18	46	1	76	267	450	858	
Disposals	(26)	(58)	-	-	(1)	(250)	(335)	
At 31 December 2011	221	133	456	1,742	3,428	767	6,747	
NET BOOK VALUE								
At 31 December 2011	1,676	246	7,543	615	1,593	1,304	12,977	

* Plant and equipment include K88,936 works in progress

There are no conditions that indicate impairment of property, plant and equipment as at 31 December 2012 and 31 December 2011.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 K '000	2011 K '000
9 CREDITORS		
Creditors	25,729	18,834
Other creditors	2,780	2,667
Deposits on sale of properties	806	-
Rental bond fees	3,921	3,607
Member insurance payable	5,995	6,097
State-share received in advance	(344)	338
State pension liability	6,644	6,644
	45,531	38,186

10 ASSETS HELD FOR SALE

Properties held for sale	24,047	27,367
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Certain properties of the fund are held for the purpose of sale. These sales are expected to be completed within a period of a year.

11 LIABILITY FOR ACCRUED BENEFITS AND RESERVES

Liability for accrued benefits is represented by contributor funds, contributor housing withdrawals, pensioner funds and retirement savings accounts. Contributor funds are credited with contributions on a cash received basis. For 2012, interest allocated to contributor funds was determined on member balances at a rate of 11% (2011: 2%) based on a daily time weighted basis.

Contributor housing withdrawals comprise of withdrawals from contributor funds, which are repaid by way of additional contributions at a minimum rate of 2% and from member's entitlements at the time of exit where the advance is not fully restored at the time of exit.

(a) Contributor Funds		
Balance at the beginning of the year	3,198,068	3,018,079
Add:		
Members' contributions received during the year	119,087	104,126
Employer contributions received during the year	199,970	193,834
Transfers from other funds	3,009	889
Contribution income on exit payments	262,238	263,098
	584,304	561,947
Interest allocation	350,259	55,237
	4,132,631	3,635,263
Deduct:		
Member benefits paid during the year *	(184,677)	(171,996)
Member benefit expense - on exit	(262,238)	(263,098)
Unemployment benefits paid	(2,795)	(2,101)
	(449,710)	(437,195)
Balance at the end of the year	3,682,921	3,198,068
* Benefit payment details:		
Resignation	-	-
Retirement	(159,229)	(154,574)
Retrenchment	-	-
Death	(25,448)	(17,422)
	(184,677)	(171,996)

	2012 K '000	2011 K '000
11 LIABILITY FOR ACCRUED BENEFITS AND RESERVES <i>continued...</i>		
(b) Contributor housing withdrawals		
Balance at the beginning of the year	(71,224)	(71,281)
Advances or member withdrawals	(3,718)	(6,979)
Repayments received	6,384	7,036
Balance at the end of the year	(68,558)	(71,224)
(c) Pensioner funds		
Balance at the beginning of the year	15,849	18,321
Payments during the year	(2,214)	(2,472)
Transfer to general reserves	-	-
Balance at the end of the year	13,635	15,849
TOTAL CONTRIBUTOR & PENSIONER FUNDS	3,627,998	3,142,694
(d) Retirement savings account		
Balance at the beginning of the year	62,984	48,827
Transfers during the year	32,051	38,799
Payments during the year	(26,107)	(24,642)
Prior years adjustments	(98)	-
	68,830	62,984
Interest allocation for RSA is included in Note 11(a).		
TOTAL CONTRIBUTOR FUNDS	3,696,827	3,205,678
(e) Reserves		
Retained earnings and general reserve	23,837	23,074
Section 35(2)(c) reserve	21,278	21,278
Revaluation reserve - property, plant and equipment	1,447	3,073
	46,562	47,425
TOTAL LIABILITY FOR ACCRUED BENEFITS AND RESERVES	3,743,390	3,253,102

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

12 FUNDING ARRANGEMENTS

At the end of 2012 the future unfunded liability of the State to members is estimated to be K1,972 million (2011: K2,038 million), which is not included in the "Liability for Accrued Benefits". Previously, the values had been internally generated estimates but are now system generated from the member database giving rise to more reliable and accurate values. Efforts are being made to have the State reduce this unfunded liability.

(a) Exiting members

As members exit the Fund, the State is legally obliged to match the benefit accruing to the member from the member's contributions in the ratio of 8.4% to 6%. The total benefit is paid to the member by the Fund, with the State reimbursing the Fund for its share. During 2012 the State fell behind in its obligations in this area by K72 million (see note 7).

(b) Employer contributions

From 2003, employers commenced remitting directly to the Fund the full 8.4% employer contributions on behalf of their members. The State was only required to contribute 25% of the 8.4% employer contribution for 2003 and 2004, 50% for 2005 and 2006, 75% for 2007 and 2008 and 100% from 2009 onwards. In 2012 the State started remitting the 8.4% employer contributions on a fortnightly basis and therefore did not owe the Fund at year ended 31 December 2012.

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

13 FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

(i) Foreign exchange risk

The Fund is exposed to foreign exchange risk in relation to international investments and deposits. The Fund does not have any specific hedging policies to mitigate this risk but the Fund does monitor the impact of this risk on an ongoing basis. Approximately 12% (2011:9%) of investments are offshore investments subject to foreign exchange risk.

(ii) Price Risk

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

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

(iii) Cash flow and interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members.

The Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

(b) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to rental customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Fund has no significant concentrations of credit risk with the exception of the Government of PNG.

(c) Net Fair Values of Financial Assets and Liabilities

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

(d) Liquidity risk

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

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

13 FINANCIAL RISK MANAGEMENT *continued...*

(d) Liquidity risk *continued...*

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

Particulars	Less than	1-2	2-5	over 5	Total
	1 year	years	years	years	
31 December 2012					
Benefit payable	1,601	-	-	-	1,601
Creditors and other liabilities	45,531	-	-	-	45,531
	47,132	-	-	-	47,132
31 December 2011					
Benefit payable	1,663	-	-	-	1,663
Creditors and other liabilities	38,186	-	-	-	38,186
	39,849	-	-	-	39,849

14 EVENTS SUBSEQUENT TO BALANCE SHEET DATE

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

14 May 2013 – K73.8 favorable movement (Domestic: Gain K 30.7m and International gain K43.1)

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

15 NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents

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

	2012 K '000	2011 K '000
Cash and cash equivalents (note 6)	40,245	31,522
Short term deposits (note 5a)	173,002	382,017
	213,247	413,539

Reconciliation of Cash flow from Operations

with Total Revenues less expenses and benefits paid

	2012	2011
Total revenues less expenses after income tax	351,021	23,911
Add/(less) non-cash items:		
Depreciation and amortisation	1,439	1,581
Bad and doubtful loans	(250)	-
Loss on disposal of investment property assets	628	1,317
Gain on disposal of property plant and equipment	(304)	(84)
(Gain)/loss on sale of shares in listed & unlisted equities	(257)	1,300
Fair value (gain)/loss arising from changes in net market value of investments	(194,121)	100,659
Foreign exchange loss	4,253	10,876
Impairment loss on financial assets	(45)	-
Net cash provided by operating activities before change in assets and liabilities	162,364	139,560

	2012 K '000	2011 K '000
Changes in assets and liabilities during the year:		
Decrease/(Increase) in receivables	13,942	(17,892)
Decrease in benefits payable	(62)	(37)
Increase in trade and other creditors	7,345	4,169
Decrease/(Increase) in current income tax refundable	1,679	(1,580)
Decrease in deferred income tax liabilities	(3,522)	(539)
Decrease in provisions	(239)	(418)
Cash flow from operating activities	181,507	123,263

16 RELATED PARTY DISCLOSURES

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

Sir Nagora Bogan, KBE
 Mr. Greg Taylor (Resigned 30 October 2012)
 Ms. Marianna Ellingson
 Mr. Kerenga Kua (Resigned 17 May 2012)
 Mr. Leon Buskens (Appointed 18 June 2012)
 Professor Albert Mellam (Appointed 25 August 2012)
 Mr. Bruce Scott (Appointed 25 August 2012)
 Professor David Kavanamur (Appointed 25 August 2012)
 Anthony Smare (Appointed 25 August 2012)

16. RELATED PARTY DISCLOSURES *continued...*

(b) Directors' remuneration comprises an annual stipend and sitting fees. No bonus or other monetary benefits were paid during the year. Airfares and motor vehicles are provided for non Port Moresby residents when meetings are conducted in Port Moresby.

Name of director	Role	Total Remuneration	Board meetings attended	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee meetings attended	Investment Committee meetings attended	Membership Committee meetings attended
Sir Nagora Bogan	Chairman	K101,434	5/5	4/4	n/a	11/12	n/a
Kerenga Kua	Deputy chairman	K30,286	1/1	n/a	n/a	n/a	1/2
Greg Taylor	Director	K151,084	3/3	n/a	2/2	12/12	n/a
Leon Buskens	Director	K35,871	3/3	n/a	n/a	2/2	2/2
Marianna Ellingson	Director	K62,273	5/5	n/a	4/4	n/a	n/a
Bruce Scott	Director	K49,412	2/2	n/a	n/a	2/2	n/a
David Kavanamur	Director	K22,052	2/2	n/a	n/a	n/a	n/a
Albert Mellam	Director	K23,052	2/2	n/a	1/2	n/a	n/a
Anthony Smare	Director	K25,052	2/2	1/2	n/a	n/a	n/a

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

16. RELATED PARTY DISCLOSURES *continued...*

(c) Directorship disclosure

The remuneration package for the Managing Director is determined by the Board of Directors while senior management packages are determined by the Managing Director having regard to among other factors, current market data.

Name	Role	Nature of Interest	Company
Andrew Esler	Acting Managing Director	Director as NSL Nominee (Chairman)	Nambawan Savings & Loans Society Ltd
Wayne Smith	General Manager Commercial	Director as NSL nominee	Brian Bell & Company Ltd Coastwatchers Court Ltd Fernvale Limited Gazelle International Hotel Ltd Hunter Ltd Kumul Hotels Ltd Moki No.10 Ltd Morobe Front Holdings Ltd OPH Limited Pacific Building Management Services Ltd PNG Water Ltd Waigani Asset Limited
Paul Yangen (Resigned - 9 November 2012)	General Manager Finance and Administration	Director as NSL nominee Director	Brian Bell & Company Ltd Fernvale Ltd Hunter Ltd Morobe Front Holdings Limited Nambawan Savings & Loan Society Ltd Pacific Building Management Services Ltd Paura Limited Southern Hires Limited
Patricia Taureka	Company Secretary Manager Legal	Director as NSL nominee	Nambawan Savings & Loan Society Ltd Alotau International Hotel Capital Insurance Group

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

16. RELATED PARTY DISCLOSURES *continued...*

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

Compensation

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

	2012 K '000	2011 K '000
Salaries	1,668	3,055
Leave accruals	419	451
	2,087	3,506

- (d) During the financial year the Fund earned interest on term deposits of K523,232 (2011:K566,847) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager, Kina Funds Management. As at 31 December 2012, the term deposits placed with Kina Finance Limited was K39.39 million (2011: K18.77 million). These transactions were carried out on commercial terms and all on cash basis for an average of 28 days placements. The Kina group also provides Investment Management and Fund Administration services, related fees paid to the Kina group amounted to K8.9m (2011: K8.6 m) and K7.6m (2011: 4.6 m) respectively.

Greg Taylor, a director of the Trustee company, is also director of Kina Asset Management Limited.

- (e) Nambawan Super holds controlling equity interests and associated Director positions in the following unlisted entities based in PNG.

Coastwatchers Court Ltd
Gazelle International Hotel Ltd
Kumul Hotels Limited
Moki No. 10 Ltd
Morobe Front Holdings Ltd
Nambawan Savings & Loan Society Ltd
OPH Ltd
Pacific Building Management Services Ltd
Paradise Foods Ltd
Waigani Asset Ltd

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

17. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

(a) Related interest on pensions over invoiced to the State

The Fund over invoiced the Independent State of Papua New Guinea ("the State") for its share of pension payments and therefore a provision based on management's best estimates of K6.6 million was made as at 31 December 2003. This liability is included in note 9 to the financial statements. The Fund has a present obligation to repay the State the related interest that has been earned by it, arising from its over-invoicing of the pension payments. As the amount of the interest earned by the Fund from over invoicing the State can only be determined subsequent to a full review of all pension payments received from the State, no further provision has been made as at balance sheet date.

(b) Litigation Claims

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

(c) Commitments for Capital Expenditure

	2012 K '000	2011 K '000
Amounts with firm commitments, and not reflected in the accounts	28,900	10,961

(d) Commitments for Investment Expenditure

The Fund has committed to invest in an Offshore Fund which makes capital calls on an as needs basis. Committed but uncalled amounts in relation to this equity investment are \$US8.6 million at 31 December 2012 (2011: \$US9 million).

Notes to and forming part of the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012

18. DIRECTORS' DISCLOSURE

Name	Nature of Interest	Companies
Sir Nagora Bogan, KBE	Director as NSL nominee Director and Shareholder Shareholder Director Director - Provision of services NSL strategic plan Provision of Multimedia Services	Bank South Pacific Ltd Paradise Foods Holdings Ltd Paradise Foods Ltd In Touch Media Ltd Kina Assets Management Ltd Ahi Holdings Ltd Mapai Transport Ltd Peoples' Advocacy Ltd Coprez Holdings Ltd Coprez Communications Ltd
Kerenga Kua (Resigned 17 May 2012)	Director and Shareholder - tenant Mogoru Moto Building Director and Shareholder Director Shareholder Tenant Mogoru Moto Building Provision of Legal services	Fikor Ltd Dream Inn Endeyaydo Ltd Finance Corporation Ltd National Petroleum Company PNG Ltd Kina Assets Management Ltd President PNG Law Society Nambawan Super Ltd
Gregory Taylor (Resigned 30 October 2012)	Director as NSL nominee Director and Shareholder Director	Kumul Hotels Ltd Paradise Foods Holdings Ltd Paradise Foods Ltd TFG International Ltd (Australia) Kina Assets Management Ltd
Marianna Ellingson	Director as NSL nominee	Alotau International Hotel Kumul Hotels Ltd
Leon Buskens (Appointed 18 June 2012)	Director as NSL nominee Independent Director Director/Shareholder	Alotau International Hotel Coastwatchers Court Ltd Gazelle International Hotel Ltd SP Brewery Ltd Telikom PNG Ltd ANZ Banking Group (PNG) Ltd Capital Insurance Group Investment Promotion Authority Kopkop College

Name	Nature of Interest	Companies
Mr Bruce Scott (Appointed - 25 August 2012)	Director	NBC Capital Nominee
Professor Albert Mellam (Appointed - 25 August 2012)	Director	Investment Promotion Authority
Professor David Kavanamur (Appointed - 25 August 2012)	Chairman Chairman Independent Director	Rabul Microbank Ltd. Motor Vehicle insurance Limited Institute of National Affairs
Mr Anthony Smare (Appointed - 25 August 2012)	Shareholder Director/Shareholder Shareholder Director Director/Shareholder Director Indirect Shareholder	Credit Corporation (PNG) Ltd City Pharmacy Limited Airlines PNG Barrick Gold PNG Subsidiaries Smare Family companies Nationwide Microbank SP Brewery Limited

Except for the Managing Director, any directors' fees paid to Directors for being Directors as NSL nominees on certain boards are paid direct to the Directors.

19 CAPITAL MANAGEMENT

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

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

Declaration by Trustee and Management

FOR THE YEAR ENDED 31 DECEMBER 2012

DECLARATION BY TRUSTEE


In our opinion the accompanying Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members Funds, Statement of Cash flows, together with the Notes to and forming part of the Financial Statements, are drawn up so as to present a true and fair view of the state of affairs of the Fund as at 31 December 2012, and its performance for the year then ended.

The Trustee has satisfied itself that the Nambawan Super Board has:

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

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

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



SIR NAGORA BOGAN, KBE
Chairman of Board



ANTHONY SMARE
Director

Dated at Port Moresby the 17 day of May 2013

DECLARATION BY MANAGEMENT

In our opinion the accompanying Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members Funds, Statement of Cash flows, together with the Notes to and forming part of the Financial Statements, are drawn up so as to present a true and fair view of the state of affairs of the Fund as at 31 December 2012, and its performance for the year then ended.

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

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

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

For and on behalf of Nambawan Super Management



ANDREW ESLER
Acting Managing Director



REBECCA HABITEIN
Acting Manager Finance

Dated at Port Moresby the 17 day of May 2013

<p>NAMBAWAN SUPER - HEAD QUARTERS Level 6, Era Rumana Building, Champion Parade, Down Town PO Box 483, Port Moresby, NCD</p> <p>General Enquiries: Toll Free: 180 1011 Ph: 309 5200 Fax: 321 4406 Email: nslpom@nambawansuper.com.pg</p>	<p>ALOTAU Ground Level, Chescorp Building, Sec 21 Lot 10 PO Box 272, Alotau - Milne Bay Ph: 641 0671 Fax: 641 0587 Email: nslalotau@nambawansuper.com.pg</p>	<p>BUKA Suite 2, Level 1, Matanhei Building PO Box 19 Buka, Autonomous Region Bougainville Ph: 973 9807 Fax: 973 9820 Email: nslbuka@nambawansuper.com.pg</p>	<p>GOROKA Suite 32, Level 1, Gouna Centre, Elizabeth Street PO Box 757, Goroka, Eastern Highlands Province Ph: 532 1224 Fax: 532 1918 Email: nslgoroka@nambawansuper.com.pg</p>
<p>FUND ADMINISTRATOR Kina Investment & Superannuation Services PO Box 1141, Port Moresby, NCD Ph: 180 1414 / 308 3888 Fax: 308 3899 Email: super@kina.com.pg</p>	<p>KAVIENG Unit 1, Durima Building PO Box 567, Kavieng, New Ireland Province Ph: 984 2611 Fax: 984 2612 Email: nslkavieng@nambawansuper.com.pg</p>	<p>KIMBE Level 1, Hamamas Trading Building PO Box 593, Kimbe, WNB Ph: 983 5450 Fax: 983 5101 Email: nslkimbe@nambawansuper.com.pg</p>	<p>KIUNGA Minifanta Building Box 379, Kiunga – Western Province Ph: 649 1744 Fax: 649 1313 Email: nslkiunga@nambawansuper.com.pg</p>
<p>INVESTMENT MANAGER Kina Funds Management Limited PO Box 1141, Port Moresby, NCD Ph: 308 3888 Fax: 308 3899 Email: Funds@kina.com.pg</p>	<p>KOKOPO Level 1, Tropicana Building PO Box 608, Kokopo, East New Britain Province Ph: 982 8900 Fax: 982 8901 Email: nslrabaul@nambawansuper.com.pg</p>	<p>KUNDIAWA PO Box 223, Kundiawa Email: nslkundiawa@nambawansuper.com.pg</p>	<p>LAE Ground Floor, Vele Rumana Building PO Box 1289, Lae - Morobe Province Ph: 472 2272 Fax: 472 4536 Email: nslae@nambawansuper.com.pg</p>
	<p>MADANG Suite 14, Level 1, Beckslea Plaza PO Box 142, Madang - MP Ph: 422 0244 Fax: 422 0255 Email: nslmadang@nambawansuper.com.pg</p>	<p>MANUS Lorengau Engineering PO Box 39, Lorengau Ph: 970 9530 Fax: 970 9552 Email: nslmanus@nambawansuper.com.pg</p>	<p>MENDI Suite 1, Level 1, Kima Building, Genda Crescent PO Box 243, Mendi - Southern Highlands Ph: 549 2549 Fax: 549 2459 Email: nslmendi@nambawansuper.com.pg</p>
	<p>MT HAGEN Suite 1, Ground Floor, Gapina Building, Hagen Drive PO Box 1574, Mt Hagen - Western Highlands Ph: 542 1182 Fax: 542 1186 Email: nslhagen@nambawansuper.com.pg</p>	<p>POPONDETTA Ground Floor, OPIC Building PO Box 87, Popondetta, Oro Province Ph: 629 7870 Fax: 629 7818 Email: nslpopondetta@nambawansuper.com.pg</p>	<p>VANIMO Room 2, MRA Building PO BOX 416 Vanimo, Sandaun Province Ph: 457 0110 Fax: 457 0111 Email: nslvanimo@nambawansuper.com.pg</p>
	<p>WABAG PO BOX 85 Wabag Email: nslwabag@nambawansuper.com.pg</p>	<p>WEWAK Room 14, Level 1 - Neenere Building, Cathedral Road PO Box 1084 Wewak, East Sepik Ph: 456 1066 Fax: 456 1128 Email: nslwewak@nambawansuper.com.pg</p>	



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