



# Annual Report 2012

DEFENCE FORCE  
RETIREMENT BENEFITS FUND







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# Chairman's Statement



## Dear Members

This 2012 annual report has set a number of important financial milestones for the Fund, in terms of growth and security. The investment strategy which favours domestic stocks has been rewarded with our fund once again achieving double digit growth during the year.

At the reporting date, the Fund has achieved a net asset value of K399.9 million and returned an after tax net surplus of K37.1m. This is a significant achievement in the post global financial crisis era and reflects the economic drive that is continuing to stimulate and grow the PNG economy.

As a result, I am pleased to announce that in 2012 we have achieved an interest crediting rate of 10%, which is more than doubled the rate achieved in 2011. In last year's annual report I warned members that we could not rely on double digit returns in the current unstable global economy and I would like to repeat the same sentiments to members again.

The economic instability which still adversely impacts on the economies of the northern hemisphere nations is still a great concern, however the continued interest and investment committed to PNG projects and industries continues to grow which has underpinned the returns that have been achieved by the Fund.

PNG continues to benefit from the support of direct investment into the diversity of mining, agricultural, technology and infrastructure ventures and the fact that our export markets will benefit from the growth in exports, highlighted by the first delivery of LNG gas in the near future.

I urge members to take the time to review the 2012 highlights review and the report provided by our investment fund manager as it provides an encouraging forecast for the future of the fund.

The Fund during the year paid benefits in excess of K10.6m.

## Operational Summary:

While it is necessary to remind members that PNG is now an active player in the global economy and a number of major nations in Europe, North America and parts of Asia continue to suffer severe economic trauma- the growth of our Fund is in line with the best achievements of the growth nations the majority of whom are currently keen to invest and trade with PNG.

PNG and its government and economy continue to deliver stability and growth opportunities. Whilst the nation has its critics, the decision of the Fund's investment strategy to support local operations when they achieve or surpass the risk management assessment criteria adopted by the Board on each and every financial decision.

The PNG economic growth reached 9.2% in the year putting the growth rate above that achieved by the majority of developed companies in the region who appeared to have reached a plateau during the year in review.

Our fund has been rewarded by the strength of this year's domestic financial outcomes and as a result International investments accounted for just 5% of the total portfolio return and this was achieved by the performance of international listed equities.

But the global issues continue to have dramatic impacts on the economies of many developed and developing countries as nations battle the international challenges of debt, significant social issues such as unemployment and uncertainty in the future.

However now more than five years on from the GFC there is a greater commitment by all nations to instil more confidence in the domestic economies of all nations, to create a more harmonious investment environment and foster trade and growth.

Your Board continues to receive continuous briefings on sound investment opportunities and takes confidence that despite the many logistical issues of PNG as a developing nation, the Pacific area nations are all proactive in growing their own and regional economies.

PNG has demonstrated that it is a progressive economy with strong growth in domestic opportunities as a result of new technology improving communications and exposing the domestic marketplace with new investment opportunities as a result.

Your Fund has benefitted from the continued stability of the national government and the commitment at all levels to improve the opportunities for all Papua New Guineans through better communications and education.

As a Board we have continued our commitment to the core corporate responsibilities of management and the governance processes associated with the day to day obligations of the Fund in terms of investments and member services. Details of our corporate governance commitment are contained in this report for the benefit of members.

This report details the continuing operations of the Fund during the year and the need to remain prudent in the operations of the investment strategies as we are conscious of the day by day changes in market conditions across the globe.

The financial results for the year are summarised below.

		2011	2012
Net surplus after tax	K(m)	10.0	37.1
Net Fund assets	K(m)	362.5	399.9
Management expense ratio	%	1.71	2.08
Net asset growth	%	4.00	10.31

## Economic Outlook:

The economic outlook for PNG continues to be encouraging. Despite a significant overrun of development costs, the Exxon LNG project remains on schedule to export its first cargo to Asia during 2014. The world class project has stimulated keen international investor interest in energy. Infrastructure, IT opportunities, further mining industry opportunities and new agricultural industry prospects.

As a result of the LNG project and its multi billion investment, international interest from Pacific Rim nations and Australia and New Zealand has ensured significant growth in an increasingly wider range of opportunities.

Also on the domestic scene, local companies and investors have emerged to take up opportunities in a wide and diverse range of goods and services production. PNG infrastructure projects continue to get rolled out as the nation tackles the problems of the nation's rugged terrain and the diversity of island activities with a real. The development of new IT initiatives in communications are supporting major commitments to land, sea and air transport systems to positively breakdown the chronic handicaps facing by many PNG nationals of isolation.

The education industry continues to grow under strong leadership and commitment by the national and regional Governments.

Importantly for future investments, PNG's financial services resources are also developing with strong regional competition supporting a diversity of new opportunities.

The exposure of PNG to new global economies has resulted in the continuing development and growth of the tourist industry in PNG. Viewed in many parts of the world as an ancient land of beauty and isolation, PNG is seeing regular visits by cruise liners bringing passengers from all over the world and also the challenges of the PNG land and seascape are encouraging and exciting international visitors interested in adventure tourism and exploration of the natural environment of both land and sea attractions.

Your Board will continue to responsibly look for domestic investment opportunities and work closely with our advisor groups to ensure that we responsibly continue to grow the income from our investment assets and responsibly manage members' contributions and assets for long term and sustained growth of the Fund.

## Investments:

The Investment Fund Manager has reported that generally all investment classes have exceeded their investment benchmarks and this was reflective of better market conditions, sound climate from the economies of PNG and Australia and prudent management of the Fund by the Trustee.

The report outlines some of the trading details undertaken. It should be noted that during the year the Fund adopted a strategy to reduce the Fund's large exposure to BSP Holdings, however this one investment still accounts for 30 per cent of total investment.

The Fund achieved an investment gain of K49.91m which represents a return of 13.95%.

The report details that the increase in the portfolio was mainly attributed to the performance of domestic and international listed equities as well as valuation gains from our domestic unlisted equities and properties.

## Membership

The membership has grown by 5% due to the enlistment of 150 servicemen and women since last August bringing the total number of contributors to 2800.

There were 40 benefit payments made to members during the year totalling K962,955.47 comprising of 23 refunds and 17 commutation. Thus 17 of these members continued with the fund as pensioners.

At the end of the year in review there were 1815 active pensioners receiving an average fortnightly pension of K228.27. All pensions increased by 9.7% comprising a 5% for 2012 through the annual indexation and further 4.7% increase following the actuarial review to adjust pensions for years 2009, 2010 and 2012. The full details are outlined in the Fund Manager's report contained in this report.

## Risk Management

We continue to work on ensuring that our risk management program and the strategies associated with its operation are reviewed regularly. As a responsible investment culture, we remain constantly alert to the economic uncertainty that still affects much of the world. Whilst we maintain a conservative approach to investment, we recognise that in today's 21st century, there is an ever changing environment which can have dramatic impacts on the future of businesses, industries and national economies. Your fund receives constant advice from senior advisors and we continue to employ a sound professional fund manager and sound management practices in the care and development of the Fund.

We recognise that PNG is an emerging nation with very positive opportunities for new opportunities to be brought to market. Any investment considered by the Fund is subject to vigorous assessment by our team of advisors before being presented formally for your Board to assess and make an investment decision. Whilst we have a current policy of favouring domestic investment, the risk management processes essentially provide the ultimate criteria in any decision making on such matters.

## Moving Forward

In last year's report we highlighted the fact that we would undertake a detailed review of the risk management strategy to ensure that all material risks that can potentially have an adverse impact on Fund performance are identified.

I believe we have been successful in that process and it will consistently be reviewed on a periodic basis, to which has been the basis of the what was achieved in this year's progress and improved results.

The Board is also committed to improving members benefits through the review the fund to which the Minister, Secretary and the Commander of the Defence Force through the Defence Council have been very supportive. With the Council's endorsement we hope to see improved benefits through the enabling of the current rules of the Fund.

Let me assure all members that the Board continues to monitor the Fund's exposure in the various classes and sectional allocations to ensure that we remain within the approved limits and we remain alert to the guidelines provided in the risk management strategy. As you review the Fund's highlights section of this report you will note the continuing steady growth graph of the net asset value of the fund.

We will continue to strive to maintain this steady growth pattern in line with the determination that the Trustee will continue to endeavour to ensure the sound custody, investment and preservation of the funds entrusted to its care with the aim of assuring members financial security at retirement.

## Conclusion

Once again I thank my fellow directors for their commitment and dedication to the strategic success of the achievements of this year. To the management, staff, our Fund Administration Managers and Fund Investment Managers and all those other interested parties, individuals and entities who continue to contribute to the ongoing success of the Fund. They have contributed to us achieving a successful year and positioned the Fund to continue to fulfil its core business of providing financial security to members now and in the future.



Chris Alu  
Chairman





18 June 2013  
Comrade Trustee Services Limited  
PO Box 497  
Port Moresby, NCD 121

Dear Chairman and Directors,

**COMRADE TRUSTEE SERVICES LIMITED TRUSTEE FOR DFRBF ANNUAL REPORT 2012**

The Fund enjoyed a positive performance in 2012. Majority of this came from Domestic investments which included shares in Bank of South Pacific Limited (BSP) and Oil Search Limited. Overall, this performance was underlined by the Fund's large exposure to Domestic investments.

Throughout the year, there was an active approach to aligning the Fund's portfolio with Investment Strategy, market conditions and relevant Prudential Standards.

During the year, we continued to reduce the Fund's large exposure to BSP holdings and even so this one investment still accounts for 30.3% of total investments.

The Fund achieved an investment gain of K49.91 million which represents a return of 13.95% [excluding Trustee expenses]. This contributed to the total Fund value reaching K390.54 million for the year.

The increase in the portfolio was mainly attributed to the performance of Domestic and International listed equities, as well as valuation gains from our domestic unlisted equities and properties.

Domestic investments including listed & unlisted equities, cash, fixed interest and property accounted for 95% of total portfolio return.

International investments accounted for 5% of the total portfolio return with the stand out performer being international listed equities. This included ASX listed companies, as well as other international shares through a Vanguard International Shares Fund.

Papua New Guinea (PNG)'s continued strong economic growth reached 9.2% in the year, in contrast to generally sluggish growth in developed markets.

Sluggish world economic growth in 2012 was a reflection of ongoing concerns in Europe, slow growth across the US, China and major emerging economies. In Australia, the overall story was positive despite uneven growth across sectors. In the markets, the story was encouraging with major stock market indices ending the year on a positive note.

Generally, all investment classes exceeded their respective benchmarks and this was reflective of better market conditions, sound climate from the economies of Australia and PNG, and the prudent management of the Fund by the Trustee.

Kina Funds Management Limited would like to thank the Trustee and the Management for the return achieved.

Yours sincerely,

DOMINIC BEANGE  
Investment Fund Manager

## KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED

As the Fund Administrator, Kina Investment & Superannuation Services Limited (KISS) is pleased to provide to the Board of Comrade Trustee Services Limited (CTSL) the administration report for the 2012 Financial Year.



### YEAR IN REVIEW

The winners in 2012 were certainly the pensioners of the fund which not only received an annual CPI adjustment but also received a one off adjustment approved by the Trustee awarding a historical CPI amendment for the 2009 -2012 fortnightly entitlements. An amendment to the pensioners' rates of income were not the only benefit for the pensioners as the tax-free threshold increased 1 July 2012 from K7,000 to K10,000 which meant some pension payments were no longer subjected to income tax.

Another success story was the implementation of Case360 for CTSL. This will now give CTSL not only visibility of the processing of member applications for the Fund but by the Fund administrator but will also allow CTSL to adequately serve members that enquire at their premises.

2012 also saw the expiry of the previous Fund Administration agreement with CTSL and KISS agreeing on terms for the new agreement which awarded to KISS a further 3 year agreement commencing 1 July 2012.

### MEMBERSHIP

Membership of the fund in 2012 grew by 5% due to an increase of 150 service men admitted to the defence force in August.

We continue to work closely with the Trustee and the Defence Force to keep the membership records as up to date as possible to ensure that all communication disseminated by the Trustee reaches the members.



### CONTRIBUTIONS

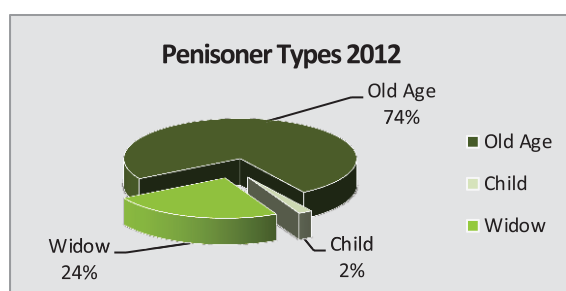
Total contributions remitted for the year equated to K3.2million however there was an issue with the government payroll system in July resulting in a discrepancy between the deposit made and the listing provided. We worked tirelessly with the government to resolve this issue.

### BENEFITS PAYMENTS

There were 40 benefit payments made during the year totalling K946,197 and 15 of these members continued with the fund as pensioners.

### PENSIONERS

At the end of 2012 there were 1,815 active pensioners receiving an average fortnightly pension of K228.27. As illustrated in the graph a growing portion of pensioners are now widow pensioners which demonstrates the real benefit of being a member this defined benefit fund knowing once you pass your loved ones will still be financially secure.



### 2013 FORECAST

Kina Investment & Superannuation Services is committed to supporting Comrade Trustee Services Limited to deliver the members of the Defence Force Retirement Benefit Fund with superior services by continually investing in technology and improving processes.

A handwritten signature in black ink, appearing to read 'Sean Young'.

SEAN YOUNG  
Group Manager Superannuation Services  
Kina Investment & Superannuation Services

# Vision & Mission Statement

## The vision of the company is:-

“To achieve excellence in meeting the needs of members through efficient management of the Fund.”

## And the mission is to:-

“To continuously deliver services to meet the identified needs of our members and to prudently manage the Fund to ensure its value is enhanced.”

## Corporate Values

The achievement of our mission statement requires all Directors and employees of CTSL and our core service providers to adhere to our corporate values. These values require CTSL to operate in accordance with the highest professional and ethical standards in all our relationships with members, suppliers, and the community in which we operate.

The values provide a platform for the company to nurture and promote a corporate climate which encourages innovation and diligence among staff and rewards them through:-

- Being responsible and accountable for our actions
- Operating with honesty and integrity
- Always putting the interest of our members first
- Being transparent in our dealings with all parties
- Training and developing our employees and providing them with the necessary resources to perform to their full potential and rewarding them fairly
- Aiming continually to improve our service and efficiency levels
- Treating each other with respect and consideration and encouraging team work and cooperation
- Pursuing an employment policy that is based on merit and does not discriminate on the basis of gender, race, religion or ethnic persuasion

## Built on our corporate values of:-

- Honesty, integrity and mutual respect
  - Our pursuit of excellence
    - Transparency
    - Accountability





# The Fund

The Fund is an established authorised Superannuation Fund (ASF) pursuant to Section 8 of the SGP Act with a current active contributor base of 2,792 and 1,815 pensioners as at 31st December 2012.

The primary objective of the Defence Force Retirement Benefits Fund (DFRBF) is to provide retirement benefits to members and their dependants upon discharge from the Defence Force or in the event of medical discharge and or death. In addition to this, the 'Superannuation General Provisions Act 2000' (SGP Act) allows access to retirement savings before retirement for purposes related to housing.

The Fund operates as a Pension Fund. The eligibility for pension benefits is usually attained after 20 years of continuous service with the Defence Force. The amount of pension is determined through a formula prescribed within Defence force Retirement Benefits Act, Chapter 76 (DFRB Act) which takes into account a member's level of salary, years of service for pension and age at retirement. In the event a contributor or pensioner becomes deceased, 5/8's

(62.5%) of the pension due to the member is paid to the widow plus an additional K22.50 for each child dependent below the age of 18 years.

In order for the Fund to meet its ongoing pension liabilities sustainably, it requires three vital aspects including fortnightly contributions from members at 6% of gross salary, adequate returns from investments and a guarantee from the State to pay 60% of pension benefits when they fall due.

Because of the uncertainties in relation to the extent of liabilities carried by the Fund and State, an actuarial evaluation is required to be undertaken periodically (every two years), the purpose of the actuarial evaluation is to determine among other things, the financial viability of the Fund and its ability to meet and sustain future pension payments to members. The next actuarial evaluation will be undertaken for the period ending on 31st December 2012 in early 2013 and details of which will be reported to members in the subsequent financial year.

## Licensed Corporate Trustee

Comrade Trustee Services Limited (CTSL) has been approved by the Bank of Papua New Guinea (BPNG) as the licensed corporate trustee for the Fund. As the licensed trustee, it has ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act and the governing rules of the Fund has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

The trustee company is administered under the direction of a Board of Directors comprising seven Directors, three (3) of whom are drawn from the members of the Fund and four independent Directors who collectively plan, oversee, and set corporate goals and determine the strategic direction of the Fund.

# Board of Trustees



## **Chris Alu – Chairman – Independent Director**

Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as licensed corporate trustee to the Fund on 19th December 2002.

Mr Alu was re-elected as the Chairman of the Board.

Mr Alu has 24 years of extensive private and public sector experience and brings with him invaluable accounting experience to the Board.

Mr Alu graduated with a degree in accounting from the PNG University of Technology in 1981 and holds a Certificate in Commercial Audits from the Darling Downs Institute of Advanced Education, Queensland, Australia.

He resigned as Chairman of Unitech Development & Consultancy Limited – the business arm of the University of Technology and as a member of Council of the University of Technology in 2010. He is also President of Christian Leaders Training College of Papua New Guinea and President of the Fellowship of Companies for Christ International, PNG Chapter. He is also involved with many charity groups and considers this as his contribution towards the less fortunate in society.

Mr Alu is a member of the PNG Institute of Directors and was appointed pursuant to Clause 10 of the Company Constitution as an independent director.



## **Colonel David L.Y. Takendu, OBE, BE (Civil), psc (Aust), psc (Indon), jssc (Aust) (Rtd.)**

Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Deputy Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as the licensed corporate trustee to the Fund on 19th December 2002.

Col. Takendu joined the Australian Army, Papua New Guinea Command, in 1968 as an officer cadet and worked his way up to the rank of Colonel. He held the position of Chief of Staff at the time of retirement in December 2002. He represents pensioners on the Fund Board.

He previously served on the Post and Telecommunications Board from 1990 to 1993 and more recently served as Chairman of Banora Trading Limited.

Colonel Takendu graduated from the PNG University of Technology in 1978 with a degree in Civil Engineering. During the course of his employment with the Defence Force he has also attended military staff colleges in Australia, New Zealand, Indonesia and United States notably, the Australian Staff College, Queenscliff, Victoria, in 1981; the Indonesian Military Staff College, Bandung, between 1986 and 1987; the JFK School of Government, Harvard University, Boston, Mass, USA in International Conflict Resolution Strategies, 2001 and Defence Resources Management Institute, at the US Naval Post Graduate School, Monterey, California, USA in 1991.

He speaks Bahasa Indonesia fluently.

He is a member of the PNG Institute of Directors.



## **Captain Alois Ur Tom, DMS, OBE (Navy)**

Appointed to the Board on 19th December 2002, Captain Ur Tom represents members of the Fund on the Board.

Captain Ur Tom was appointed Chief of Staff in July 2002 and has occupied that position in the Defence Force to the present time. His primary role is to provide logistical and management support to the Commander of the PNG Defence Force.

Currently he is a member of the Defence Force Supplies and Tenders Board and Chairman of the Disciplined Forces Housing Committee.

Captain Ur Tom has had considerable hands-on experience in all facets of naval duties including attachments in the United States and Australian navies.

Captain Ur Tom is a graduate of the University of PNG with a Bachelor of Commerce (Accounting) degree, a graduate Diploma in Strategic Studies from the Joint Services Staff College in Canberra and a visiting Fellow to the Royal Australian Navy's Maritime Studies Program. He also holds a graduate Certificate in Business Administration and a Masters Degree from Deakin University in Melbourne and is a member of the PNG Institute of Directors.



#### **Kisakiu Posman | Independent Director**

Appointed to the Board on 4th June 2004 he was nominated by the PNG Law Society pursuant to Clause 10 of the Company Constitution.

Mr Posman graduated from the University of PNG in 1983 with a Bachelor of Law and also graduated with a Master of Law degree from the University of Ottawa, Canada in 1986.

Mr Posman has had a varied employment history, having commenced employment with Bougainville Copper Limited in 1974, then to teaching law at the University of PNG between 1983 and 1989 then to private practice. His stint in private practice started with Warner Shand Lawyers, then with Mallesons Stephen Jaques at it's Sydney office for two years, then with Carter Newell Lawyers in Port Moresby for a further three years.

In 1993, he left Carter Newell Lawyers to start the law firm Fiocco Posman Kua Lawyers in partnership with Messrs Rio Fiocco and Kerenga Kua. The firm has undergone significant changes since then having merged with Tharwell Aisi Lawyers and is now one of the largest national legal firms. Mr Posman is the managing partner of the firm.

In addition to his legal background, Mr Posman has had some prior commercial experience having served on the boards of the Investment Corporation of PNG and Air Niugini and is also a member of Council of the Legal Training Institute, and a council member of the PNG Law Society.

Mr Posman is a member of the PNG Law Society and the PNG Institute of Directors.



#### **Captain (N) Max Sundie Aleale OBE, DMS**

Appointed to the Board on 29th September 2006 upon the retirement of Capt R. Renagi, Capt Aleale represents members of the Fund on the Board.

Capt Aleale was promoted on 2nd May 2002 to the rank of Captain (Navy) and appointed Chief of Operations – PNG Defence Force however actually took up duties in this position on 30th June 2004. He is the principle Military Operations and Administrative adviser of the Defence Force to the Commander.

He is currently a member of four Senior Defence Committees and has commanded two patrol boats, a major naval base and a principle naval adviser to the Chief of Operations of the Defence Force.

Captain Aleale has considerable operational, administrative and management experience.

He is a graduate of the Joint Services College, Lae; Royal Australian Naval Staff College, Sydney; Asia Pacific Centre for Security Studies, Hawaii and holds a Graduate Diploma in Strategic Studies from the Australian Defence Strategic Studies Centre in Canberra and is a Fellow of the Centre.



#### **Michael Varapik | Independent Director**

An accountant by profession, Mr Michael Varapik was appointed to the Board of CTSL in November 2011 as an Independent Director. Mr Varapik has extensive management, financial, operations and marketing experience spanning over 30 years in both the private and public sectors.

Mr Varapik holds the following academic qualifications; a Bachelor of Technology in Accountancy from Unitech, Lae in 1982, a Bachelor of Business from Deakin University Warrnambool, Australia in 1992 and a Master of Business Administration from the International Management Centers, Oxford Brookes College, Oxford, UK in 1999.

Mr Varapik is also a Director of Origin Energy (PNG) Ltd since 2004 and a Professional Member of the PNG Institute of Directors.

Mr Varapik has held senior management positions in the following organisations: Air Niugini as Accounting Manager, Motor Vehicle Insurance Trust as Deputy General Manager, Copra Marketing Board of PNG as CEO, PNG Coconut Commodities Ltd as General Manager, Lower OK Tedi Investment Company Ltd as General Manager, Lihir Mining Area Landowners Association Inc as General Manager and The Alliance Management Group as National Content & Community Affairs Manager, a position he currently holds.



#### **Moses Koiri | Independent Director**

Appointed to the Board on 20th April 2012 as an Independent Director. Mr. Moses Koiri has over 15 years of senior management in both the private and public sectors.

Currently he is a partner in the Commercial Advisory section of Fairfax Legal. He has a good understanding of corporate business culture and corporate governance and business ethics.

Mr. Koiri graduated from the University of PNG in 1979 with a Bachelors degree in Law and also graduated with a Master of Law degree from the University of Monash, Australia in 1983. Mr. Koiri has served in management capacities commencing as a Lecturer at University of PNG, then with the Bougainville Copper Mine and Private Legal firms and then became a politician in the Autonomous Region of Bougainville.

Mr Koiri is a member of the Australian Institute of Directors and a member of the PNG Institute of Directors.



# Corporate Governance

The Board is committed to upholding and implementing the principles of good corporate governance. This is considered critical as recent experiences have shown that the lack of good corporate governance has contributed directly to corporate frauds and, in worst-case scenarios, corporate failures leading to a serious erosion of confidence in those entrusted with the responsibility of managing companies – the directors. The enhanced accountability, transparency and integrity flowing from improved corporate governance creates value for shareholders and other stakeholders, reduces costs, increases competitiveness and restores confidence.

The Board is responsible for the corporate governance of the Fund, including its corporate planning, establishing goals for management and monitoring achievement of these goals.

This statement sets out the principle corporate governance practices and disclosures that were in operation during the year.

## The Trustee

Comrade Trustee Services Limited (CTSL) is the successor in law to the DFRBF Board and has been approved by the Bank of Papua New Guinea (BPNG) as the licensed trustee for the Fund. As a licensed trustee, it has ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act and the governing rules of the Fund has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

## Shareholder Information

There are five shareholders who each hold one ordinary share “in trust” on behalf of the members of the Fund. These shares attach no beneficial rights to the shareholder, except to ensure compliance with the Companies Act 1997 and the Superannuation Act and are transferable, in the case of the Commander of the Defence Force to his successor and in the case of the other shareholders when they cease to be Directors of the company to their successors. Shareholders of the company as at the year-end are as follows:-

The rights attached to these shares are set out in the constitution of the company and in certain circumstances, are regulated by the Companies Act 1997 and the Superannuation Act 2000. There is only one class of shares and all shares have equal rights.

Each shareholder is entitled to receive notice of, and to attend and vote at general meetings of the company and to receive all notices, accounts and other documents required to be sent to shareholders under the company’s constitution, the Companies Act and the Superannuation Act.

## The Board

Comrade Trustee Services Limited is managed under the direction of the Board of Directors. The Board has the ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act 2000

and the governing rules of the Fund has the power, authority and discretion generally to do all such acts as it considers necessary or expedient for the sound management, maintenance, investment and preservation of the Fund.

The Board comprises seven Directors, three of whom represent members of the Fund and four independent Directors. Strict appointments criteria, including a “fit and proper” test ensures that persons appointed to the Board are legally eligible and possess skills, knowledge, experience or expertise in the management of commercial entities and whose inclusion on the board will add value and enhance corporate governance. Board appointments are subject to Bank of Papua New Guinea approval. Directors hold office for a term of three years, at the expiry of which they are eligible to nominate for re-election subject, however, to any restrictions contained in the company constitution and Central Bank approval. No Directors retired during the year.

All Board and Committee meetings are convened in Port Moresby and therefore members of the Board must be residents of the National Capital District.

Name of Shareholder	Class of Shares	No of Shares	Value (K)	Special Notes
Brigadier General Francis Agwi	Ordinary	1	K1.00	Share held in trust for members
Chris Alu	Ordinary	1	K1.00	Share held in trust for members
Col D. Takendu, OBE (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Capt Max Aleale, DMS	Ordinary	1	K1.00	Share held in trust for members
Capt Tom Ur, OBE	Ordinary	1	K1.00	Share held in trust for members
Total		5	K5.00	

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the 12 months to 31st December 2012 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment/Resignation	Board	Attendance Audit Committee	Attendance of Meetings Appointments Committee
Chris Alu (Chairman)	54,200	Current	19/12/02	5/6	-	-
Col D. Takendu, OBE (Rtd)	43,360	Current	19/12/02	5/6	-	-
Capt (N) Max Aleale, DMS	43,360	Current	29/09/07	3/6	-	-
Capt (N) Tom Ur, OBE	43,360	Current	1/02/2002	5/6	-	-
Kisakiu Posman	43,360	Current	6/04/2004	4/6	-	-
Michael Varapik	43,360	Current	11/11/2011	5/6	-	-
Moses Koiri	29,852	Current	20/04/2012	3/6	-	-

\* Fees shown above are before tax.

The Board complied with its approved calendar of meetings planned for the year.

All meeting papers are circulated seven days in advance to all Directors. This enables adequate time to read and understand the matters requiring Board action, thus ensuring informed decisions are made for the ultimate benefit of the Fund.

## Audit & Compliance Committee

There were no meetings held during the year due to lack of quorum. The two positions left vacant since 2009 were filled in late 2012. In the absence of Audit Committee meetings the matters for discussion were dealt with directly by the Board. The role of the Committee includes review of the Fund's financial statements, review of audit reports, review of the company's accounting policies, review of internal control systems and procedures including risk assessment and management strategies, review of the actuarial report, tenders, annual budgets, investment policy and guidelines and related matters. Members of the Audit Committee at the date of this report are:-

Name of the Committee	Committee Status
Capt (N) Alois Ur Tom, OBE, DMS	Chairman
Michael Varapik	Member – (appointed on 31st August 2012)
Kisakiu Posman	Member – (resigned in 2012)
Moses Koiri	Member – (appointed on 31st August 2012)

There is one vacancy on the Audit & Compliance Committee since the resignation of Mr Kisakiu Posman in 2012.

## Appointments & Remuneration Committee

There were no meetings held during the year due to lack of quorum. The two positions left vacant since 2009 were filled in late 2012. The role of the Committee includes succession planning, review and recommendation of candidates for Board vacancies, review of Board fees and remuneration, appointment of executive management, review of salary and remuneration including terms of employment of senior management and related matters. Members of the Appointments & Remuneration Committee at the date of this report are:-

Name of the Committee	Committee Status
Colonel David L. Y. Takendu, OBE (Ret)	Chairman
Kisakiu Posman	Member - (resigned in 2012)
Captain Max Aleale	Member
Michael Varapik	Member – (appointed on 31st August 2012)
Moses Koiri	Member – (appointed on 31st August 2012)

The Board has appointed Mr Michael Varapik and Mr Moses Koiri on the 31st August 2012 as such, the Committee now has full membership.



# Corporate Governance

## External Board Positions and Disclosures

As at 31st December 2012, the following external Board positions were held by Directors and disclosures made by Directors and management.

NAME	NATURE OF INTEREST	INTEREST
Chris Alu	Shareholder/Director Shareholder/Chairman Member	Ebony Marketing Limited Comrade Trustee Services Limited PNG Institute of Directors
Col. David Takendu, OBE (Rtd)	Shareholder/Director Chairman Related Party/Pensioner Member	Comrade Trustee Services Limited Appointments & Remuneration Committee DFRBF PNG Institute of Directors
Captain Alois Ur Tom, OBE, DMS (Navy)	Shareholder/Director Chairman Employee Chairman Related Party/Contributor Member	Comrade Trustee Services Limited Audit & Compliance Committee PNG Defence Force Hunter Limited DFRBF PNG Institute of Directors
Kisakiu Posman	Partner/Employee Director Member Member	Posman Kua Aisi Lawyers Comrade Trustee Services Limited PNG Institute of Directors PNG Law Society
Captain Max Aleale, OBE,DMS (Navy)	Related Party/Contributor Employee Shareholder/Director Shareholder Shareholder Member Member	DFRBF PNG Defence Force Comrade Trustee Services Limited Credit Corporation Kina Assets Management Limited Appointments & Remuneration Committee PNG Institute of Directors
Michael Varapik	Employee Director Director Member Member Member	The Alliance Group Comrade Trustee Services Limited Origin Energy PNG Limited PNG Institute of Directors Audit & Compliance Committee Appointments & Remuneration Committee
Moses Koiri	Director Director Director Member Member Member Member Partner/Employee Director Member	Comrade Trustee Services Limited Orekana Enterprise Limited Kurada No. 24 Limited PNG Institute of Directors Bougainville Copper Foundation Limited Audit & Compliance Committee Appointments & Remuneration Committee Albartross Law Services Limited Albartross Law Services Limited PNG Law Society Inc
Richard Sinamoi	Employee Secretary/Public Officer Related Party Member Member Director Director Shareholder	Comrade Trustee Services Limited Comrade Trustee Services Limited Nambawan Super Limited PNG Institute of Directors Association of Superannuation PNG Paradise Foods Limited PNG Microfinance Limited Credit Corporation
Danny Herepe	Employee Member Member Member Member	Comrade Trustee Services Limited Certified Practising Accountants PNG PNG Institute of Directors Institute of Internal Auditors – PNG Chapter Transparency International (PNG) Inc.
Chris Sariman	Employee Member	Comrade Trustee Services Limited PNG Institute of Directors

Employees of the company appointed to the Boards of subsidiary companies in which CTSL has controlling interest are not paid any fees.



## Independent Professional Advice

With the approval of the Chairman, a Director is entitled to seek independent professional legal and accounting advice at the expense of the Fund, regarding any aspect of that Director's duties and/or issues of concern about the Fund's operations.

## Code of Conduct and Ethical Standards

The Board has adopted several codes relating to the conduct of Directors, management and staff including the management of conflicts of interest and confidentiality. CTSL recognises and acknowledges the requirement for Directors and employees to observe and uphold the highest standards of behaviour and ethical standards in the performance of their duties.

## Fund Administration

The fund administration function is outsourced to Kina Investment & Superannuation Services Limited (KISSL) in compliance with the Superannuation Act 2000. The current engagement of KISSL is for a term of three (3) years which will expire on 30th June 2015. At least three (3) months prior to the expiry of the contract, the Board will invite tenders to determine a successor. The contract was renewed on the 31st July 2012, after the six months extension lapsed on the 30th June 2012.

## Investment Management

The Investment Management function is outsourced to Kina Funds Management Limited (KFML) in compliance with the Superannuation Act 2000. The current engagement of KFML is for a term of three (3) years which will expire on 30th June 2015. At least three (3) months prior to the expiry of the contract, the Board will invite tenders to determine a successor. The contract was renewed on the 31st July 2012, after the six months extension lapsed on the 30th June 2012.

The investment manager is required to manage the Fund's investment portfolio in accordance with the investment policy approved by the trustee from time to time and subject to prudential standards issued by the Bank of Papua New Guinea and the Superannuation Act.

## Employee Remuneration

Please refer to Notes 10.1 and 23.1 and 23.2 of the Notes to the Financial Statements for details.

## Regulatory Supervision by Bank of Papua New Guinea

As part of the Bank of Papua New Guinea's regulatory supervision of the superannuation industry, the Bank undertakes, from time to time, an independent review of the operations of the Fund in addition to the independent financial audit undertaken by an auditor. The review by the BPNG is aimed at ensuring adherence to world best practice in corporate governance standards and compliance by the Trustee with the provisions of

the Superannuation Act and Prudential Standards in the management of the Fund.

The last prudential review of the Fund was undertaken in April 2009.

## Independent Auditor

The current independent auditor is Deloitte Touche Tohmatsu and Board confirms compliance with Clause 9(a)(ii) of the Prudential Standard Number 5/2008 in the engagement of the auditor. Fees paid to the auditor are summarised as follows:

Auditor	2007 K	2008 K	2009 K	2010 K	2011 K	2012 K
Deloitte Touche Tohmatsu	135,076	133,737	150,500	126,000	134,000	138,600
Partner In-charge	S. Theron	S. Theron	S. Theron	S. Theron	P. Barber	P. Barber

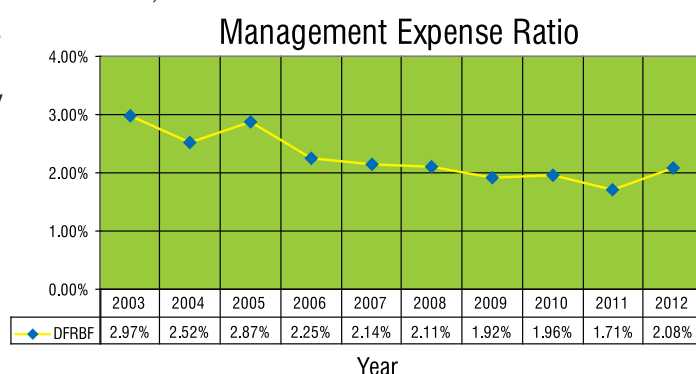
The auditor's appointment is for 12 months at the expiry of which a further engagement is determined by closed tender. To ensure independence and avoid conflicts of interest the auditor is prohibited from undertaking the valuation of Fund assets and liabilities.

## Management Expense Ratio

Management expense ratio (MER) is an underlying key financial performance indicator used to measure the performance of the Fund relative to industry standards and also to assist identifying adverse deviation and take corrective action.

The MER is determined by taking the sum of all expenses of the Fund as prescribed in Prudential Standard 3/2006 (excluding depreciation, direct investment expenses and pension and related benefit expenses) divided by the average net asset value of the Fund expressed as a percentage. The net asset values are based on audited accounts and after allowing for net changes in market values, depreciation and taxation.

Consequently the MER for the Fund for the last ten years are as follows;



Increase in MER for 2012 resulted from changes in the organisational re-structure.

## Staff Employment Policy

CTSL is an equal opportunity employer and does not discriminate on the basis of sex, race, colour, religion or sexual orientation. Employment is merit based. There were 27 staff employed by the company during the year (2011 : 25)

# Corporate Governance

## Investment transactions (excluding cash and treasury notes)

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount (Kina)
Bank South Pacific	Share sale	Equity	Various	(338,143)	(2,702,294)
City Pharmacy Limited	Share Purchase	Equity	Various	152,679	210,979
New Britain Palm Oil	Share Purchase	Equity	Various	36,269	888,553
Credit Corporation Limited	Share Purchase	Equity	Various	287,704	575,088
Oil Search Limited	Share sale	Equity	Various	(287,200)	(4,584,030)
Oil Search Limited	Share Purchase	Equity	Various	57,200	832,325
Marengo Mining Limited	Share Purchase	Equity	Various	2,628,888	800,838
Newcrest Mining Limited	Share sale	Equity	Various	(52,349)	(2,561,423)
Bank of Queensland Limited	Share Purchase	Equity	Various	170,000	2,717,573
New Britain Palm Oil	Share sale	Equity	9/05/2013	(5,000)	(148,259)
Telstra Limited	Share Purchase	Equity	Various	126,000	1,089,946
Vanguard Limited	Share Purchase	Equity	2/11/2012	1,770,076	4,108,940
Multiplex Trust	Share sale	Equity	24/10/2012	(2,500)	(409,636)
AMP	Share sale	Equity	6/12/2012	(500,000)	(938,250)
Pacific Balance Fund	Share sale	Equity	18/10/2012	(56,497)	(960,449)
Westpac Banking Corporation	Share Purchase	Equity	14/02/2013	2,000	414,100
Section 35, Lot 41 Hohola	Capital Expenses	Property	Various	N/A	4,279,458

Section 35, Lot 41 Hohola, under construction for 3 level commercial office building.

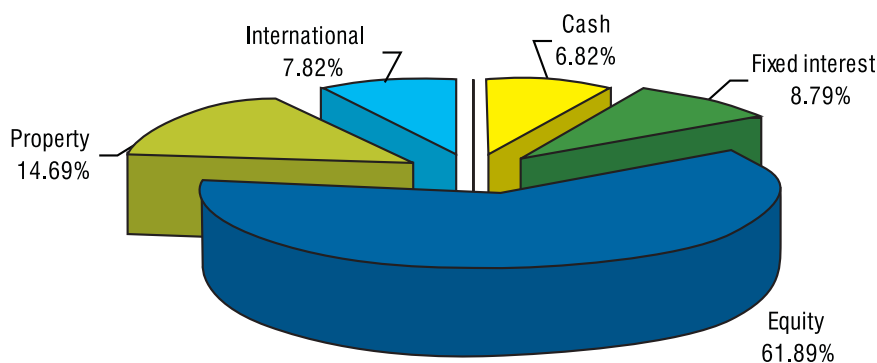
## Investment Performance Highlights

The composition of the investment portfolio and asset allocation as at 31st December 2012 relative to the prior year is summarised as follows:

Asset Classification	Portfolio Value (Kina)		Percentage Holdings		Neutral Allocation %	Sector Range %
	31-Dec-12	31-Dec-11	31-Dec-12	31-Dec-11	31-Dec-12	Low – High
Cash	27,634,598	33,600,643	6.82%	9.45%	5%	0-10%
Fixed interest	35,607,351	21,320,882	8.79%	6.00%	15%	10-30%
Equity	250,780,507	231,442,448	61.89%	65.11%	50%	40-60%
Property	59,521,488	53,411,163	14.69%	15.03%	10%	5-20%
International	31,676,711	15,698,704	7.82%	4.42%	20%	10-30%
TOTAL	405,220,655	355,473,840	100.00%	100.00%	100%	100%

The total gross value of investment portfolio of the Fund as at 31st December 2012 stands at K405,220,655.

Asset Allocation - 31 December 2012



## Equity Portfolio – PNG

Company Name	Total Market Value	
	2012 K	2011 K
<b>Listed</b>		
- Bank South Pacific Ltd	118,321,941	113,087,683
- City Pharmacy	236,652	-
- Credit Corporation Ltd	6,561,132	5,335,365
- Highlands Pacific Ltd	914,191	1,121,895
- Kina Asset Management Ltd	6,642,000	6,937,200
- Marengo Mining Ltd	762,712	33,036
- New Britain Palm Oil Ltd	6,714,116	9,091,975
- Oil Search Ltd	18,355,172	19,379,322
Sub-total	158,507,916	154,986,475
<b>Unlisted</b>		
- BPT PNG Ltd (Toyota Tsusho)	4,212,222	3,199,868
- Westpac Bank Ltd	473,000	-
- Hunter Ltd	29,263,990	28,980,000
- Paradise Foods Ltd	34,650,000	24,705,000
- Pacific Balanced Fund	-	316,383
- Post Courier Ltd	762,992	753,011
- South Pacific Brewery Ltd	22,910,387	18,501,710
Sub-total	92,272,591	76,455,973
<b>Total</b>	250,780,507	231,442,248

PBF was disposed off in 2012 for the total of K960,449 at K17.00 per share.

## Cash Portfolio

Bank Name	International K	PNG K	31-Dec-12 K
<b>Cash on hand</b>			
- Petty cash	-	700	700
Sub-total	-	700	700
<b>Interest Bearing Deposits (&lt; 90 days)</b>			
- ANZ – Investment account	-	16,787	16,787
- Bank of Queensland	7,605,389	-	7,605,389
- Credit Suisse	4,358,586	-	4,358,586
- Westpac Bank	-	7,324,960	7,324,960
- Australian and New Zealand Bank	-	-	-
- Bank South Pacific	-	-	-
- Kina Finance	-	3,132,731	3,132,731
- PNG Home Finance	-	872,596	872,596
- BSP – Main account	-	166,224	166,224
- BSP – Benefits account	-	235,153	235,153
- BSP – Management account	-	144,254	144,254
- BSP – Housing account	-	403,401	403,401
Sub-total	11,963,975	12,296,106	24,260,081
<b>On-call</b>			
- Bank of Queensland	319,016	-	319,016
- Credit Suisse	823,557	-	823,557
- Kina Finance	2,231,244	-	2,231,244
Sub-total	3,373,817	-	3,373,817
<b>Total Cash &amp; IBD's &lt; 90 days</b>	15,337,792	12,296,806	27,634,598



# Corporate Governance

## Fixed Interest Portfolio

Description	Serial No	Maturity Date	Coupon Rate	Face Value	
				31-Dec-12	31-Dec-11
Government Inscribed Stock	S15112016 (G26)	15/11/2016	9%	4,162,267	4,204,238
	S15112021 (G27)	15/11/2021	12%	3,274,003	3,304,945
	S15112021 (G25)	15/11/2021	12%	1,005,772	1,006,424
	S15112016 (G28)	15/11/2016	9%	1,005,591	1,007,037
	S15112023 (G37)	15/11/2023	12%	2,170,577	2,186,299
	S15112023 (G38)	15/11/2023	12%	1,057,346	1,062,632
	S15112018 (G39)	15/11/2018	9%	335,563	336,001
	S15022017 (G41)	15/02/2017	9%	2,135,575	2,168,501
Sub-total – GIS				15,146,694	15,276,077
Treasury Bills - Bank of PNG				9,224,520	4,656,907
Central Bills - Bank of PNG				9,940,894	-
Members Housing Advance				1,295,243	1,387,898
Total Fixed Interest				35,607,351	21,320,882

## Property Portfolio

		Market Value	
Property Name	Description	31-Dec-12 K	31-Dec-11 K
PNG			
1. Defense Haus, Hunter Ltd	Section 03, Lot 18-20, Hunter St., Port Moresby, NCD	8,136,800	7,960,400
2. Latitude 9 Apartments	Section 42, Lot 01, Ogoa St., Granville, NCD	23,270,025	22,858,000
3. Lawes Road Apartments (50% )	Section 07, Lot 24, Lawes Rd., Granville, NCD	5,688,245	5,700,801
4. Stop & Shop Building	Section 14, Lot 11 & 12, Angau Dr., Boroko, NCD	7,301,962	7,139,962
5. Ela Makana	Section 34, Lot 34 Ela Makana, Granville	6,924,530	6,228,000
5. Comrade Haus	Section 35, Lot 41, Hohola	8,199,925	3,524,000
Sub- Total		59,521,488	53,411,163
International			
1. Canberra house, ACT, Australia	36 Gadali Crescent, Ngunnawal, ACT, 2913, Aust	1,228,134	1,229,727
Sub-total		1,228,134	1,229,727
Total Property		60,749,622	54,640,890



## International Portfolio

Asset Classification	Market Value	
	2012 K	2011 K
<b>Equity</b>		
Listed		
- Bank of Queensland	2,715,124	-
- ANZ Bank Ltd	1,632,986	1,330,812
- BHP Billiton Ltd	3,466,536	3,198,055
- Commonwealth Bank of Australia	2,892,140	2,276,478
- Multiplex Sites Trust	-	399,741
- Telstra Corporation	4,747,936	2,691,054
- Newcrest Mining Limited	1,887,307	4,668,949
- Vanguard International Share Index Fund	4,192,488	
Sub-total	17,342,029	14,565,090
<b>Unlisted</b>		
- ABN AMRO Social Infrastructure Trust	-	997,083
Sub-total	-	997,083
Total Equity	17,342,029	15,562,173
<b>Cash</b>		
- Bank of Queensland	7,924,405	3,668,843
- Credit Suisse	5,182,143	9,803,051
Sub-total	13,106,548	13,471,894
<b>Property</b>		
- Canberra, ACT, House	1,228,134	1,229,727
Total International	31,676,711	30,263,794

## Valuation methodology

The valuation methodology adopted by the Trustee is as follows:-

Listed equities	-	Closing market price as quoted by the relevant stock exchange at balance date
Unlisted equities	-	Price as determined by independent professional valuation
Property	-	Value as determined by a registered property valuer and undertaken annually
Government securities	-	At purchase price/face value



# Highlights of 2012



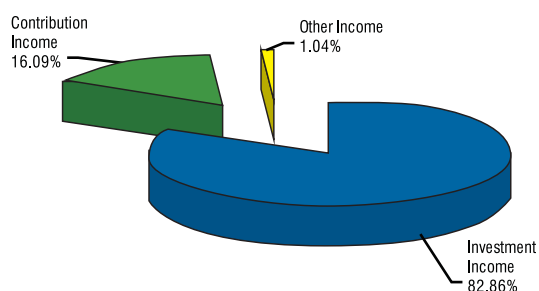
## Summary of Key Results

Summary of Key Results	2012 K	2011 K
Net surplus (after tax)	37,111,363	10,047,412
Total Fund net assets	399,955,705	362,560,352
Total benefits paid	10,644,283	9,212,359
Interest Crediting Rate	10%	4%
CPI indexation rate	4%	5%
MER	2.08%	1.71%

CPI Indexation rate for 2011 re-stated

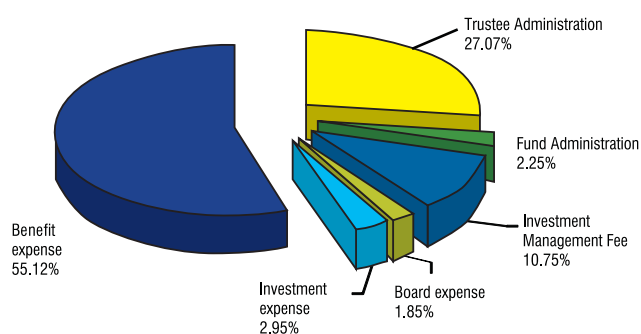
## Income Summary

Income Summary	K
Investment Income	47,572,125
Contribution	
. Members	3,246,804
. State	5,992,566
Other Income	599,378
<b>Total</b>	<b>57,410,873</b>



## Expenditure Summary

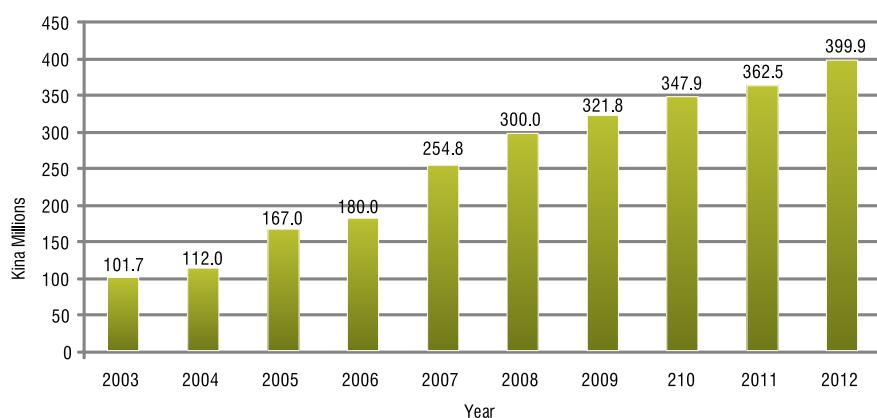
Expenditure	K
Trustee Administration	5,228,262
Fund Administration	434,929
Investment Management Fee	2,076,854
Board expense	356,560
Investment expense	569,921
<b>Management expense</b>	
Benefit expense	10,644,283
<b>Total Expenditures</b>	<b>19,310,809</b>





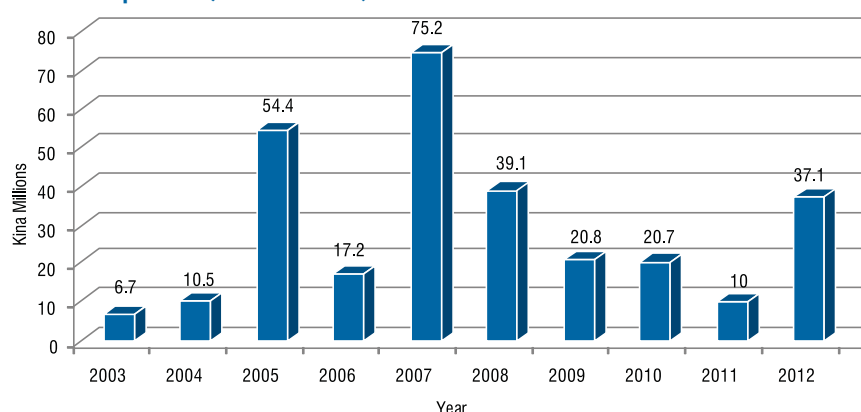
# Fund Highlights at a Glance

## Net Asset Value of Fund



The bar graph shows that the fund has grown steadily from K101.7 million in 2003 to K399.9 million as at 31st December 2012. Despite the adverse consequences of the financial crisis which have already had an impact on Fund operations and even with the slow recovery of the global economy, the trustee will continue to endeavour and ensure the sound custody, investment and preservation of the funds entrusted to its care with the aim of assuring members financial security at retirement.

## Net Surplus (After Tax)



The graph illustrates on overall that, net surplus after tax has grown during the 10 year period under review.

## Comparative Statistical Summary

		2006	2007	2008	2009	2010	2011	2012
<b>NET FUND ASSETS</b>								
Net assets	K(m)	181.0	255.0	300.0	321.8	347.9	362.5	399.9
Net asset growth	%	8.49	41.45	17.01	6.93	6.47	4.00	10.31
Reserve <sup>4</sup>	K(m)	-	-	9.821	0.387	5.580	4.519	0.283
<b>NET SURPLUS</b>								
Net surplus after tax	K(m)	17.2	75.2	39.1	20.8	20.7	10.0	37.1
<b>EXPENSES</b>								
Benefits	K(m)	20.9	10.9	10.5	7.4	7.7	9.2	10.6
Trustee administration	K(m)	4.1	4.6	4.0	4.1	4.5	4.0	5.5
Fund administration	K(m)	0.411	0.389	0.371	0.450	0.330	0.291	0.434
Investment management	K(m)	0.698	1.005	1.400	1.400	1.600	1.400	2.000
Management expense ratio	%	2.25	2.14	2.11	1.92	1.96	1.71	2.08
<b>INCOME</b>								
Investment income	K(m)	33.7	86.0	45.2	26.6	28.6	20.1	20.1
Contributions								
State share	K(m)	12.4	6.3	6.7	4.4	4.5	5.1	5.1
Members	K(m)	1.9	1.7	1.9	1.9	2.9	2.7	2.7

# Financial Statements

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FOR THE YEAR ENDED 31ST DECEMBER 2012

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STATEMENT OF NET ASSETS	24
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## TRUSTEE STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2012

In the opinion of the Trustee for the Defence Force Retirement Benefits Fund ("the Fund") the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows and Notes to the financial statements for the year ended 31 December 2012 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the statements misleading;
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- d) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of Papua New Guinea Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 20th day of March 2013.

For and on behalf of the Board of Comrade Trustee Services Limited.



Chris Alu  
Chairman of the Board of Trustees



Captain (N) Alois Ur Tom, OBE  
Director

## MANAGEMENT STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2011

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31 December 2012 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- 1) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- 2) no circumstances have arisen which would render any amount in the statements misleading;
- 3) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- 4) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of PNG Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 20th day of March 2013.

For and on behalf of the management of Comrade Trustee Services Limited.



Richard Sinamoi  
Chief Executive Officer



Danny Herepe  
Executive Manager Finance and Administration



## DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2012

The directors of Comrade Trustee Services Limited submit herewith the annual financial report of the Fund for the financial year ended 31 December 2012. In order to comply with the provisions of the Companies Act 1997 and Superannuation (General Provisions) Act 2000, the directors report as follows:

The names and particulars of the directors and office holders of the Trustee company during or since the end of the financial year are:

Name	Executive/non-executive director
Mr Chris Alu	Non Executive -Chairman of the Board of Trustees
Captain (N) Alois Ur Tom, OBE	Non Executive
Col David Takendu, OBE (Rtd)	Non Executive
Captain (N) Max Aleale, DMS	Non Executive
Mr Kisakiu Posman	Non Executive
Mr Michael Varapik	Non Executive
Mr Moses Koiri	Non Executive

### Trustee Secretary

The company secretary is Mr Richard Sinamoi.

### Review of operations

The Fund reported a net surplus of K37,111,363 (2011: K10,047,412) after income tax expense of K704,711 (2011:(K1,227,890)).

### Changes in state of affairs

During the financial year there was no significant change in the principal activities or state of affairs of the Fund other than that referred to in the financial statements or notes thereto.

### Change in accounting policies

No changes in accounting policies occurred during the current year.

### Entries in the interest register

There were no entries in the interest register made during the year.

### Directors' remuneration

Remuneration paid to directors has been disclosed in note 23.3 to the financial statements.

### Remuneration above K100,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K50,000 band are disclosed in note 23.2.

### Donations

No donations were made during the current year, (2011 : NIL).

### Independent audit report

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report on pages 4 and 5. Fees paid for audit services are disclosed in note 10.2 to the financial statements.

### Subsequent events

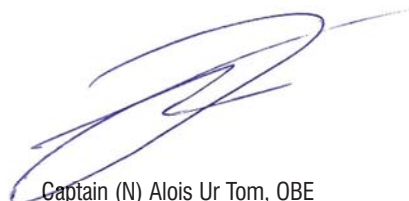
There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr Chris Alu  
Chairman of the Board of Trustees



Captain (N) Alois Ur Tom, OBE  
Director

Dated at Port Moresby 20th March 2013



Deloitte Touche Tohmatsu

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Papua New Guinea

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## Independent Auditor's Report to the members of Defence Force Retirement Benefit Fund

We have audited the accompanying financial statements of the Defence Force Retirement Benefit Fund, which comprise the statement of changes in net assets as at December 31, 2012, and the statement of net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Companies Act 1997, and the Superannuation (General Provisions) Act 2000 and for such internal control as the directors determine is 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 the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund's preparation of the financial report that gives a true and fair view, 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 made by the directors, as well as evaluating the overall presentation of the financial report.

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 financial statements present fairly, in all material respects, the financial position of the Defence Force Retirement Benefit Fund as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

The financial report of the Defence Force Retirement Benefit Fund is in accordance with the Companies Act 1997 and proper accounting records have been kept by the Fund. The fund is in compliance with the Superannuation (General Provisions) Act 2000.

During the year ended December 31, 2012 we did not provide any other services to the Defence Force Retirement Benefit Fund.

DELOITTE TOUCHE TOHMATSU

**Paul Barber**

Registered under the Accountants Act 1996

Partner

Port Moresby, 21st day of March, 2013

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 K	2011 K
<b>Revenue</b>			
Investment Revenue			
Interest income	6	2,766,385	2,614,984
Dividends		16,614,428	15,738,733
Property income	7	2,411,160	2,739,088
Change in fair value of investment properties	16	1,467,400	5,315,614
Change in fair value of financial assets		24,028,762	(20,874,745)
Gain on sale on financial assets		702,033	14,255,040
Net Investment Revenue		47,990,168	19,788,714
Contribution Revenue			
Contributions received from members		3,246,804	2,702,470
State share of contribution	9	5,992,566	5,132,020
Total Contribution Revenue		9,239,370	7,834,490
Other Revenue (expense)	8	(672,576)	(3,343,883)
<b>Total Revenue</b>		<b>56,556,962</b>	<b>24,279,321</b>
<b>Less: Expenses and benefits paid</b>			
Benefits paid	9	10,644,283	9,212,359
Trustee administration expenses	10	5,584,822	4,096,717
Fund investment and administration expenses	11	2,511,783	2,150,723
<b>Total expenses and benefits paid</b>		<b>18,740,888</b>	<b>15,459,799</b>
<b>Change in net assets before income tax</b>		<b>37,816,074</b>	<b>8,819,522</b>
Income tax expense/(benefit)	12	704,711	(1,227,890)
<b>Change in net assets after income tax</b>		<b>37,111,363</b>	<b>10,047,412</b>
Changes in revaluation reserve	15.2	283,990	4,519,970
<b>Net assets available to pay benefits at beginning of the year</b>		<b>362,560,352</b>	<b>347,992,970</b>
<b>Net assets available to pay benefits at end of the year</b>	21	<b>399,955,705</b>	<b>362,560,352</b>

See accompanying notes to the financial statements

## STATEMENT OF NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2012

<b>Assets</b>			
Cash and cash equivalents	13	46,800,011	38,257,548
Loans to members and others	14	1,295,243	1,387,898
Current income tax receivable/(payable)		-	249,234
Deferred income tax assets	12	2,612,826	2,573,107
Financial assets			
Fair value through profit and loss	15.1	243,051,034	218,024,620
Available for sale	15.2	29,263,990	28,980,000
Held to maturity	15.3	15,146,694	15,276,078
Investment properties	16	60,816,622	54,640,890
Property and equipment	17	526,757	570,566
Other assets	18	5,611,873	6,880,914
		<b>405,125,050</b>	<b>366,840,855</b>
<b>Liabilities</b>			
Employee provisions	19	1,265,307	634,010
Current income tax		1,187,368	-
Deferred income tax liabilities	12	412,966	1,498,366
Other liabilities	20	2,303,704	2,148,127
		<b>5,169,345</b>	<b>4,280,503</b>
<b>Net assets available to pay benefits</b>	21	<b>399,955,705</b>	<b>362,560,352</b>

See accompanying notes to the financial statements



## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 K	2011 K
<b>Cash flows from operating activities</b>			
Interest received		2,748,601	2,405,058
Dividend received		16,614,428	15,738,733
Property income received		3,427,472	44,145
Contributions received from the members		3,246,804	2,702,470
Benefits paid -including state share		(10,644,283)	(9,212,359)
Cash receipt of state share (benefits)		18,612,822	5,346,108
Cash payment to employees & suppliers		(7,219,020)	(5,570,393)
Income taxes paid		(393,229)	(332,701)
<b>Cash flows from operating profits before changes in operating assets &amp; liabilities</b>		26,393,595	11,121,061
Changes in operating assets & liabilities:			
Net increase in loans to members and others		92,656	126,435
Net decrease (increase) in other assets		(197,514)	78,722
Net increase in other liabilities		94,533	232,114
<b>Net Cash provided by operating activities</b>		26,383,270	11,558,332
<b>Cash flows from investing activities</b>			
Proceeds from maturity of term deposits		-	-
Proceeds from maturity of treasury bills		(9,224,520)	(4,656,907)
Proceeds maturity of financial assets held-to-maturity		-	(2,000,000)
Disposal of financial assets held-to-maturity		-	571,000
Purchase of property & equipment		(136,341)	(34,980)
Purchase of investment properties		(4,748,454)	(4,056,334)
Purchase of listed shares		(12,608,472)	(8,270,470)
Proceeds from sale of listed shares		8,876,980	22,364,024
<b>Net Cash used in investing activities</b>		(17,840,807)	3,916,333
Net increase in cash & cash equivalents		8,542,463	15,474,665
Cash and cash equivalents at beginning of year		38,257,548	22,782,883
<b>Cash and cash equivalents at end of year</b>	13	46,800,011	38,257,548

See accompanying notes to the financial statements

## 1. Significant accounting policies

### 1.1 Statement of compliance

The financial statements have been prepared in accordance with the Superannuation (General Provisions) Act 2000, International Financial Reporting Standards ("IFRS") and the prudential standards issued by the Bank of Papua New Guinea.

### 1.2 Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit and loss.

In accordance with the Board's policy, the Fund's investment should be revalued annually.

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 are disclosed in note 5.

The principal accounting policies are set out below.

### 1.3 Revenue recognition

Income is recognised on an accrual basis except for interest income from Member Housing Assistant ("MHA"), which are brought to account when received.

#### Investment Revenue

##### 1.3.1 Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### 1.3.2 Dividend revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably).

##### 1.3.3 Property rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

##### 1.3.4 Movement in fair market value of investments

Changes in fair market value of investments are recognised as income and are determined between the difference between the fair market value at year end or consideration received (if sold during the year) and the fair market value as at the prior year end or cost (if the investment was acquired during the period).

#### Contribution Revenue

##### 1.3.5 Member contributions

Contributions received from members are recognised upon receipt.

##### 1.3.6 State share of contribution

Contributions from the Papua New Guinea government are recognised upon receipt.

### 1.4 Taxes

#### 1.4.1 Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from

or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Fund operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### 1.4.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change.

The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

## 1.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the basis of straight line to write-off the cost of such assets to their residual values over their estimated useful lives as follows:

Furniture and fittings	15%
Motor vehicle	30%
Office equipment	20%
Renovation	10%
Software	33%

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

Profits or losses on disposal (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Repairs and maintenance costs are charged to the statement of changes in net assets when the expenditure is incurred.

## 1.6 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Land and buildings, classified as investment property, are valued at 31 December 2012. The valuations were performed by the following registered valuers;

Registered Valuer	Properties
The Professional Valuer of PNG Ltd	Hunter Ltd, Stop & Shop, Latitude 9, Ela Makana and Comrade Haus
Savills (Australia)	Lawes Road
Colliers International Holdings (Australia)	Canberra, ACT House

The valuation reports indicate that several methods have been considered for the valuation process and includes: capitalisation method, summation method and discounted cash flow method.

## 1.7 Financial assets

The Fund classifies its financial assets into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) 'available-for-sale' (AFS) and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as FVTPL.

*Investments are valued as at 31 December 2012 as follows:*

- Listed shares are valued at 31 December 2012 at last sale price on that date (applying the bid rate). Foreign currency Off-shore investments are converted using the ANZ Bank exchange rate. The rate used AUD0.4602.

- Unlisted shares are independently valued as at 31 December 2012 as adopted by the Board. This valuation was performed by Pertusio Capital Partners Limited as an independent professional valuer. The methodology used in the analysis was a combination of maintainable earnings, dividend yields and discounted cash flows of assets, as appropriate.

- The net movement on revaluation is reflected in the statement of changes in net assets.

Financial assets at FVTPL are subsequently re-measured at fair value based on quoted bid prices. Gains or losses arising from changes in the fair value of securities classified as FVTPL are recognised in the statement of changes in net assets in the period in which they arise.

AFS financial assets are recognised at fair value based on independent valuation. Gains or losses arising from the change in the fair value are recognised in the investment revaluation reserve.

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. Were the Fund to sell other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using effective interest rate method.

### 1.7.1 Impairment of financial assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'Credit loss expense'. Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the 'Credit loss expense'. Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.



## 1. Significant accounting policies (continued)

### 1.8 Loans and impairment losses

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans originated by the Fund by providing money directly to the borrower are recognised as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by references to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

### 1.9 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including, cash, treasury bills and term deposits.

### 1.10 Foreign currency

#### 1.10.1 Functional presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Kina, which is the Fund's functional and presentation currency.

#### 1.10.2 Transactions and balances

Foreign exchange transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets.

### 1.11 Changes in accounting policies and comparatives

Where necessary comparative figures have been adjusted to conform to changes in presentation and accounting policies in the current year. There have been no changes to accounting policies in the current year.

### 1.12 Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Fund in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

### 1.13 Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured

using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 1.14 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### 1.15 Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

## 2. Description of the Fund

Defence Force Retirement Benefits Fund (the "Fund") was established under the Defence Force Retirement Benefit Fund Act, Chapter 79 (DFRBF Act), however as of 1 January 2003 it is recognised as being established pursuant to Section 8 of the Superannuation (General Provisions) Act 2002 with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established) on 31 December 2002.

DFRBF is a defined benefit fund. The Trustee at balance date is Comrade Trustee Services Limited (CTSL). CTSL is licensed by the Bank of Papua New Guinea as the corporate Trustee for the DFRBF. As the licensed corporate Trustee it has ultimate legal responsibility for the prudent management and preservation of the Fund subject to the requirement of the Superannuation Act and governing rules of the Fund.

The Fund is operated for the purpose of providing to members of the Defence Force on retirement and to their families in the event of death and for related purposes. The objective of the Trustee is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

Total membership for the Fund as at 31 December 2012 was:

Pensioners	1,815
Current members	2,792
	4,607

Both fund administration and investment management functions are delegated to and performed by Kina Investment & Superannuation Services Limited (KISS) and Kina Funds Management Limited (KFM) in compliance with the Superannuation Act 2000. The engagement of KISS and KFM is for a term of three years. As at 31 December 2012 the contracts expired and that the Trustee will be tendering the services in compliance with the statutory provision.

The principal place of business of the Fund is:

Comrade Trustee Services Limited  
Level 6, Defens Haus  
Corner Hunter Street & Champion Parade,  
Port Moresby, National Capital District  
Papua New Guinea

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

## 3. Funding arrangements

Contributions are made to the Fund in accordance with Part IV of the DFRBF Act at 6% of members' gross salaries for Member contributions while employer contribution is 60% of pension benefits or resignation benefits calculated based on a formula provided in the DFRBF Act.

## 4. Liability for accrued benefits

The liability for accrued benefits for Defined Benefit Division Members has been determined on the basis of the present value of the expected future payments that arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to the expected future salary levels and by application of the market-based, risk-adjusted discount rate and relevant actuarial assumptions. The actuary undertook the valuation of accrued benefits for Defined Benefit as part of an actuarial review as at 31 December 2010. The actuarial investigation uses an aggregate costing method, whereby the discounted values of future benefits are compared with the net fund of the assets plus the discounted value of contributions paid by the existing members only and no assumptions are made regarding new entrants. Detailed discussion of the review is provided in the actuarial report dated 1 June 2012.

Significant assumptions used applied in the actuarial report are as follow:

Investment Yield	8%
Salary Increase	8%
Pension Increase	5%
Crediting rate	8%
Pension Commutation	50%

The vested benefits are calculated as the total benefits payable if every contributor of the Fund left voluntarily at the review date as follows:

	Note	31 December 2010 K	31 December 2009 K
Liability for accrued benefits		61,595,000	49,194,000
Net value of assets		289,721,000	250,305,000

Although the actuarial report is prepared as at 31 December 2010, in terms of the requirements of Section 24 of the Defence Force Retirement Benefits Act, Chapter 76, the next actuarial investigation of the fund should be carried out no later than 31 December 2013 for the two years ended on 31st December 2012.

Accrued benefits were previously valued as part of a comprehensive review undertaken as at 31 December 2010.

## 5. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under the circumstances.

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

	Note	2012 K	2011 K
<b>a) Allowance for losses</b>			
Other assets		(569,921)	-

## 6. Interest income

This account consists of:

Cash and short term funds	1,037,147	1,213,448
Loans and advances	-	112,861
Treasury and Central bills	313,300	20,305
Financial assets		
Available for sale	-	-
Held-to-maturity	1,415,938	1,268,371
	2,766,385	2,614,984

## 7. Property income

Rent	3,023,043	3,457,492
Less: Other management expense	(611,883)	(718,404)
	2,411,160	2,739,088

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

## 8. Other investment income (expenses)

	Note	2012 K	2011 K
Gain/(loss) from foreign exchange		(137,026)	(3,693,246)
Doubtful debts		(569,921)	348,727
Others		34,371	636
		(672,576)	(3,343,883)

## 9. Benefits

Pension and back pension		9,964,884	8,525,609
Refunds		420,331	359,631
Gratuities		12,940	13,210
Lump sum		246,128	313,909
		10,644,283	9,212,359
Less : State share		(5,992,566)	(5,132,020)
Net benefit paid		4,651,717	4,080,339

As discussed in note 3, in accordance with Part IV of the DFRBF Act the employer (the "State") contribution is 60% of pension benefits.

## 10. Trustee administration expenses

Staff expenses	10.1	2,972,742	2,049,046
Other administrative expenses	10.2	1,268,273	1,083,331
Depreciation		180,152	173,606
Software cost		2,286	5,453
Operating lease		456,745	303,502
GST expense		691,176	229,268
Other		13,449	252,511
		5,584,822	4,096,717

### 10.1 Staff expenses

Salaries and wages		1,989,027	1,225,755
Sacrifice - Accommodation		498,704	376,588
Sacrifice - Airfare		32,533	31,570
Sacrifice - School fee		60,141	171,916
Sacrifice - Vehicle		61,650	-
Training		42,085	13,527
Entertainment		48,000	-
Other		240,602	229,691
	10	2,972,742	2,049,046

As at 31 December 2012 the Fund had 27 (2011: 25) employees.

### 10.2 Other administrative expenses

Advertising		36,591	48,384
Board of Trustee expenses		356,560	313,816
Internet service provider		32,857	52,110
License fee		(225,181)	41,379
Printing and stationery		109,685	38,768
Professional fees			
Audit services		216,142	145,739
Tax		1,450	-
Medical		41,228	-
Other		195,730	-
Consulting		23,976	605
Legal		62,078	149,188
Telephone		71,950	68,582
Insurance		65,643	43,047
Business travel		-	20,269
Sundry expenses		279,564	161,445
	10	1,268,273	1,083,331

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

## 11. Fund investment and administration expenses

	Note	2012 K	2011 K
Fund administration fee		433,550	291,656
Investment management fee		2,076,854	1,857,867
Benefits payment fee		1,379	1,200
		2,511,783	2,150,723

## 12. Income taxes

### 12.1 Income tax recognised in profit or loss

<b>Tax expense comprises:</b>			
Current tax expense in respect of the current year		6,278,980	6,037,659
Deferred tax expense relating to the origination and reversal of temporary differences		(4,153,678)	(3,934,708)
Over/(under) provision in prior year		(1,420,591)	(3,330,841)
		704,711	(1,227,890)

### 12.2 The tax expense for the year can be reconciled to the accounting surplus as follows:

Profit from continuing operations		37,749,073	13,339,492
Income tax expense calculated at 25%		9,437,268	3,334,873
Tax effect of permanent differences		(3,158,288)	2,702,786
Dividends rebate		(4,153,679)	(3,934,708)
(Over)/under provision in prior year		(1,420,591)	(3,330,841)
		704,711	(1,227,890)

### 12.3 Deferred tax balances

#### (a) Deferred tax assets

	Opening balance K	Recognised in Surplus K	Closing balance K
2012			
Temporary difference			
Accruals and allowances	250,189	81,086	331,275
Other assets	-	-	-
Employee benefits	158,502	157,825	316,327
Depreciation (differences between tax and accounting value)	2,164,416	(199,192)	1,965,224
	2,573,107	39,719	2,612,826
2011			
Temporary difference			
Accruals and allowances	216,411	33,778	250,189
Other assets	87,182	(87,182)	-
Employee benefits	204,107	(45,605)	158,502
Depreciation (differences between tax and accounting value)		2,164,416	2,164,416
	507,700	2,065,407	2,573,107

#### (b) Deferred tax liabilities

2012			
Rent receivable	2,364	(2,364)	-
Interest receivable	333,424	4,446	337,869
Prepaid insurance	19,651	(15,475)	4,175
Other assets	1,142,927	(1,072,006)	70,921
	1,498,366	(1,085,400)	412,966
2011			
Rent receivable	7,976	(5,612)	2,364
Interest receivable	281,152	52,272	333,424
Prepaid insurance	16,733	2,918	19,651
Depreciation (differences between tax and accounting value)	2,305,408	(2,305,408)	-
Other assets	481,798	661,129	1,142,927
	3,093,067	(1,594,701)	1,498,366



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

## 13. Cash and cash equivalents

	Note	2012 K	2011 K
Cash on hand		700	700
Cash in banks		965,819	617,409
Term deposits – less than 90 days		35,736,376	32,982,532
		36,702,895	33,600,641
Placement with other banks – more than 90 days		10,097,116	4,656,907
		46,800,011	38,257,548

## 14. Loans to members and others

<b>Members</b>			
Tertiary education scheme		1,917	1,917
Housing advance		1,293,326	1,385,981
		1,295,243	1,387,898

Loans are at fixed rates. The aggregate amount of non-performing loans on which interest was not being accrued amounted to nil (2011: nil) as at 31 December 2012.

## 15. Financial assets

### 15.1 Financial assets at FVTPL

Listed shares	25	180,042,432	169,551,565
Unlisted shares	25	63,008,602	48,473,055
		243,051,034	218,024,620

### 15.2 Available-for-sale financial assets

Balance at beginning of year		28,980,000	24,460,030
Change in fair value of AFS financial asset		283,990	4,519,970
Balance at end of year		29,263,990	28,980,000

### 15.3 Held-to-maturity financial assets

Government securities		15,146,694	15,276,078
		15,146,694	15,276,078

Government securities are investment in government inscribed stock carried at amortised cost. These deposits are held to their maturity which varies between 2011 and 2023. Details of the government inscribed stock are set out in Note 26.

## 16. Investment properties

Balance at beginning of financial year		54,640,890	45,285,355
Purchase of investment property		-	4,039,921
Work In Progress		4,708,332	-
Transfer from WIP to Investment properties		-	-
Net gain from fair value adjustments		1,467,400	5,315,614
Balance at end of financial year		60,816,622	54,640,890

The fair value of the Fund's investment property at 31 December 2012 (31 December 2011) has been arrived at on the basis of a valuation carried out at that date by The Professional Valuers of PNG Limited, independent valuers that are not related to the Trustee.

There is now recognition and recording of the Fund's 50% share of the Lawes Road Apartments in the Fund's financial statements, at K6,076,500. However no share of net income from the property has been recognised by the Fund since 2003 due to the absence of information to quantum and realise. This will be undertaken in the coming year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

### 17. Property and equipment

	Motor Vehicle K	Furniture and Fitting K	Other equipment K	Renovation K	Software K	Total K
<b>Cost</b>						
Balance at 1 January 2012	69,021	526,827	531,615	703,839	124,496	1,955,798
Additions	-	-	78,380	-	57,963	136,343
Disposal	-	-	-	-	-	-
<b>Balance at 31 December 2012</b>	<b>69,021</b>	<b>526,827</b>	<b>609,995</b>	<b>703,839</b>	<b>182,459</b>	<b>2,092,141</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2012	31,060	525,355	346,083	375,120	107,614	1,385,232
Charged during year	20,706	1,202	67,768	70,249	20,227	180,152
Disposal	-	-	-	-	-	-
Balance at 31 December 2012	51,766	526,556	413,851	445,369	127,841	1,565,384
<b>Net book value at 31 December 2012</b>	<b>17,255</b>	<b>271</b>	<b>196,144</b>	<b>258,470</b>	<b>54,618</b>	<b>526,757</b>
<b>Net book value at 31 December 2011</b>	<b>37,961</b>	<b>1,472</b>	<b>185,531</b>	<b>328,719</b>	<b>16,889</b>	<b>570,566</b>

### 18. Other assets

	2012 K	2011 K
Prepayments	24,403	92,015
Debtors – Corporate	5,472,444	6,356,539
Security deposits	35,326	33,326
Accrued interests		
Term deposits	190,344	181,442
Treasury Bills	113,220	20,305
State share	-	-
Financial assets		
Held-to-maturity	234,221	188,870
Sundry debtors	111,836	8,419
<b>Total</b>	<b>6,181,794</b>	<b>6,880,914</b>
Less: specific allowance for losses	(569,921)	-
	<b>5,611,873</b>	<b>6,880,914</b>

### 19. Employee provisions

Balance at beginning of year	634,010	816,041
Charged to profit & loss	631,297	(182,031)
<b>Balance at end of year</b>	<b>1,265,307</b>	<b>634,010</b>
Represented by		
Short term provisions	576,043	261,241
Long term provisions	689,264	372,849
	<b>1,265,307</b>	<b>634,010</b>

### 20. Other liabilities

Creditors	841,602	594,574
Government - retrenchment (i)	498,642	498,642
Unclaimed monies (ii)	15,185	12,432
Accruals	948,275	1,042,480
	<b>2,303,704</b>	<b>2,148,127</b>

- (i) The balance represents the difference between the State share (60%) of the contribution received by the Fund and the payment made to members who were retrenched in 2006.  
Pending on further instructions from the State, the Fund will either remit the remaining balance to the State or apply this amount against future member retrenchments.
- (ii) The balance represents outstanding unclaimed benefit payments by members that were processed in prior years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

## 21. Net assets available to pay benefits

Net assets available to pay benefits comprise:

	2012 K	2011 K
<b>(a) Members funds</b>		
Balance at beginning of year	336,037,492	325,990,080
Surplus for the year	37,111,363	10,047,412
	373,148,855	336,037,492
<b>(b) Investment revaluation reserve</b>		
Balance at beginning of year	26,522,860	22,002,890
Change in fair value of AFS financial asset	283,990	4,519,970
	26,806,850	26,522,860
<b>Net assets available to pay benefits</b>	<b>399,955,705</b>	<b>362,560,352</b>

## 22. Notes to the statement of cash flows

For the purposes of the cash flow statement, cash includes cash on hand, on call deposits with banks and placement in banks with less than 90 days maturity. (see note 13)

## 23. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

### 23.1 Key management personnel remuneration specified in aggregate in the year 2012:

Salary	775,794	501,546
Non-monetary (i)	35,230	17,728
Superannuation;		
- Employee	54,899	60,000
- Employer	97,093	84,000
	963,016	663,274

(i) Non-monetary benefits relates to value of assessable benefits charged for salary tax purposes on housing and motor vehicles provided to key management.

### 23.2 Above K100,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K100,000 per annum are as follows:

	2012	2011
K200,000 – K400,000	2	-
K401,000 – K600,000	-	-
K601,000 – K800,000	1	2

### 23.3 Board of Directors remuneration aggregate in the year 2012:

Mr Chris Alu	
Captain (N) Alois Ur Tom, OBE	Mr Kisakiu Posman
Col David Takendu, OBE (Rtd)	Mr Michael Varapik
Captain (N) Max Aleale, DMS	Mr Moses Koiri

	2012 K	2011 K
<b>Stipend</b>	300,852	215,559
	300,852	215,559

## 24. Financial risk management

The Fund's strategy focuses on two primary objectives: to maximise long term fund returns and to manage and control business and investment risks. This strategy inherently requires the Fund to pursue a balanced investment strategy which seeks capital growth over the medium to long term with moderate income streams.

All investment undertaken must balance risk against returns. In other words, the investment strategy pursued must determine a mix of growth and defensive assets that best suits the needs of the members.

The Fund can achieve better returns through disciplined application of a good investment process, one that is based on the analysis of investment fundamentals followed by an assessment of relative value.

The Fund is exposed to liquidity risk, interest rate risk, foreign exchange risk, credit risk, government security risk and country risk.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

### 24. Financial risk management (continued)

#### 24.1 Liquidity risk

The Fund invests the majority of the assets in investments that are traded in an active market.

The Fund holds securities that are listed on both the Port Moresby Stock Exchange and the Australian Stock Exchange. Those securities that are listed on the Australian Stock Exchange are considered readily realisable while those listed on Port Moresby Stock Exchange are not as the potential buyers may not be readily available at the point of sale.

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of pension commutation and a fortnightly pension payable through out the life-time of the member.

#### 24.2 Government security risk

The Fund has a significant exposure to the state through its holding of government securities.

#### 24.3 Country risk

To the extent that the Fund holds funds in foreign jurisdiction, a variety of risk may arise in addition to foreign exchange risk – such as changes in local economic condition, local regulatory requirements or non-transparent governance arrangements. The Fund's investments in foreign jurisdiction has been primarily in Australia to the value of K62,615,389 (2011: K59,890,020). Country risk is assessed on a scale of low-medium-high.

#### 24.4 Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing; as a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash equivalents are invested at short-term market interest rates.

The Fund is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarises the Fund's exposures to interest rates risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates:

	Weighted average interest rate	Up to 1 Year K	1-5 Years K	Over 5 Years K	Non-interest Bearing K	Total K
<b>31 December 2012</b>						
<b>Assets</b>						
Cash and cash equivalents	2.10%	46,800,011		–	–	46,800,011
Loans to members and others	8.00%	–	1,295,242	–	–	1,295,242
Financial assets						–
FVTPL					243,051,034	243,051,034
Available-for-sale		–		–	29,263,990	29,263,990
Held-to-maturity	8.70%	–	–	15,146,694	–	15,146,694
Other assets		–	–	–	5,611,873	5,611,873
<b>Liabilities</b>						
Other liabilities		–	–	–	2,303,704	2,303,704
Current income tax payable		–	–	–	1,187,368	1,187,368
Interest sensitivity gap		46,800,011	1,295,242	15,146,694	281,4179,69	344,659,916
<b>31 December 2011</b>						
<b>Assets</b>						
Cash and cash equivalents	3.00%	38,257,548		–	–	38,257,548
Loans to members and others	8.00%	–	1,387,898	–	–	1,387,898
Current income tax receivable		–	–	–	249,234	249,234
Financial assets						
FVTPL					218,024,620	218,024,620
Available-for-sale		–		–	28,980,000	28,980,000
Held-to-maturity	8.90%	–	–	15,276,078	–	15,276,078
Other assets		–	–	–	6,880,914	6,880,914
<b>Liabilities</b>						
Other liabilities		–	–	–	2,148,127	2,148,127
Interest sensitivity gap		38,257,548	1,387,898	15,276,078	256,282,895	311,204,419

#### 24.5 Foreign Currency exchange risk

The Fund holds assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities, and the dividends earned denominated in other currencies will fluctuate due to changes in exchange rates.

The table below summarises Fund's exposure to currency risks, concentration of assets and liabilities:

	2012 K	2011 K
<b>Australian currency</b>		
Assets	61,387,255	58,660,293



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

### 24. Financial risk management (continued)

#### 24.6 Foreign currency sensitivity analysis

The Fund is mainly exposed to the Australian dollar.

The following table details the Fund's sensitivity to a 2% increase and decrease in the Kina against the Australian dollar. 2% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 2% change in foreign currency rates. The sensitivity analysis includes deposits and investments where the denominations are in Australian dollar. A positive number below indicates an increase in profit and other equity where the Kina strengthens 2% against Australian dollar. For a 2% weakening of the Kina against the Australian dollar, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	2012	2011
	K	K
<b>Surplus/(Deficit)</b>	1,073,352	271,843

#### 24.7 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Fund's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying Value		Fair Value	
	2012	2011	2012	2011
	K	K	K	K
<b>Assets</b>				
Cash from other banks	46,800,011	38,257,548	46,800,011	38,257,548
Loans receivable	1,295,243	1,387,898	1,295,243	1,387,898
Current income tax receivable	-	249,234	-	249,234
Deferred income tax assets	2,612,826	2,573,107	2,612,826	2,573,107
Financial assets				
FVTPL	243,051,034	218,024,620	243,051,034	218,024,620
Available-for-sale	29,263,990	28,980,000	29,263,990	28,980,000
Held-to-maturity	15,146,694	15,276,078	15,146,694	15,276,078
Investment properties	60,816,622	54,640,890	60,816,622	54,640,890
Property and equipment	526,757	570,566	526,757	570,566
Other assets	5,611,873	6,880,914	5,611,873	6,880,914
	405,125,050	366,840,855	405,125,050	366,840,855
<b>Liabilities</b>				
Current income tax payable	1,187,368	-	1,187,368	-
Deferred income tax liabilities	412,966	1,498,366	412,966	1,498,366
Employee provisions	1,265,307	634,010	1,265,307	634,010
Other liabilities	2,303,704	2,148,127	2,303,704	2,148,127
	5,169,345	4,280,503	5,169,345	4,280,503
<b>Net</b>	399,955,705	362,560,352	399,955,705	362,560,352

##### 24.7.1 Cash and cash equivalents

Cash and due from other banks includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits equal their carrying amounts.

##### 24.7.2 Loans and advances to customers

Loan and advances are net of allowance for losses.

##### 24.7.3 Investment securities

In 2009, investment securities include financial assets at FVTPL, available-for-sale and held-to-maturity which are now measured at fair value based on a market prices or broker/dealer price quotations.

#### 24.8 Credit risk

The Fund takes exposure on credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

The funds maximum exposure to credit risk is K48,095,253.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

### 24. Financial risk management (continued)

#### 24.8 Credit risk (continued)

The Fund manages this risk by asset allocation over or below the preferred (neutral) position and the investment manager can take an aggressive or conservative position depending on the economic circumstances prevailing at the time. The asset allocation at balance date is as follows:

	2012		2011	
	K	%	K	%
<b>Cash and cash equivalents</b>	46,800,011	11.81%	38,257,548	10.73%
Loans to members and others	1,295,243	0.33%	1,387,898	0.39%
Financial assets				
FVTPL	243,051,034	61.33%	218,024,620	61.15%
Available –for-sale	29,263,990	7.38%	28,980,000	8.13%
Held-to-maturity	15,146,694	3.82%	15,276,078	4.28%
Investment properties	60,749,621	15.33%	54,640,890	15.32%
	396,306,593	100%	356,567,034	100%

The assets allocation range defines the high and low extremes within which each assets class may move in response to changing economic conditions. By approving an asset allocation range, the Trustees still maintain ultimate control over investment policy at the micro level while the Investment Manager is given the flexibility needed at operational level to quickly respond to and take advantage of changing economic circumstances without the need to continuously revert back to the Trustees for approval.

The Investment Manager shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Bank of Papua New Guinea.

#### 24.9 Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the equity price had been higher/lower, the net surplus for the year ended 31 December 2012 would increase/decrease by K3.3 million as a result in the changes in fair market value of listed shares classified as at FVPTL.

### 25. Detailed Listing of Financial assets held by the Fund

#### 25.1 Listed shares

Companies	Market Price K		31 December 2012		31 December 2011	
			Market Value 31/12/2012 Kina	Shareholding as a % of net assets of the Fund	Market Value 31/12/2011 Kina	Shareholding as a % of net assets of the Fund
	Units					
Bank South Pacific	8.06	14,680,142	118,321,941	29.47%	113,087,683	30.65%
Bank of Queensland	15.97	170,000	2,715,124	0.68%	-	0.00%
City Pharmacy	1.55	152,679	236,652	0.06%	-	0.00%
Oil Search	15.23	2,262,400	18,355,172	4.57%	19,379,322	5.35%
Kina Asset Management Ltd	0.9	7,380,000	6,642,000	1.65%	6,937,200	1.88%
Credit Corporation	2.2	2,694,629	6,561,132	1.63%	5,335,365	1.45%
New Britain Palm Oil	17	399,929	6,714,116	1.67%	9,091,975	2.46%
BHP Billiton Ltd	80.62	30,000	3,466,536	0.86%	3,198,055	0.87%
Highlands Pacific	0.33	2,804,737	914,191	0.23%	1,121,895	0.30%
Telstra 3 <T3>	9.50	170,000	2,810,778	0.70%	1,223,207	0.33%
ANZ Banking	54.43	30,000	1,632,986	0.41%	1,330,812	0.36%
Telstra Corporation	9.50	204,000	1,937,158	0.48%	1,467,848	0.40%
Commonwealth Bank of Australia	135.12	10,000	2,892,140	0.72%	2,276,478	0.62%
Multiplex Sites Trust	180.77	2,500	-	0.00%	399,740	0.00%
Marengo Mining Ltd	0.28	71,112	762,712	0.19%	33,036	0.01%
Newcast Mining Ltd	48.20	39,159	1,887,307	0.47%	4,668,949	1.27%
Vanguard International Shares Index Fund	2.37	1,770,076	4,192,488	1.04%	-	0.00%
			180,042,432		169,551,565	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

### 25. Detailed Listing of Financial assets held by the Fund (continued)

#### 25.2 Unlisted shares

Companies	Market Price K	Units	31 December 2012		31 December 2011	
			Market Value 31/12/2012 Kina	Shareholding as a % of net assets of the Fund	Market Value 31/12/2011 Kina	Shareholding as a % of net assets of the Fund
BPT(PNG) Ltd	42.69	98,670	4,212,222	1.05%	3,199,868	0.87%
Westpac Bank Ltd (WPC)	236.5	2,000	473,000	0.12%	-	0.00%
Arnott's Biscuit	154	225,000	34,650,000	8.63%	24,705,000	6.70%
Post Courier	6.88	110,900	762,992	0.19%	753,011	0.20%
South Pacific Brewery	40	566,668	22,910,387	5.71%	18,501,710	5.01%
Pacific Balanced Fund	5.6	-	-	0.00%	316,383	0.08%
ABN AMRO Social Infrastruc	2.08	-	-	0.00%	997,083	0.27%
<b>Financial assets at FVTPL</b>			63,008,602		48,473,055	
Hunter		70	29,263,990	7.29%	28,980,000	7.85%
<b>AFS financial assets</b>			29,263,990		28,980,000	

### 26. List of Investment Securities held – to – maturity (Government Inscribed Stock)

Serial Number	Settlement Date	Maturity Date	Coupon Rate	Face Value 31/12/2012 K	Face Value 31/12/2011 K
S15112016(G26)	17/11/2006	15/11/2016	9.00%	4,162,267	4,204,239
S15112021(G27)	17/11/2006	15/11/2021	12.00%	3,274,003	3,304,945
S15112021(G25)	15/12/2006	15/11/2021	12.00%	1,005,772	1,006,424
S15112016(G28)	12/01/2007	15/11/2016	9.00%	1,005,591	1,007,037
S15112023 (G37)	11/04/2008	15/11/2023	12.00%	2,170,577	2,186,299
S15112023 (G38)	16/05/2008	15/11/2023	12.00%	1,057,346	1,062,632
S15112018 (G39)	16/05/2008	15/11/2018	9.00%	335,563	336,001
<b>S15112017 (G41)</b>	23/09/2011	15/02/2017	9.00%	2,135,574	2,168,501
<b>TOTAL INSCRIBED STOCK</b>				15,146,694	15,276,078

### 27. Audit Fees

The auditor is Deloitte Touche Tohmatsu. The audit fees paid for the audit of the financial statements are disclosed in note 10.2.

### 28. Subsequent Events

In January 2013, the board approved the purchase of the Ela Makana property at a cost of K10.5m. This will be recorded as investment property.

# Corporate directory

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## Licensed Trustee:

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## Management:

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Richard Sinamoi – Chief Executive Officer  
Danny Herepe - Executive Manager Finance and Administration  
Chris Sariman – Executive Manager Member Services

## Banker:

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## Actuary:

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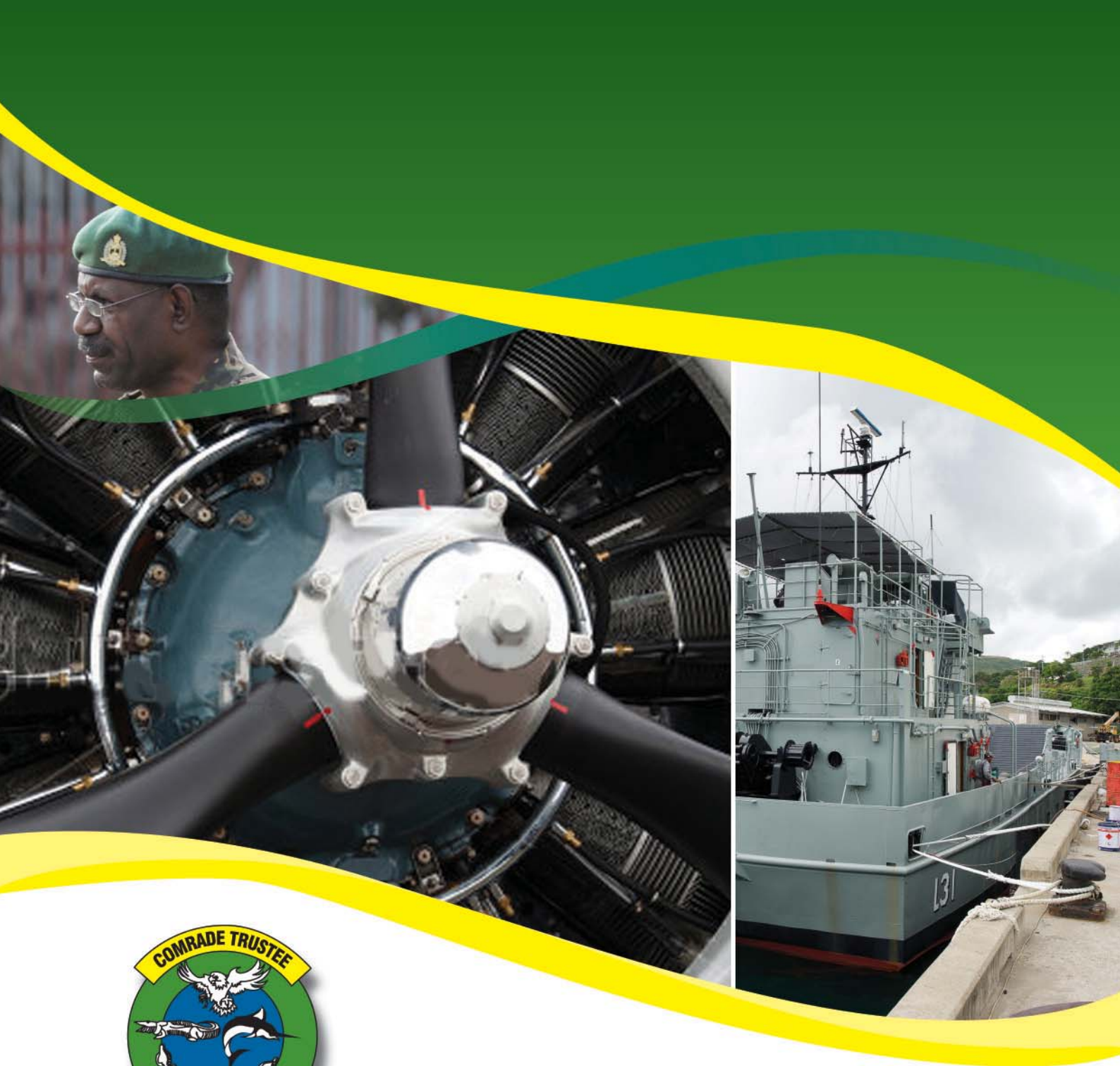












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