

2010

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010



LEVEL PREMIUM SCHEME



NATIONAL
PROVIDENT

Deloitte.

This audit report, dated 30 June 2010, relates to the financial statements of the Level Premium Scheme for the year ended 31 March 2010 included on this website. The Board is responsible for the maintenance and integrity of this website. We have not been engaged to report on the integrity of this website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on this website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 June 2010 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Level Premium Scheme (the Scheme)
Income Statement
for the year ended 31 March 2010**

	Note	2010 (\$000)	2009 (\$000)
Investment income			
Income/(loss) from unit funds	5	758	(765)
Interest received		2	6
Total gross income/(loss)		<u>760</u>	<u>(759)</u>
Operating expenses			
Actuarial fees		27	37
Audit fees		1	1
Insurance premiums paid to NPF Life Limited	4	595	653
Legal fees		2	2
Management expenses	6	58	59
		<u>683</u>	<u>752</u>
Net income/(loss) before tax and membership activities		<u>77</u>	<u>(1,511)</u>
Income tax credit	7	26	28
Net income/(loss) after tax and before membership activities		<u>103</u>	<u>(1,483)</u>
Scheme receipts	1		
Contributor contributions		-	-
Total contributions		<u>-</u>	<u>-</u>
Scheme payments			
Benefits paid		20	40
Transfers paid to other schemes		18	2
Total scheme payments		<u>38</u>	<u>42</u>
Net membership activities		<u>38</u>	<u>42</u>
Increase/(decrease) in net assets for the year	10	65	(1,525)
Net assets available to pay benefits at beginning of year		4,755	6,280
Net assets available to pay benefits at end of year		<u>4,820</u>	<u>4,755</u>

The notes to the financial statements on pages 4 to 14 form an integral part of these financial statements.

**Level Premium Scheme (the Scheme)
Statement of Financial Position
as at 31 March 2010**

	Note	2010 (\$000)	2009 (\$000)
Investment assets	3		
Units held in:			
- Fixed Interest Unit Fund		2,581	2,738
- Property Unit Fund		366	295
- New Zealand Equity Unit Fund		301	285
- Overseas Equity Unit Fund		1,200	1,083
- Commodities Fund		135	113
- Life Insurance Unit Fund		163	163
		4,746	4,677
Other assets			
Cash		90	40
Receivable from the Global Asset Trust	8	26	28
Other receivables	9	5	15
		121	83
Total assets		4,867	4,760
Deduct liabilities			
Accounts payable		47	5
		47	5
Net assets available to pay benefits		4,820	4,755

Authorised for issue on 30 June 2010.

On behalf of the Board of Trustees of the National Provident Fund.



Catherine M Savage
Chairman



Paul G Foley
Chairman
Audit and Risk Review Committee

The notes to the financial statements on pages 4 to 14 form an integral part of these financial statements.

**Level Premium Scheme (the Scheme)
Statement of Cash Flows
for the year ended 31 March 2010**

	Note	2010 (\$000)	2009 (\$000)
Cash flows from operating activities			
Cash was provided from:			
Interest received		2	6
		<u>2</u>	<u>6</u>
Cash was applied to:			
Benefits paid		38	41
Operating expenses		8	110
Insurance premiums paid to NPF Life Limited		595	653
		<u>641</u>	<u>804</u>
Net cash flows used in operating activities	10	<u>(639)</u>	<u>(798)</u>
Cash flows from investing activities			
Cash was provided from proceeds from sale of units in:			
- Fixed Interest Unit Fund		399	1,055
- Property Unit Fund		44	42
- New Zealand Equity Unit Fund		77	221
- Overseas Equity Unit Fund		186	75
- Commodities Fund		-	63
		<u>706</u>	<u>1,456</u>
Cash was applied to purchase of units in:			
- Fixed Interest Unit Fund		-	17
- Property Unit Fund		-	99
- New Zealand Equity Unit Fund		-	46
- Overseas Equity Unit Fund		-	329
- Commodities Fund		17	198
		<u>17</u>	<u>689</u>
Net cash flows from investing activities		<u>689</u>	<u>767</u>
Net increase/(decrease) in cash held		50	(31)
Add opening cash brought forward		40	71
Closing cash carried forward		<u>90</u>	<u>40</u>

The notes to the financial statements on pages 4 to 14 form an integral part of these financial statements.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared under the requirements of clause 36 of the Scheme trust deed, and section 14 and the Second Schedule of the Superannuation Schemes Act 1989. A description of the Scheme and funding arrangements is outlined in note 1.

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), applying the New Zealand equivalents to International Financial Reporting Standards and its interpretations (NZ IFRS), as appropriate for profit oriented entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The preparation of financial statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions made are based on historical experience and other factors that are believed to be reasonable under the circumstances. The results of the estimates and associated assumptions form the basis for making the judgements about carrying values of assets and liabilities, which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revisions affect both current and future periods.

Measurement Base

The measurement base adopted is that of historical cost, except for investment assets which are stated at their fair value as discussed below.

Presentational and Functional Currency

The financial statements are presented in New Zealand Dollars, which is the Scheme's functional currency, rounded to the nearest thousand dollars (\$000).

Financial Instruments

The Scheme is authorised to invest only in the Global Asset Trust (GAT) or in bank deposits. The GAT is divided into separate unit funds.

The category of financial assets and financial liabilities comprise:

- financial instruments designated at fair value through profit or loss upon initial recognition. These assets are managed and their performance evaluated on a fair value basis, consistent with the Scheme's documented investment strategy. The assets are investments in units in the GAT which, in turn, invests in New Zealand equities, overseas equities, property, commodities' futures and fixed interest instruments.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

Financial Instruments (continued)

- financial assets that are classified as loans and receivables. These include receivables from related parties and other receivables.
- financial liabilities measured at amortised cost. These include sundry other accounts payable, and bank overdrafts.

Recognition

The Scheme recognises financial assets and financial liabilities on the date the Scheme becomes a party to the financial instruments.

Measurement

Financial instruments are measured at fair value and any movements reported in the Income Statement.

Financial assets, classified as loans and receivables, and financial liabilities are carried at amortised cost using the effective interest rate method, less any impairment losses.

The fair value of the units held by the Scheme in the GAT is based on the valuation of the financial instruments held by the GAT. The fair value of financial instruments held by the GAT is based on quoted bid prices for investments at balance date without any deduction for future selling costs. If a quoted market price is not available on a recognised stock exchange, the fair value of the instrument is estimated using valuation techniques.

Impairment

Financial assets, that are stated at amortised cost, are reviewed at each financial statement date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Income Statement as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Derecognition

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Scheme transfers the financial asset and the transfer qualifies for derecognition in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Cash and Cash Equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

Benefits

Benefits are recognised in the Income Statement when they become payable.

Investment Income Recognition

Interest income is recognised using the effective interest rate of the instrument. Realised and unrealised gains or losses on GAT unit funds are recognised in the income statement. Interest income on assets, designated at fair value through profit or loss, is accrued at balance date.

Expenses

All expenses are recognised in the Income Statement on an accrual basis.

Taxation

Any income tax on net income would be current tax.

Income/(loss) from the movement in the fair value of the unit funds of the GAT is received by the Scheme tax paid. The Scheme's deductible operating expenses are offset against the Scheme's interest received to result in nil assessable income.

Any surplus deductible operating expenses are transferred to the GAT under section DV 2 of the Income Tax Act 2007 (refer notes 7 and 8).

Accrued Benefits (Liabilities)

The liability for accrued benefits is the Scheme's present obligation to pay benefits to contributors and pensioners.

Prior Year Comparatives

Prior year comparatives have been reclassified, where appropriate, to facilitate comparison with the current year.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

1 Description of the Scheme and Funding Arrangements

The Scheme is a defined benefit scheme, governed by a trust deed.

A contributor makes contributions to the Scheme at the same rate as the contributor was contributing on 1 January 1984.

2 Related Parties

Under the terms of the National Provident Fund Restructuring Act 1990 (the Act), the Board of Trustees of the National Provident Fund (the Board) is trustee of the Scheme. Members of the Board are appointed by the Minister of Finance (the Minister) and the Board provides an annual report on the activities of the Scheme to the Minister.

The Board and the Government Superannuation Fund Authority (the Authority) have formed a joint venture company, Annuitas Management Limited (Annuitas). Each organisation has entered into a management services agreement with Annuitas.

The main function of Annuitas is to provide staff who act in management and secretarial roles on behalf of the Board and the Authority. Sue Sheldon and Roy Tiffin, the two Board appointed directors of Annuitas at the beginning of the financial year, resigned following their retirement from the Board on 30 September 2009 and 30 April 2010 respectively, and were replaced by Catherine Savage on 1 October 2009 and Paul Foley on 1 May 2010. The costs of running Annuitas are shared between the Board and the Authority on an equitable basis, as agreed between the organisations.

The Board is also the trustee of the GAT, which holds the assets of all National Provident Fund schemes. The Scheme is authorised to invest only in the GAT or in bank deposits. The GAT is divided into separate unit funds, representing various asset classes, which have issued units to the Board, as trustee of the Scheme, according to prescribed asset allocation benchmarks (refer note 3).

There are no transactions between members of the Board or management, as individuals, and the Scheme.

3 Asset Allocation

The asset allocation benchmarks remained unchanged from the previous year and are as shown hereunder:

Asset Allocation Benchmarks

Fixed Interest Unit Fund	58.0%
Property Unit Fund	7.5%
New Zealand Equity Unit Fund	6.5%
Overseas Equity Unit Fund	25.0%
Commodities Fund	3.0%

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

4 Premium Paid to NPF Life Limited

The Scheme pays a four weekly insurance premium to NPF Life Limited (a related company which is wholly owned by the Board as trustee of the Life Insurance Unit Fund of the GAT) to insure the pension benefits payable by the Scheme. An agreement with NPF Life Limited fully relieves the Scheme from the liability to provide benefits to beneficiaries for the year, that are contingent upon their death or survival.

5 Income/(loss) from Unit Funds

Income/(loss) from unit funds was derived from the changes in value of units and reflects both realised and unrealised gains and losses, net of expenses directly related to investment activities, as follows:

	2010	2009
	(\$000)	(\$000)
Fixed Interest Unit Fund	243	98
Property Unit Fund	115	(226)
New Zealand Equity Unit Fund	92	(95)
Overseas Equity Unit Fund	303	(520)
Commodities Fund	5	(22)
Income/(loss) from unit funds	758	(765)

The income/(loss) from unit funds is received tax paid.

6 Management Expenses

Management expenses comprise administration fees charged by Jacques Martin New Zealand Limited to 30 November 2009 and Datacom Employer Services Limited from 1 December 2009, and a share of the expenses of the Board. The Board's expenses are apportioned to each scheme through a costing system which equitably allocates the expenses based on membership and transaction numbers, and investment asset values.

The Scheme's share of remuneration and expenses paid to members of the Board amounted to \$18,531 (2009: \$15,241) and is included in management expenses.

Investment management and custodial fees are deducted from the earnings of each of the unit funds.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

7 Income Tax

Income specific to the Scheme is subject to tax at 30% after allowing for deductible expenses.

The income tax reconciliation is as follows:

	2010 (\$000)	2009 (\$000)
Scheme specific income	2	6
Deductible expenses	(88)	(99)
Expense election to the GAT under section DV 2	86	93
Taxable income	<u>-</u>	<u>-</u>
Income tax credit on current year income	26	28
Income tax credit	<u>26</u>	<u>28</u>

The tax credit results from the benefit of electing to transfer surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007 (the Tax Act) (refer note 8).

8 Receivable from the GAT

This receivable represents the outstanding tax credits utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under section DV 2 of the Tax Act. The Scheme will realise the receivable by investing in unit funds of the GAT.

9 Other Receivables

Other receivables consist of:

	2010 (\$000)	2009 (\$000)
Amounts due from the Board	5	15
Other receivables	<u>5</u>	<u>15</u>

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

10 Reconciliation of Increase/(Decrease) in Net Assets for the Year to Net Cash Flows used in Operating Activities

	2010	2009
	(\$000)	(\$000)
Increase/(decrease) in net assets for the year	65	(1,525)
Movements in working capital		
Increase/(decrease) in accounts payable	42	(27)
Decrease/(increase) in other receivables	10	(11)
	52	(38)
Non cash items		
Decrease in receivable from the GAT	2	-
	2	-
Items classified as investing activities		
(Income)/loss from unit funds	(758)	765
	(758)	765
Net cash flows used in operating activities	(639)	(798)

11 Guaranteed Benefits

Under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

12 Actuarial Review, Funding Level and Vested Benefits Ratio – 31 March 2010

Actuarial Review

Every three years, a statutory actuarial examination of the Scheme is prepared in accordance with the Superannuation Schemes Act 1989 (refer note 13). The most recent actuarial examination was conducted as at 31 March 2009.

In addition, an actuarial review of the Scheme is undertaken annually. The results of the actuarial review of the Scheme, as at 31 March 2010, including the funding level and vested benefits ratio, are set out below.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

**12 Actuarial Review, Funding Level and Vested Benefits Ratio – 31 March 2010
(continued)**

Funding Level – 31 March 2010

The funding level of the Scheme is the ratio of the net assets available to pay benefits to the value of the total liabilities. The funding level calculated by the Actuary, as at 31 March, is shown below:

Valuation date	2010	2009
	(\$000)	(\$000)
Present value of -		
Liabilities	(4,322)	(4,704)
Net assets	4,820	4,755
Surplus	498	51
Funding level (solvency ratio)	111.5%	101.1%

This table should be read in conjunction with note 11.

Vested Benefits Ratio – 31 March 2010

The value of the vested benefits is the value of the benefits contributors would have been entitled to if they left the Scheme on the bases set out below.

The value is determined by the Actuary as the sum of:

- for contributors, who are entitled to either retire or transfer (contributors over age 60), the greater of:
 - the value of the retirement benefit the contributor would have been entitled to, if the contributor had retired, and
 - the transfer value the contributor would have been entitled to, if the contributor had transferred out of the Scheme,
- for other contributors, who are entitled to transfer (contributors under age 60), the transfer value the contributor would have been entitled to if the contributor had transferred out of the Scheme,
- for contributors, whose contributions have lapsed, a return of their own contributions,
- for pensioners, the value of their future pension entitlements, and
- for extinguished liabilities, the provision for reinstatement.

The vested benefits ratio of the Scheme is the ratio of the net assets available to pay benefits to the value of vested benefits.

Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010

12 Actuarial Review, Funding Level and Vested Benefits Ratio – 31 March 2010 (continued)

The vested benefits ratio calculated by the Actuary, as at 31 March, is shown below:

Valuation date	2010	2009
	(\$000)	(\$000)
Present value of -		
Vested benefits	(4,326)	(4,708)
Net assets	4,820	4,755
Surplus	494	47
Vested benefits ratio	111.4%	101.0%

This table should be read in conjunction with note 11.

13 Statutory Actuarial Examination – 31 March 2009

Under the Superannuation Schemes Act 1989, a statutory actuarial examination of the Scheme is required every three years.

The most recent statutory actuarial examination was prepared, as at 31 March 2009, by Christine Ormrod BA, FNZSA, FIA, the Actuary to the Scheme, and is dated 8 October 2009. It covers the three years 31 March 2006 to 31 March 2009.

The report on the examination showed that the value of net assets exceeded the value of liabilities, as at 31 March 2009, based on the actuarial assumptions used. The valuation results were:

Valuation date	2009	2006
	(\$000)	(\$000)
Present value of -		
Contributors' benefits	(575)	(2,447)
Pensioners' benefits	(4,130)	(5,559)
Total liabilities	(4,704)	(8,006)
Net assets	4,755	7,628
Surplus/(deficit)	51	(379)
Funding level	101.1%	95.3%

The above figures are rounded and so may not appear to add exactly.

The above should be read in conjunction with Note 11.

The ratio of the net assets to the value of total liabilities is known as the funding level. A funding level of 100% indicates a balance between the net assets and liabilities of the Scheme at the date of valuation. The funding level of the Scheme at 31 March 2009 was 101.1%. This shows that the Scheme had sufficient assets, as at that date, to meet its liabilities under the valuation assumptions.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

13 Statutory Actuarial Examination – 31 March 2009 (continued)

The report stated:

- the ratio of the net assets to the value of vested benefits, as at 31 March 2009, was 101.0%.
- the funding level is expected to remain approximately the same over the next three years, if the assumptions used in this actuarial examination are borne out in practice.

The Actuary did not express an opinion on the financial condition of the Scheme.

The most significant actuarial assumptions used by the Actuary were:

- the discount rate of 4.0% per annum, and
- the pensioner mortality assumptions, which were based on the results of a recent pensioners' mortality investigation and include an allowance for improving mortality.

Recommendations

In the report on the examination the Actuary recommended:

- the next statutory actuarial examination of the Scheme is carried out as at 31 March 2012. This recommendation is made on the basis that there will be an annual review of the liabilities, for the purposes of determining the pension increase recommendations and to calculate the value of vested benefits. An earlier actuarial examination will be conducted if one of these reviews indicates an earlier examination is appropriate,
- the Board reviews the investment strategy of the Scheme before 2012.

The Board accepted the recommendations of the Actuary.

14 Financial Instruments and Associated Risks

The Scheme invests in units of the GAT depending upon the asset allocation benchmarks determined for the Scheme (see note 3). The unit funds comprise quoted equity investments and debt investments and commodities' futures. The Board monitors the actual asset allocations of the Scheme to ensure they remain within agreed tolerances of the asset allocation benchmarks.

**Level Premium Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2010**

14 Financial Instruments and Associated Risks (continued)

The Scheme's major risk in its investment in the GAT is the price risk that the value of its units may fluctuate.

Other risks, such as market risk, (currency risk, investment rate risk and other price risks) credit risk and liquidity risk, are managed by the GAT. For a fuller explanation of these risks, reference should be made to the financial statements of the GAT. A copy of the financial statements of the GAT can be obtained from the Board (see contact details on page 17) and can be viewed on the Board's website www.npf.co.nz.

The Board manages the other risks by determining a diversified asset allocation appropriate for the Scheme's liabilities. In addition, the Board selects the investment managers, sets their mandates and monitors performance against those mandates.

Based on the Scheme's asset allocation benchmarks and the long term rate of return for each asset class in the benchmarks (after investment management and custody fees, and after tax), and after deducting a provision for the Scheme's operating expenses (after tax), the long run investment return for the Scheme is estimated to be 4.2% per annum.

If the long term rates of return for all of the asset classes in the benchmarks increased by 10% this would increase the investment return from 4.2% to 4.8% per annum. Similarly, if the long term rates of return for the asset classes decreased by 10%, the investment return would decrease to 3.7% per annum.

15 Subsequent Events

There were no material events subsequent to balance date requiring amendments to these accounts.

On 20 May 2010, the Government announced a decrease in the income tax rate applicable to the income from the unit funds of the GAT from 30% to 28%. This will become effective on 1 October 2010. Income, received by the Scheme as interest, will receive this benefit from 1 April 2011.

**Level Premium Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2010**

The Board of Trustees of the National Provident Fund (the Board), as trustee of the Scheme, provides members with the following information, as required by the Second Schedule to the Superannuation Schemes Act 1989.

1 Changes in the Scheme membership numbers during the year were as follows:

	Contributors	Pensioners	Total
Opening membership as at 1 April 2009	20	271	291
Pensioner change of beneficiary	-	3	3
Deaths and disablements	-	(27)	(27)
Retirements	(6)	4	(2)
Reinstated extinguished liabilities ⁺	1	-	1
Closing membership as at 31 March 2010	15	251	266

⁺ Following a trust deed amendment on 5 April 2001, once reasonable efforts have been made to locate a member who has been missing for at least five years, the Board may extinguish the liabilities to that member.

Where a person re-establishes contact with the Board within 15 years of the liabilities to that person being extinguished, the person is reinstated as a member of the Scheme.

- 2 On the basis of evidence available, the Board believes that all contributions required to be made to the Scheme, in accordance with the terms of the Scheme trust deed, have been made.
- 3 The Board certifies that, to the best of its knowledge, all benefits required to be paid from the Scheme were paid in accordance with the terms of the Scheme trust deed.
- 4 The Board certifies, based on the advice of the Actuary, that the net market value of the Scheme's assets exceeded the total value of the vested benefits of the Scheme, as at 31 March 2010 (refer note 12 to the financial statements).
- 5 The Scheme trust deed has not been amended since 24 June 2009, being the date of the Scheme's last annual report.

**Level Premium Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2010**

6 Directory

Trustee

Board of Trustees of the National Provident Fund

Members of the Board are:

Catherine M Savage (*Chairman from 1 October 2009*)

Susan J Sheldon (*Chairman to the date of her retirement 30 September 2009*)

Paul G Foley

Roger J Kerr

Noeline C Munro

Roy R Tiffin (*retired 30 April 2010*)

Mary K Watson

Administration managers

Datacom Employer Services Limited (*appointed 1 December 2009*)

Jacques Martin New Zealand Limited (*terminated 30 November 2009*)

Investment managers

Fixed interest managers

Pacific Investment Management Company, LLC
Wellington Management Company, LLP

New Zealand equity managers

AllianceBernstein New Zealand Limited (*terminated 20 January 2010*)

Harbour Asset Management Limited (*appointed 20 January 2010*)

ING (NZ) Limited

Overseas equity managers

AMP Capital Investors Limited

AQR Capital Management LLC (*appointed 1 December 2009*)

BlackRock Asset Management Australia Limited (*previously Barclays Global Investors, N.A.*)

Mercer Investment Nominees Limited

Property managers

AMP Capital Investors (New Zealand) Limited

Cohen & Steers Capital Management, Inc. (*terminated 18 December 2009*)

LaSalle Investment Management (Securities) L.P. (*terminated 3 December 2009*)

**Level Premium Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2010**

6 **Directory (continued)**

Commodities manager

Gresham Investment Management LLC (*appointed 30 July 2009*)

Foreign exchange hedging managers

ANZ National Bank Limited
Bank of New Zealand

Actuary

Christine D Ormrod
PricewaterhouseCoopers

Auditor

I C Marshall
Deloitte
(*on behalf of the Auditor-General*)

Solicitors

Chapman Tripp

Bank

Bank of New Zealand

Custodian

JP Morgan Chase Bank

7 All correspondence relating to the Scheme should be addressed to:

The Manager
National Provident Fund Administration
Datacom Employer Services Limited
PO Box 606
WELLINGTON 6140

OR

The Secretary
Board of Trustees of the National Provident Fund
P O Box 3390
WELLINGTON 6140

For and on behalf of the Board of Trustees
of the National Provident Fund



Catherine M Savage
Chairman

30 June 2010

REPORT OF THE AUDITOR-GENERAL TO THE READERS OF THE LEVEL PREMIUM SCHEME

The Auditor-General is the auditor of the Level Premium Scheme (the Scheme). The Auditor-General has appointed me, I C Marshall, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Scheme for the year ended 31 March 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the Scheme on pages 1 to 14:
 - comply with generally accepted accounting practice in New Zealand, and
 - comply with International Financial Reporting Standards, and
 - give a true and fair view of:
 - the Scheme's net assets as at 31 March 2010, and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the Scheme kept proper accounting records.

The audit was completed on 30 June 2010, and is the date at which our opinion is expressed.

The basis of the opinion is expressed below. In addition, we outline the responsibilities of the Board of Trustees and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data,
- verifying samples of transactions and account balances,
- performing analyses to identify anomalies in the reported data,
- reviewing significant estimates and judgements made by the Board of Trustees,
- confirming year-end balances,
- determining whether accounting policies are appropriate and consistently applied, and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board of Trustees and Auditor

The Board of Trustees is responsible for the preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the net assets of the Scheme as at 31 March 2010. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Board of Trustees' responsibilities arise from section 14 of and the Second Schedule to the Superannuation Schemes Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Scheme.

A handwritten signature in black ink, appearing to read 'I C Marshall', written over a circular stamp or seal.

I C Marshall
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand