Aircrew Scheme

On behalf of the Board of Trustees of the National Provident Fund, set out below is a report on the performance and activities of your Scheme for the year ended 31 March 2019. Further information on the National Provident Fund's activities, and commentary on investment markets, is set out in the Review.

YOUR SCHEME

CROWN GUARANTEE

The Aircrew Scheme is a defined benefit scheme. The benefits payable by your Scheme are guaranteed by the Crown.

INVESTMENT PERFORMANCE

The asset class returns (before tax and operating expenses) and the comparative performance of the benchmark indices are shown in the table below.

	Return	Index
Fixed interest (New Zealand)	4.11%	3.26%
Fixed interest (global)	1.96%	4.51%
Alternatives*	-8.52%	0.96%
New Zealand shares	16.40%	19.37%
Overseas shares	7.31%	7.58%

* The Scheme's investment in alternatives was previously included with overseas shares. A new unit fund of the Global Asset Trust, the Alternatives Unit Fund, was established in 2018. Since 1 October 2018, the Scheme's investment in alternatives has been through the Alternatives Unit Fund. The above return for alternatives is for the period 1 October 2018 to 31 March 2019.

The investment return (after tax and operating expenses) earned by the Scheme for the year ended 31 March 2019 was 2.97%.

See the comparison over the page for the key statistics of your Scheme over the last 10 years. For an overview of the financial performance of the Scheme, refer to the tables on the following pages.

NATIONAL PROVIDENT

Aircrew Scheme

EMPLOYER CONTRIBUTION RATE

Each year the Board's Actuary carries out a review of the Scheme to determine an employer contribution rate sufficient to meet the accrued and future liabilities of the Scheme.

In the actuarial examination, completed as at 31 March 2018, the Actuary recommended the employer contribution rate increase to 210% of contributors' contributions from 1 April 2019. The recommendation was accepted and endorsed by the Board. Given the reduction in the Scheme's funding level at 31 March 2019, we expect the Actuary will recommend a further increase in the employer contribution rate with effect from 1 April 2020.

FUNDING POSITION

The Actuary has advised the funding level of the Scheme, as at 31 March, was:

	2019 ($000)	2018 ($000)
Net assets	103,930	106,065
Past service liabilities	(112,960)	(108,778)
Funding level	92.0%	97.5%

WHO INVESTS YOUR MONEY

Fixed interest

AMP Capital Investors (New Zealand) Limited

Ashmore Investment Management Limited (emerging markets)

Brandywine Global Investment Management, LLC

Pacific Investment Management Company LLC

Wellington Management Australia Pty, Ltd (contract ended June 2018)

Alternatives

AQR Capital Management, LLC (Style Premia Fund)

New Zealand shares

Devon Funds Management Limited

Harbour Asset Management Limited

Overseas shares

Arrowstreet Capital, Limited Partnership

Lazard Asset Management, LLC

Marathon Asset Management, LLP

Foreign exchange hedging

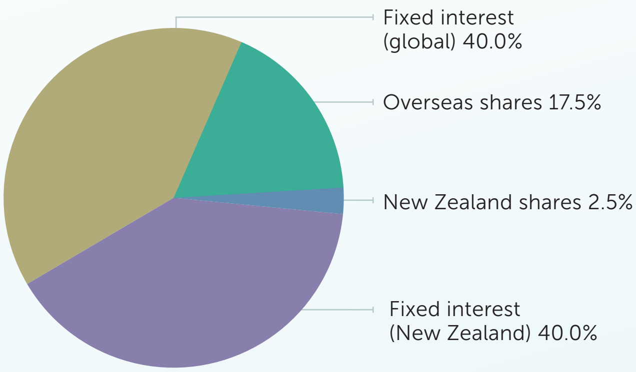
ANZ Bank New Zealand Limited

Bank of New Zealand Limited

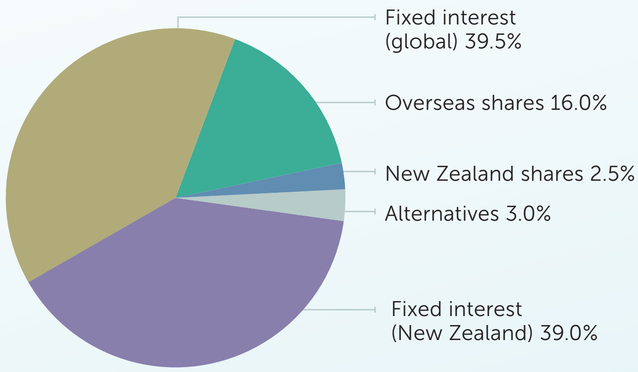
HOW YOUR MONEY IS INVESTED

The Scheme's asset allocation strategy is set by the Board and reviewed regularly. The asset allocation strategy for the Scheme was reviewed during the year. The pie chart shows the Scheme's asset allocation strategy effective from 1 October 2015 and the new strategy effective from 1 October 2018.

Effective 1 October 2015



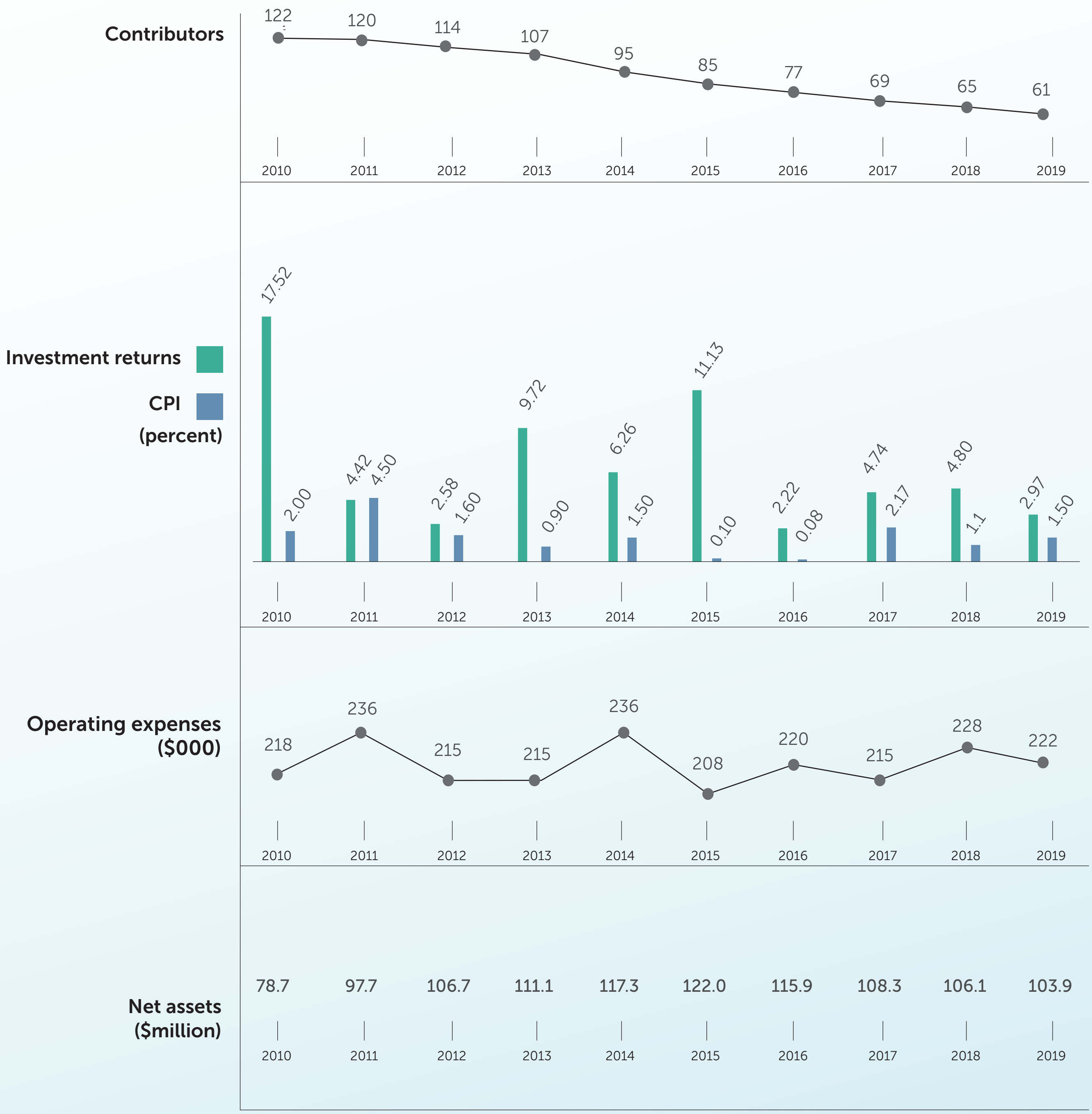
Effective 1 October 2018

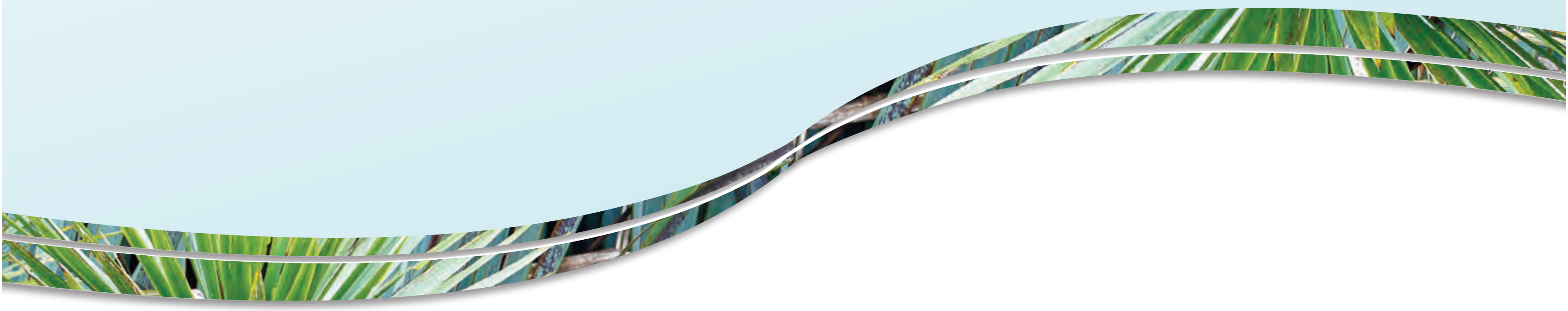


The Board's Statement of Investment Policies, Standards and Procedures (**SIPSP**) was changed during the year to add a new unit fund, the Alternatives Unit Fund. There were no other significant changes to the SIPSP during the year. See our website, www.npf.co.nz, for more information about your Scheme, including the Board's SIPSP and the Scheme trust deed.

Aircrew Scheme

10 YEAR COMPARISON





Aircrew Superannuation Scheme (the Scheme)
Statement of Changes in Net Assets
for the year ended 31 March 2019

	Note	**2019 ($000)**	2018 ($000)
Investment income			
Income from unit funds	4	**3,171**	5,156
Interest received		**83**	42
Total investment income		**3,254**	5,198
Operating expenses			
Actuarial fees		**62**	62
Audit fees		**16**	17
Bank fees		**1**	1
Board member expenses	5	**22**	23
Consultancy Fees		**5**	-
Legal Fees		**2**	-
Management expenses	5	**114**	125
Total operating expenses		**222**	228
Net income before tax and membership activities		**3,032**	4,970
Income tax credit	6	**39**	52
Net income after tax and before membership activities		**3,071**	5,022
Contributions	1		
Contributor contributions		**1,894**	1,804
Employer contributions		**1,269**	1,208
Total contributions		**3,163**	3,012
Scheme payments			
Benefits paid		**594**	-
Pensions paid		**1,375**	107
Transfers paid to other schemes		**6,400**	10,186
Total scheme payments		**8,369**	10,293
Net membership activities		**(5,206)**	(7,281)
(Decrease) in net assets for the year	9	**(2,135)**	(2,259)
Net assets available to pay benefits at beginning of year		**106,065**	108,324
Net assets available to pay benefits at end of year		**103,930**	106,065

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

Aircrew Superannuation Scheme (the Scheme)
Statement of Net Assets
as at 31 March 2019

	Note	**2019 ($000)**	2018 ($000)
Investment assets at fair value through profit or loss	3		
Units held in:			
Alternatives Unit Fund		**2,713**	-
Fixed Interest No 2 Unit Fund		**37,022**	42,119
Fixed Interest Unit Fund		**42,318**	41,525
New Zealand Equity Unit Fund		**2,541**	2,548
Overseas Equity Unit Fund		**15,700**	17,717
		100,294	103,909
Other assets at amortised cost			
Cash		**3,511**	4,253
Other receivables	8	**167**	13
Receivable from the Global Asset Trust	7	**39**	52
		3,717	4,318
Total assets		**104,011**	108,227
Current liabilities at amortised cost			
Accounts payable		**81**	2,162
Total liabilities		**81**	2,162
Net assets available to pay benefits		**103,930**	106,065

Authorised for issue on 25 June 2019.

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

Edward J Schuck
Chairman

Graeme R Mitchell
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.

Aircrew Superannuation Scheme (the Scheme)
Statement of Cash Flows
for the year ended 31 March 2019

	Note	2019 ($000)	2018 ($000)
Cash flows from operating activities[1]			
Cash was provided from:			
Contributor contributions		**1,825**	1,804
Employer contributions		**1,223**	1,208
Interest received		**83**	42
		3,131	3,054
Cash was applied to:			
Benefits paid		**594**	-
Operating expenses		**208**	163
Pensions paid		**1,375**	107
Transfers paid to other schemes		**8,482**	8,104
		10,659	8,374
Net cash flows from operating activities	9	**(7,528)**	(5,320)
Cash flows from investing activities[2]			
Cash was provided from sale of units in:			
Alternatives Unit Fund		**128**	-
Fixed Interest No 2 Unit Fund		**9,312**	1,020
Fixed Interest Unit Fund		**8,912**	2,333
New Zealand Equity Unit Fund		**583**	508
Overseas Equity Unit Fund		**3,274**	3,604
		22,209	7,465
Cash was applied to purchase units in:			
Alternatives Unit Fund	2	**2,991**	-
Fixed Interest No 2 Unit Fund		**3,093**	28
Fixed Interest Unit Fund		**9,145**	1,214
New Zealand Equity Unit Fund		**185**	25
Overseas Equity Unit Fund		**9**	8
		15,423	1,275
Net cash flows from investing activities		**6,786**	6,190
Net (decrease) / increase in cash held		**(742)**	870
Add opening cash brought forward		**4,253**	3,383
Closing cash carried forward[3]		**3,511**	4,253

1 Operating Activities: includes any activities that are the result of normal business activities not classified as investing activities.
2 Investing Activities: comprises acquisition and disposal of units in the GAT.
3 Cash: comprises cash balances held with banks in New Zealand.

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

1 DESCRIPTION OF THE SCHEME AND FUNDING ARRANGEMENTS

The Scheme is a defined benefit scheme, governed by a Trust Deed. The Scheme is deemed to be registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 (FMCA).

The Scheme is funded on the principle of aggregate funding. Under this principle, the value of the employer's future contributions is the balancing item between the actuarial value of the contributors' entitlements, and the value of contributors' future contributions and the market value of the Scheme's net assets.

The rate of contribution for contributors is set out in the Scheme Trust Deed and ranges from 8.75% to 10% of the contributor's salary (as defined in the Trust Deed), depending on the age of the contributor at commencement of his/her contributory service.

The Actuary, in her actuarial examination as at 31 March 2019 recommended that employer contributions be increased to 2.1 times contributors' contributions from 1 April 2019. The recommendation in the examination was accepted and endorsed by the Board.

During the year, employer contributions of $1,269,000 were made to the Scheme (2018: $1,208,000).

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 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. The costs of running Annuitas are shared between the Board and the Authority on an equitable basis, as agreed between the organisations.

Edward J Schuck and Graeme R Mitchell are the two Board appointed directors of Annuitas.

The Board is also the Trustee of the Global Asset Trust (the GAT), which holds the assets of all the National Provident Fund Schemes. 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 the Strategic Asset Allocation (refer note 3).

There were no transactions between the Board or management, as individuals, and the Scheme.

3 STRATEGIC ASSET ALLOCATION - INVESTMENT

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.

Investment assets have been designated at fair value through profit or loss upon initial recognition. These are managed and their performance evaluated, on a fair value basis. This is consistent with the Scheme's documented investment strategy. The assets are investments in units in the GAT which, in turn, invest in New Zealand equities, overseas equities and fixed interest and debt instruments.

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 these financial instruments is based on exit prices at balance date without any deduction for future selling costs. If the exit price for an instrument is not available on a recognised exchange the fair value is estimated taking into account comparable markets and advice from specialised advisories.

The benchmark asset allocations as at 31 March 2019 and 31 March 2018 are shown below.

	2019	2018
	%	%
Alternatives Unit Fund	**3.0**	-
Fixed Interest No 2 Unit Fund	**39.0**	40.0
Fixed Interest Unit Fund	**39.5**	40.0
New Zealand Equity Unit Fund	**2.5**	2.5
Overseas Equity Unit Fund	**16.0**	17.5

4 INCOME FROM UNIT FUNDS

Income from unit funds is derived from the changes in fair value of units held by the GAT and reflects both realised and unrealised gains and losses. The income stated is net of expenses (including investment management and custodial fees) directly related to investment activities. The income per Unit Fund is as follows:

	2019	2018
	($000)	($000)
Alternatives Unit Fund	**(149)**	-
Fixed Interest No 2 Unit Fund	**1,122**	1,107
Fixed Interest Unit Fund	**560**	1,639
New Zealand Equity Unit Fund	**391**	375
Overseas Equity Unit Fund	**1,247**	2,035
Income from unit funds*	**3,171**	5,156

*The income from unit funds is received tax paid.

5 MANAGEMENT AND BOARD MEMBER EXPENSES

Management expenses comprise administration fees charged by Datacom Connect Limited, and a share of the expenses of the Board. The Board member expenses are split evenly between the schemes.

6 INCOME TAX

Income specific to the Scheme is subject to tax at 28 percent, after allowing for deductible expenses.

The income tax reconciliation is as follows:

	2019 ($000)	2018 ($000)
Scheme specific income	**83**	42
Deductible expenses	**(222)**	(228)
Expense election to the GAT under section DV 2	**139**	186
Taxable income	**-**	-
Net income before tax and membership activities	**3,032**	4,970
Tax at 28%	**849**	1,392
Non-assessable income	**(888)**	(1,444)
Income tax credit	**(39)**	(52)
Represented by:		
Income tax credit on current year income	**(39)**	(52)
Prior year adjustment	**-**	-
Income tax credit	**(39)**	(52)

The tax credit results from the benefit of the Scheme electing to transfer surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007 (refer note 7). The GAT is subject to tax at the rate of 28 percent.

The income of $3,171,000 (2018: $5,156,000) from unit funds, shown on the Statement of Changes in Net Assets, is all received tax paid.

7 RECEIVABLE FROM THE GAT

This receivable represents the outstanding tax credits, (refer note 6), utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007. The Scheme will realise the receivable by investing in unit funds of the GAT, with the remainder being settled by cash if applicable.

8 OTHER RECEIVABLES

Other receivables consist of:

	2019 ($000)	2018 ($000)
Management fee refund	**52**	13
Amount Due from Members	**115**	-
Total other receivables	**167**	13

9 RECONCILIATION OF (DECREASE) IN NET ASSETS FOR THE YEAR TO NET CASH FLOWS USED IN OPERATING ACTIVITIES

	2019 ($000)	2018 ($000)
Change in net assets for the year	**(2,135)**	(2,259)
Movements in working capital		
Change in accounts payable	**(2,081)**	2,090
Change in other receivables	**(154)**	15
	(2,235)	2,105
Add / (Less) non-cash items		
Movement in receivable from the GAT	**13**	(10)
	13	(10)
Items classified as investing activities		
(Income) from unit funds	**(3,171)**	(5,156)
	(3,171)	(5,156)
Net cash flows used in operating activities	**(7,528)**	(5,320)

10 GUARANTEED BENEFITS

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

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019

11.1 ACTUARIAL EXAMINATION AND REVIEW

Every three years, a statutory actuarial examination of the Scheme is prepared in accordance with the National Provident Fund Restructuring Act 1990 and the Financial Markets Conduct Act 2013 (refer note 12). The most recent actuarial examination was carried out as at 31 March 2018.

In addition, an actuarial review of the Scheme is undertaken annually. Provisional figures from the actuarial review as at 31 March 2019 are set out below for the funding level and vested benefits ratio. The assumptions and methodology used to value the liabilities as at 31 March 2019 are those currently intended to be used for the actuarial review of the Scheme as at 31 March 2019.

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019 (CONTINUED)

11.2 FUNDING LEVEL – 31 MARCH 2019

The funding level of the Scheme is the ratio of the net assets available to pay benefits to the value of the past service liabilities. From 31 March 2019, for the purposes of this note, the value of the past service liabilities and hence the funding level is calculated I two bases:

- Funding basis: Under the funding basis, the present value is calculated using expected actual investment returns. However, there is a risk that these investment returns will not be achieved in practice. This is the basis used to determine the employer subsidy rate to the Scheme.

- Minimum Risk Rate basis: Under the Minimum Risk Rate basis the value of the liabilities is the present value of the estimated benefit payments, assuming investment returns are the same as can be earned on a portfolio of New Zealand Government bonds with the same average duration as the liabilities. New Zealand Government bonds are chosen for this purpose as they represent the least risk that future investment returns will not be as expected over the relevant duration. This basis is provided for information purposes only.

The results of the calculations, as at 31 March, are shown below:

Funding level- funding basis	**2019**	2018
	($000)	($000)
Present value of -		
Past service liabilities	**(112,960)**	(108,778)
Net assets	**103,930**	106,065
Deficit	**(9,030)**	(2,713)
Funding level	**92.0%**	97.5%

This table should be read in conjunction with note 10.

Funding level- Minimum Risk Rate basis	**2019**
	($000)
Present value of -	
Past service liabilities	**(119,936)**
Net assets	**103,930**
Deficit	**(16,006)**
Funding level	**86.7%**

The funding level on the Minimum Risk Rate basis was not calculated in 2018.

The most financially significant assumptions are:

- The rate of future salary increases assumed over the next 10 years for pilots (2.0% per annum plus an allowance for promotion, as at 31 March 2019. This is unchanged from 2018).

  The ages at which contributors are assumed to retire, although this has less impact on the contribution rate as a multiple of contributors' contributions. These are based on the review of demographic assumptions completed prior to the actuarial examination as at 31 March 2018.

- Funding basis: the future investment returns assumed for the Scheme over the next 10 years (2.7% per annum, for the funding basis, as at 31 March 2019; 2.4% per annum, for the funding basis, as at 31 March 2018).

- Minimum Risk Rate basis: the discount rate assumed when determining the present value of the liabilities (1.07% per annum as at 31 March 2019).

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019 (CONTINUED)

11.3 VESTED BENEFITS RATIO – 31 MARCH 2019

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 valuation date. As all contributors in this Scheme are now over 50 years of age, the value of the vested benefits of the Scheme is determined by the Actuary as the sum of:

- the lump sum retirement benefit the contributor would have been entitled to, if the contributor had retired;
- the value of the retirement pension the contributor would have been entitled to, if the contributor retired, assuming this pension were purchased from the National Provident Pension Scheme on 31 March 2019; and
- the transfer value the contributor would have been entitled to, if the contributor had transferred out of the Scheme.

The vested benefits ratio of the Scheme is the ratio of the net assets available to pay benefits to the value of vested benefits. The vested benefits ratio, as at 31 March, is shown below:

Vested benefits – funding basis	**2019**	2018
Present value of -	**($000)**	($000)
Vested benefits	**(123,007)**	(109,515)
Net assets	**103,930**	106,065
Deficit	**(19,077)**	(3,450)
Vested benefits ratio	**84.5%**	96.8%

This table should be read in conjunction with note 10.

For this calculation, all contributors are assumed to be married. This impacts the value of the retirement pension used and potentially leads to the value of vested benefits being over-estimated.

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2018

Under the National Provident Fund Restructuring Act 1990 and the Financial Markets Conduct Act 2013, a statutory examination of the Scheme is required every three years. The most recent statutory actuarial examination was prepared, as at 31 March 2018, by Christine Ormrod FNZSA, the Actuary to the Scheme, and is dated 11 June 2018. It covers the three years 31 March 2015 to 31 March 2018.

The following table shows the summary results of the valuation on the funding basis:

Valuation date	**2018**	2015
Present value of -	**($000)**	($000)
Past service liabilities	(108,778)	(108,143)
Net assets	106,065	121,966
Past service (deficit)/surplus	(2,713)	13,823
Future service liabilities	(14,942)	(23,653)
Contributors' future contributions	7,317	12,060
Net future service liability	(7,625)	(11,593)
Total service (deficit)/surplus	(10,338)	2,230
Funding level (net assets divided by past service liabilities	97.5%	112.8%

This table should be read in conjunction with note 10.The above figures are rounded and so may not appear to add exactly.

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2018 (CONTINUED)

The total service deficit is the amount the Scheme is expected to require to meet its liabilities in addition to contributors' future contributions. It is calculated on the basis future experience is as assumed and the assumptions do not change in the future. Employer Superannuation Contribution Tax would need to be paid in addition. This is equivalent to an employer contribution rate of 2.1 times contributors' contributions.

The total service surplus at 31 March 2015 indicated that, at that time, no future contributions were expected to be required from the employer.

This indicates there has been a deterioration in the financial position of the Scheme over the three years.

In the report on the examination the Actuary recommended

- The employer contribution rate be increased to 2.1 times contributors' contributions from 1 April 2019, inclusive of Employer Superannuation Contribution Tax.
- There is an actuarial review, with the next actuarial review as at 31 March 2019, to reconsider the employer contribution rate to apply from 1 April 2000.
- The Board reviews the appropriateness of the investment strategy at least every three years, ie prior to 31 March 2021.
- The Board does not amend the trust deed to increase the benefits payable form the Scheme.

The next statutory actuarial examination is due as at 31 March 2021.

The Board accepted the recommendations of the Actuary and the increase in the employer contribution rate was implemented with effect from 1 April 2019.

The ratio of the net assets to the value of past service liabilities is known as the funding level. A funding level of 100% indicates a balance between the net assets and the past service liabilities, as at the valuation date. The funding level of the Scheme on the funding basis, as at 31 March 2018, was 97.5%. This showed that the Scheme did not have sufficient assets, as at that date, to meet its past service liabilities under the valuation assumptions.

The funding level in three years (31 March 2021) was estimated to be 96.5% assuming the experience of the Scheme is in line with the valuation assumptions and the employer contributes at the recommended rate.

The value of net assets was 96.8% of the value of vested benefits, as at 31 March 2018. The vested benefits ratio was expected to increase, but still be below 100% at 31 March 2021.

The most significant actuarial assumptions used by the Actuary were:

- The future investment return assumed, especially over the next 10 years (2.4% per annum to 31 March 2028 and 3.7% per annum thereafter).
- The expected future salary increases for pilots (2.0% per annum plus a promotional increase).
- The ages at which contributors are assumed to retire.

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

13 FINANCIAL RISK MANAGEMENT

The Scheme invests in units of the GAT based on the Strategic Asset Allocation determined for the Scheme (see note 3). The unit fund holds quoted equity, fixed interest and debt instruments. These instruments are all measured at fair value.

Under *NZ IFRS 13: Fair Value measurement* (NZ IFRS 13), disclosures for fair value instruments are required using a three-level fair value hierarchy. These tiers reflect the availability of observable market inputs. The scheme's investment in units of the GAT is classified as a level 2 investment as the unit prices are based on a net asset valuation derived from either quoted prices for similar assets or unquoted but observable inputs.

The Scheme's major risk in relation to 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, interest rate risk and other price risk), credit risk and liquidity risk, are managed in the GAT.

For more information on the disclosures under NZ IFRS 13 and the risks mentioned above reference should be made to the financial statements of the GAT. A copy of the financial statements of the GAT can be viewed on the National Provident Fund's website (www.npf.co.nz).

The Board manages the other risks by determining a diversified Strategic 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.

The long run investment return for the Scheme is estimated to be 2.1% per annum. This is based on the Scheme's Strategic Asset Allocation and the long term rate of return for each asset class (after investment management, custody fees and tax), and after deducting a provision for the Scheme's operating expenses (after tax).

If the long term rates of return for all of the asset classes in the Strategic Asset Allocation increased by 10% this would increase the investment return from 2.1% to 2.3% per annum. Similarly, if the long term rates of return for the asset classes in the Strategic Asset Allocation decreased by 10%, the investment return would decrease to 1.8% per annum. This would increase or decrease the before tax profit by approximately $311,000.

14 SUBSEQUENT EVENTS

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

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all periods presented in these financial statements with the exception of with *NZ IFRS 9: Financial Instruments* (NZ IFRS 9) (See Note 16).

15.1 BASIS OF PREPARATION

The financial statements have been prepared under the requirements of clause 59 of the Scheme Trust Deed and in accordance with the FMCA. For a description of the Scheme and its funding arrangements see note 1.

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.2 STATEMENT OF COMPLIANCE

These financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and other applicable financial reporting standards as appropriate for profit-oriented entities.

15.3 MEASUREMENT BASE

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

15.4 PRESENTATIONAL AND FUNCTIONAL CURRENCY

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

15.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In compliance with NZ IFRS, preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

Judgement has been applied in the classification and measurement of financial assets. This policy has a significant impact on the amounts disclosed in the financial statements.

There are no material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of scheme assets at year end. Investment asset values are subject to variation due to market fluctuations. Receivables have been valued in accordance with NZ IFRS 9. Under this standard the scheme has adopted the simplified expected credit loss model.

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 revision affects both current and future periods.

15.6 STANDARDS ISSUED BUT NOT EFFECTIVE

Certain new accounting standards and interpretations have been issued that are not mandatory for 31 March 2019 reporting periods and have not been adopted early by the Board. Initial assessment of these standards shows that none of these will materially affect the Scheme.

15.7 FINANCIAL INSTRUMENTS

Financial instruments include both financial assets and financial liabilities.

Financial assets include balances due from contributors, and receivables from related parties (if applicable).

Financial liabilities, measured at amortised cost, include accounts payable and bank overdrafts (if applicable).

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.8 RECOGNITION

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

15.9 IMPAIRMENT

Financial assets which are recorded at amortised cost are reviewed at each financial statement date to determine whether there is objective evidence of impairment.

15.10 MEASUREMENT

Financial assets that are classified at fair value through profit or loss are measured at fair value where all resulting gains or losses are recorded in the Statement of Changes in Net Assets.

Financial assets and financial liabilities are recorded at amortised cost using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

15.11 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. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

15.12 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, where there is an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments.

15.13 CONTRIBUTIONS

Contributions are recognised in the Statement of Changes in Net Assets when they become receivable.

15.14 BENEFITS AND PENSIONS

Benefits and pensions are recognised in the Statement of Changes in Net Assets when a request for payment is made and all relevant criteria for payment has been met.

15.15 INVESTMENT INCOME RECOGNITION

Interest income is recognised using the effective interest rate of the instrument. Changes in the fair value on GAT unit funds are recognised in the Statement of Changes in Net Assets. Interest income on financial assets classified at fair value though profit or loss, is accrued at balance date. Dividend income is recognised in the Statement of Changes in Net Assets on the ex-dividend date.

15.16 EXPENSES

All expenses are recognised in the Statement of Changes in Net Assets on an accrual basis.

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.17 TAXATION

Any income or loss arising 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 6 and 7).

16 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Scheme applied NZ IFRS 9 for the first time this year. NZ IFRS 9 replaces *NZ IAS 39: Financial Instrument- Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The new standard brings together all three aspects of the accounting for Financial Instruments – classification and measurement, impairment and hedge accounting.

The classification and measurement requirements of NZ IFRS 9 did not have a significant impact on the Scheme. The scheme continued measuring at fair value, all financial assets previously held at fair value under NZ IAS 39.

17 OTHER INFORMATION

The Board, as Trustee of the Scheme, provides members with the following information:

17.1 SCHEME MEMBERSHIP

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

	Contributors	Pensioners	Total
Opening membership as at 1 April 2018	65	1	66
Pensioner	-	-	-
Deaths and disablements	-	-	-
Retirement	-	-	-
Transfer to another scheme	-	-	-
Transfer to another NPF scheme	(4)	(1)	(5)
Closing membership as at 31 March 2019	61	-	61

17.2 CONTRIBUTIONS RECEIVED AND BENEFITS PAID

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.

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.

17.3 VESTED BENEFITS

The Board, based on the advice of the Actuary, certifies that the net market value of the Scheme's assets was less than the total value of the vested benefits of the Scheme, as at 31 March 2019 (refer note 11 to the financial statements).

17.4 INVESTMENT WITH PARTIES TO THE SCHEME

The Board confirms that, to the best of its knowledge, not more than 10 percent of the net market value of the Scheme assets were invested with the employer, or associated entities, either directly or indirectly, who are parties to the Scheme.

17.5 TRUST DEED

The Scheme Trust Deed was amended on 28 March 2019 to allow pensions to be transferred to and paid from the National Provident Pension Scheme.

17 OTHER INFORMATION (CONTINUED)

17.6 DIRECTORY

Trustee	**Board of Trustees of the National Provident Fund** Members of the Board are: Edward J Schuck Graeme R Mitchell Daniel J Mussett Wayne L Stechman Stephen P Ward
Administration manager	Datacom Connect Limited
Investment managers	**Alternatives Unit Fund** AQR Capital Management, LLC **Fixed Interest Managers** AMP Capital Investors (New Zealand) Limited Ashmore Investment Management Limited Brandywine Global Investment Management, LLC Pacific Investment Management Company, LLC **New Zealand Equity Managers** Devon Funds Management Limited Harbour Asset Management Limited **Overseas Equity Managers** Arrowstreet Capital, Limited Partnership Lazard Asset Management, LLC Marathon Asset Management, LLP **Foreign Exchange Hedging Managers** ANZ Bank New Zealand Limited Bank of New Zealand Limited
Actuary	Christine D Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP
Auditor	Michael R Wilkes, Deloitte Limited (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand
Custodian	JP Morgan Chase Bank

17 OTHER INFORMATION (CONTINUED)

17.7 CORRESPONDENCE

All correspondence relating to the Scheme should be addressed to:

The Manager
National Provident Fund Administration
Datacom Connect Limited
PO Box 1036
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.

Edward J Schuck
Chairman

25 June 2019

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AIRCREW SUPERANNUATION SCHEME

The Auditor-General is the auditor of Aircrew Superannuation Scheme (the Scheme). The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Scheme on his behalf.

Opinion

We have audited the financial statements of the Scheme on pages 1 to 14, that comprise the Statement of Net Assets as at 31 March 2019, the Statement of Changes in Net Assets, and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Schemes on pages 1 to 14:

- present fairly, in all material respects:
  - its financial position as at 31 March 2019; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 25 June 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Trustees and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significant in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in informing our audit opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Actuarial deficit and Triennial Valuation of promised retirement liabilities (Note 11 and12)
 	
In accordance with the Section 68(1) of the National Provident Fund Restructuring Act 1990 (the Act), the Board of Trustees of the National Provident Fund is required to obtain an actuarial valuation of the estimated promised retirement liabilities as at dates that are no more than three years apart (the "Triennial Valuation").
 	
On 11 June 2018, the scheme obtained a new Triennial Valuation as at 31 March 2018 which estimated liabilities of $108.8 million (excluding the net future service liability of $7.6 million), net assets of $106.1 million and determined a deficit of $2.7 million.
 	
On 18 June 2019 the Scheme obtained an interim update letter as at 31 March 2019 from its actuary which showed vested benefits of $123.0 million. This compared to the net assets of $103.9 million resulting in a Scheme deficit of $19.1 million.
 	
The interim update letter uses the triennial valuation as a base and certain assumptions were updated with available latest information.
 	
The Triennial Valuation is inherently subjective and is affected by use of assumptions such as:
• The rate of future salary increases; and
• Future investment returns.
 	
As noted in Note 10, under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.
 	
We have included the actuarial deficit and Triennial Valuation of the Scheme's liabilities as a key audit matter due to the significance of the disclosures to the financial statements and the subjectivity of the assumptions inherent in estimating the amount.
	Our audit procedures included the following:
	• Testing the underlying data provided to the actuary and confirming that these agree to underlying records;
	• Evaluating the competence and objectivity and relevant experience of the Scheme's actuary;
	• Engaging our internal actuarial specialist to independently understand, challenge and evaluate:
	    • The work and findings of the Scheme's actuary;
	    • The actuarial methods and assumptions employed, specifically the discount rate, future pension increases and pensioner mortality.
	• Evaluating the related disclosures about the Scheme's vested benefits, and the risks attached to them which is included in Note 11 to the Scheme's financial statements.
	• Assessing the related disclosures concerning the Scheme's actuarial deficit and any plan by the Crown to fund benefit payments as they fall due.

Responsibilities of the Board of Trustees for the financial statements

The Board of Trustees is responsible on behalf of the Scheme for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Trustees is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Trustees is responsible on behalf of the Scheme for assessing the Scheme's ability to continue as a going concern. The Board of Trustees is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Scheme or to cease operations, or there is no realistic alternative but to do so.

The Board of Trustees' responsibilities arise from the Financial Markets Conduct Act 2013 and section 59 of the Scheme's Trust Deed.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of members taken on the basis of these financial statements and performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit 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 Scheme's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Trustees.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Board of Trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

We describe key audit matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Trustees is responsible for the other information. The other information comprises the information included on pages 15 to 17, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Scheme in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

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

Michael Wilkes
For Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand

Aircrew Scheme

Directory as at 25 June 2019

BOARD MEMBERS

Edward Schuck PhD, MBA (appointed 2015 and Chair from 1 September 2017).

Catherine McDowell (appointed 2013 and Chair from 1 July 2016 to 31 August 2017)

Graeme Mitchell BA, CA, FCA (appointed 2010, Deputy Chair from 1 July 2016)

Daniel Mussett (appointed 2016)

Wayne Stechman (appointed 2012)

Stephen Ward (appointed 2016)

There were no changes to the Board members during the year. Further information on the Board members is provided on our website – www.npf.co.nz.

MANAGEMENT

Simon Tyler

Chief Executive

Fiona Morgan

Chief Financial Officer

Philippa Drury

General Manager – Schemes

Janet Shirley

Manager – Schemes

Paul Bevin

General Manager – Investments

Nicky Rumsey

Manager – Investments

Peter McCaffrey

Manager – Equities and Alternatives

There were no changes to Management during the year.

ADMINISTRATION

Datacom Connect Limited is the administrator of the NPF Schemes.

CONTACT DETAILS

You are welcome to contact Datacom if you have any specific questions about the information in this package, if you would like to receive a free copy of the full financial statements in the mail, to purchase a copy of the trust deed ($10) or the actuarial valuation ($10), or to enquire about your Scheme membership in general.

Please quote your identity number when contacting Datacom.

Free phone: 0800 628 776 between 8.30 am and 5.00 pm, Monday to Friday.

Phone: (04) 381 0600

Post to:

The Manager

National Provident Fund Administration
Datacom Connect Limited

P O Box 1036 WELLINGTON 6140

Email: npfenquiries@datacom.co.nz

If you would like to know more about NPF in general, or if you would like to view or download a copy of the Scheme's full financial statements rather than receive a copy in the mail, please visit our website – www.npf.co.nz.

You may contact the Board by writing to:

The Chief Executive

Board of Trustees of the National Provident Fund

Level 12, The Todd Building

95 Customhouse Quay

WELLINGTON 6011

Auditor: Michael Wilkes, Deloitte Limited, on behalf of the Auditor-General

Actuary: Christine D Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP

Bank: Bank of New Zealand Limited

Custodian: JPMorgan Chase Bank, N.A.

Solicitor: DLA Piper New Zealand

There were no changes to the Auditor, Actuary, Bank, Custodian or Solicitor during the year.