

TAURANGA ENERGY CONSUMER TRUST

GROUP CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED
31 MARCH 2016

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TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT

DIRECTORY AS AT 31 MARCH 2016

Trustees:	WB Holland, Chairperson BW Cronin, Deputy Chairperson P Blackwell K Collings RJC Scott P Tustin
Secretary:	WA Werder General Manager, TECT Ground Floor, 525 Cameron Road PO Box 356 Seventh Avenue Tauranga
Auditor:	KPMG Tauranga
Solicitors:	Sharp Tudhope & Co, Tauranga
Bankers:	Westpac, National Bank, ANZ Bank, Kiwibank, ASB and Bank of New Zealand
Date of Commencement:	TECT - 21 December 1993 TECT Charitable Trust – 27 March 2002 TECT Holdings Ltd – 15 December 2006 TECT Finance Ltd – 15 December 2006 (Amalgamated with TECT Holdings Ltd on 31 March 2016) TECT Property Ltd – 22 March 2016

TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

		TECT Group	
		2016	2015
		\$	\$
Finance Income			
Dividends		35,229,112	41,551,535
Net Change in Fair Value of Derivative designated at Fair Value through Profit & Loss		189,466	-
Distributions Received		131,642	-
Interest		2,721,460	985,342
Management Fees		5,400	-
Effective Interest Adjustment of Interest Free Loans	(Note 9c)	-	13,591
Net Gain on disposal of Trustpower shares reclassified from Equity		109,279,971	-
Other Income		2,169	1,183
TOTAL REVENUE		147,559,220	42,551,651
Less Expenses			
Administration Expenses			
Accounting & Financial Consultancy		100,645	84,545
Consumer Related Expenses	(Note 3a)	89,916	236,432
Depreciation Expense	(Note 16)	33,508	28,264
Legal and Advisory Fees		151,320	42,976
Trustee Expenses	(Note 3b)	202,188	169,003
Other Administration Expenses	(Note 3c)	458,053	420,112
		1,035,628	981,332
Finance Expenses			
Effective Interest Adjustment of Interest Free Loans	(Note 9c)	104,563	-
Interest Expense		181,263	1,446,081
Net Change in Fair Value of Derivative designated at Fair Value through Profit & Loss		-	82,724
Other Finance Expenses		134,207	4,486
		420,033	1,533,291
TOTAL EXPENSES		1,455,661	2,514,623
PROFIT BEFORE TAXATION		146,103,559	40,037,028
Tax Expense/(Benefit)	(Note 5)	(260,965)	1,536,002
TOTAL PROFIT AFTER TAXATION		146,364,524	38,501,026
OTHER COMPREHENSIVE INCOME			
Items which will be reclassified to Profit & Loss on certain conditions being met			
Valuation Gain/(Loss) on Investments	(Note 2)	(14,324,638)	151,663,103
Net Fair Value Gain on disposal of Trustpower Shares transferred to profit and loss	(Note 2)	(109,279,971)	-
Deferred Tax on Sale of Trustpower Shares	(Note 2)	2,346,181	-
Deferred Tax on Fair Value Movements - Trustpower Shares	(Note 2)	(12,000,408)	(9,681,640)
Total Other Comprehensive Income		(133,258,836)	141,981,463
TOTAL COMPREHENSIVE INCOME		13,105,688	180,482,489



TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

		TECT Group	
		2016	2015
		\$	\$
Profit After Taxation		146,364,524	38,501,026
Other Comprehensive Income		(133,258,836)	141,981,463
Total Comprehensive income		13,105,688	180,482,489
Distributions of Equity	(Note 7)	(40,165,173)	(49,720,749)
Distributions Written Back	(Note 7)	510,256	663,033
Movements in Equity for the Year		(26,549,229)	131,424,773
Trust Equity at Start of the Year		790,602,389	659,177,616
Trust Equity at End of the Year		764,053,160	790,602,389



TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

		TECT Group	
		2016	2015
		\$	\$
Trust Equity			
Accumulated Profits	(Note 2)	213,457,358	107,552,129
Fair Value Reserve	(Note 2)	549,694,720	682,953,557
Reserves for Distribution	(Notes 2,14)	901,082	96,704
TOTAL TRUST EQUITY		764,053,160	790,602,390
<i>Represented by:</i>			
Current Assets			
Cash & Cash Equivalents		1,503,891	1,289,201
Short Term Deposits (>90 days)		-	2,546,642
Accounts Receivable & Prepayments		87,376	27,902
Interest Rate Swaps	(Note 11)	337,743	148,276
Taxation Refund Due		416,939	416,938
Total Current Assets		2,345,949	4,428,959
Non Current Assets			
Investments			
Shares in TrustPower Ltd	(Note 9a)	642,511,899	825,836,762
Investment Property - Work in Progress		212,992	-
Investment Portfolios	(Note 9b)	143,242,517	-
Omanu Beach Charitable Trust Loan	(Note 9c)	180,079	192,896
Bay Venues Limited Loan	(Note 9c)	658,254	-
Total Investments		786,805,741	826,029,658
Other Non Current Assets			
Property, Plant & Equipment	(Note 16)	65,651	64,950
Total Non Current Assets		786,871,392	826,094,608
TOTAL ASSETS		789,217,341	830,523,567
Less Current Liabilities			
Sundry Accounts Payable		182,692	74,846
Payments in Advance		23,695	-
Accrued Expenses		11,872	31,019
Provision for Distributions	(Note 7)	15,555,004	15,164,277
Loans	(Note 10)	-	12,000,000
Total Current Liabilities		15,773,263	27,270,142
Non Current Liabilities			
Deferred Taxation	(Note 12)	9,390,918	12,651,036
Total Non Current Liabilities		9,390,918	12,651,036
TOTAL LIABILITIES		25,164,181	39,921,178
NET ASSETS		764,053,160	790,602,389

Trustee

Trustee



TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016

	TECT Group	
	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
<u>Cash was provided from/(disbursed to):</u>		
Dividends Received	35,229,112	41,551,535
Interest Received	2,721,460	934,958
Other Income	179,208	-
Payments to Suppliers & Trustees	(1,223,793)	(1,217,427)
Interest Paid	(205,892)	(1,421,453)
Taxation Paid	-	(1,389,047)
Donations Received	-	1,183
NET CASH FLOWS FROM/(DISBURSED TO) OPERATING ACTIVITIES	36,700,095	38,459,749
CASH FLOWS FROM INVESTING ACTIVITIES		
<u>Cash was received from/(applied to):</u>		
Acquisition of Portfolio Investments	(140,773,992)	-
Proceeds from Sale of Trustpower Shares	154,003,334	-
Movements in Other Investments	(961,500)	-
Purchases of Fixed Assets	(35,778)	(25,635)
Settlement of Investments - Senior Bonds	-	3,127,500
Movements in Term Deposits	2,546,642	11,829,705
NET CASH FLOWS FROM/(APPLIED TO) INVESTING ACTIVITIES	14,778,706	14,931,570
CASH FLOWS FROM FINANCING ACTIVITIES		
<u>Cash was disbursed to:</u>		
Payments to Trustpower Consumers (including grants)	(39,264,111)	(39,380,670)
Repayment of Loans	(12,000,000)	(15,394,851)
NET CASH FLOWS DISBURSED TO FINANCING ACTIVITIES	(51,264,111)	(54,775,521)
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS	214,690	(1,384,202)
Add Opening Cash & Cash Equivalents	1,289,201	2,673,403
CLOSING CASH & CASH EQUIVALENTS	1,503,891	1,289,201
<u>Represented by:</u>		
Short Term Deposits - Less than 90 Days	-	813,779
Bank Current Accounts	1,503,891	475,422
	1,503,891	1,289,201



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) REPORTING ENTITY

Tauranga Energy Consumer Trust (TECT) is a trust formed and domiciled in New Zealand. All TECT subsidiaries are incorporated and domiciled in New Zealand.

TECT and its subsidiaries, TECT Charitable Trust, TECT Holdings Ltd and TECT Property Ltd comprise the TECT Group.

As required by its Trust Deed, TECT complies with the financial reporting requirements of the Financial Reporting Act 2013.

The Financial Report comprises the Consolidated Financial Statements of the Group.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Trustees on 1 July 2016.

(b) BACKGROUND

The Tauranga Energy Consumer Trust was established under a Trust Deed on 21 December 1993 as a consequence of the Tauranga Electric Power Board's Establishment Plan.

TECT is a Consumer Trust, the income and capital of which are to be used to provide benefits to Consumers who are Trustpower customers in the area as defined in the Trust Deed (being the area supplied by the Tauranga Electric Power Board as at 21 December 1993 subsequently amended to include the Tauranga district area previously supplied by Tauranga Electricity Limited).

TECT is not a Charitable Trust and accordingly may not continue for more than 80 years. On the winding up of the Trust the assets of TECT, which remain, will be distributed for the benefit of Consumers (as defined above).

At 31 March 2016 TECT Group held 83,878,838 shares, representing 26.8% in the capital of Trustpower Limited. These shares are held by TECT Holdings Ltd, a 100% wholly owned subsidiary company. On 22 April 2015 TECT sold 20 million of its shares in Trustpower. These were sold to facilitate the diversification of TECT's Investment Portfolio.

TECT is governed by six trustees who are elected by Consumers. The term of appointment is four years. The terms of appointment of Trustees are staggered so that three Trustees retire every two years. Retiring Trustees are eligible for nomination for re-election.

(c) BASIS OF PREPARATION

MEASUREMENT BASE

The Accounting Principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis, are followed by the TECT Group, with the exception that certain investments as specified below (Refer g(iii)) have been revalued.

The information is presented in New Zealand dollars, which is also the functional currency of the Group, rounded to the nearest dollar.

(i) Basis of Consolidation

The consolidated financial statements include the Parent Trust and its subsidiaries. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

(ii) *Subsidiary Entities*

The wholly owned subsidiary entities, TECT Charitable Trust, TECT Holdings Ltd and TECT Property Ltd are controlled by TECT in that TECT has the capacity to control their financing and operating policies so as to obtain benefits from their activities.

The wholly owned subsidiary entity TECT Finance Limited was amalgamated with TECT Holdings Ltd on 31 March 2016.

TECT Property Limited was incorporated on 22 March 2016.

(d) **STATEMENT OF COMPLIANCE**

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) – Reduced Disclosure Regime ("NZ IFRS (RDR)") and other Financial Reporting Standards as appropriate for profit oriented entities. Trustees have taken advice and have determined that TECT does not meet the definition of a public benefit entity. This is because the majority of distributions are in the form of financial returns to beneficiaries. In addition, the Trust Deed defines 'Consumers' very strictly and therefore limits benefits to a very specific and narrow section of the public. For this purpose the Trust has designated itself and the Group as 'profit-oriented'.

Application of the Reduced Disclosure Regime

TECT Group, previously a Tier 1 entity, has adopted the Reduced Disclosure Regime applicable for Tier 2 entities. This has resulted in a reduction of disclosures for items such as financial instruments (note 4), reconciliation of net cash flow from operating activities to profit and loss in the Statement of Cash Flows and disclosure of accounting policies not yet effective and not early adopted (note 1(f)). Since the RDR changes only impact presentation aspects, there is no impact on comprehensive income.

In all other respects the accounting policies have been consistently applied by TECT for all periods covered by this financial report.

(e) **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires Trustees to exercise their judgement in the process of applying the Group's accounting policies. In making these judgements, estimates and assumptions concerning the future are made. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) **Impairment of Assets**

NZ IFRS requires that assets are carried at no more than their recoverable amount. This requires Trustees to make judgements regarding amounts recoverable and provisions for impairment. Trustees must apply judgement in assessing likely outcomes.

(ii) **Income Taxes and Deferred Taxation**

Judgement is required in determining the provision for income taxes and the ultimate determination is uncertain until assessments are finalised. Judgement is also required in relation to the level of imputation credits likely to be attached to future Trustpower dividends.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

(f) STATUS OF ACCOUNTING STANDARDS

(i) Standards, amendments and interpretations adopted by the Group

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2015. None of the amendments to Standards that are effective from that date had a significant effect on the Group's financial statements.

(ii) Standards, Amendments and Interpretations to Existing Standards that are not yet effective and have not been Early Adopted by the Group

Certain standards and interpretations have been issued but are not yet effective and have not been early adopted by the Parent and Group. The following summarises only those standards that may have an impact on future financial statements of the Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on or after the effective date of each new standard. Information on new standards, amendments and interpretations that are expected to be relevant to the Parent and Group financial statements is provided below. Certain other new standards and interpretations issued but not yet effective that are not expected to have a material impact on the Parent and Group's financial statements have not been disclosed.

Standard/interpretation	Effective date	Implication
IFRS 9 Financial Instruments	Periods beginning 1 January 2017	<p>NZ IFRS 9 will be adopted by TECT for the first time for its financial reporting period ended 31 March 2018. NZ IFRS 9 replaces the existing guidance regarding financial instruments currently contained within NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The adoption of NZ IFRS 9 will result in certain financial assets currently being accounted for at amortised cost having to be reclassified as at fair value through profit or loss. All financial instruments currently classified as available-for-sale will potentially have to be reclassified at fair value through profit or loss except where TECT is able to designate the financial assets as fair value through other comprehensive income.</p> <p>Management have yet to assess the potential impact the initial adoption of the standard is likely to have on the recognition and measurement of financial assets held by the TECT Group. The new standard is complex and management do not expect to implement the amendments until they can comprehensively assess the impact of all changes.</p>

(g) SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied consistently to all periods presented in the financial statements and consistently by Group entities:

(i) Taxation

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

(ii) *Goods and Services Tax*

These financial statements have been prepared on a GST exclusive basis. TECT is registered for GST and GST payable or receivable by TECT is shown in the Statement of Financial Position. Accounts Receivable and Payable are shown inclusive of GST.

The subsidiary entities are not registered for GST and GST paid by those entities is shown as a separate expense.

(iii) *Financial Instruments*

Financial instruments are recognised in the Statement of Financial Position when the Group becomes party to a financial contract. They include cash balances, bank overdrafts, receivables, payables, investments in and loans to others, and term borrowings. In addition, the TECT Group is party to financial instruments to meet financing needs.

a) Receivables and Payables

Receivables and payables are initially recorded at fair value. Subsequently they are measured at amortised cost using the effective interest method less provision for impairment.

b) Investments

TECT classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables, and available for sale. The classification depends on the purpose for which the investments were acquired. Trustees determine the classification of TECT's investments at initial recognition and re-evaluate this designation at every reporting date.

Trustpower Investment

TECT Group has determined that it does not have significant influence over Trustpower and has classified the investment as 'available for sale'. This investment is recognised at fair value on the Group's Statement of Financial Position with movements being recognised in other comprehensive income except for impairments which are recognised in profit or loss. Trustees have further determined that the most appropriate measurement base of fair value is based on the closing buy price of those shares which are actively traded. On derecognition the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that was recognised directly in equity is recognised in profit or loss.

Portfolio Investments

TECT Group has purchased portfolio investments with Continuity Capital Partners, Devon Funds Management, Mercer, Nikko Asset Management and Vanguard Fund. TECT has classified these investments as 'available for sale'. These investments are recognised at fair value on the Group's Statement of Financial Position with movements being recognised in other comprehensive income except for impairments which are recognised in profit or loss. Trustees have determined that the most appropriate measurement base of fair value is based on the closing unit price of the respective funds.

Loans to Consumer Organisations

These loans are classified as loans and receivables and are interest free. After initial recognition they are measured at amortised cost using the effective interest rate method less any impairment loss based on an assumed term of 5 years and interest at commercial rates. For the purposes of calculating amortised cost the term as per the loan agreement has been used and an interest rate applying to the Westpac swap at inception date of

Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

the loan agreement is assumed. Gains and losses when the asset is impaired or derecognised are recognised in profit or loss.

c) Borrowings

Borrowings are initially recorded at fair value net of transaction costs incurred, and subsequently at amortised cost using the effective interest method.

All borrowing costs are recognised as an expense in the period they are incurred.

d) Derivatives

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value. For derivative financial instruments that do not qualify for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

(iv) Revenue

Revenue is measured at the fair value of consideration received.

(v) Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale assets, fair value gains on financial assets at fair value through profit or loss, distributions received and gains on hedging instruments that are recognised in profit or loss.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Dividends are shown net of imputation credits, and dividends and interest are shown gross of withholding taxes paid.

(vi) Finance Expenses

Finance expenses comprise interest expense on borrowings, losses on disposal of available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables), and losses on hedging instruments that are recognised in profit or loss.

(vii) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts, deposits held at call with banks and other short term liquid deposits of less than 90 days not forming part of the investment portfolio.

In the Statement of Cash Flows, dividends are shown net of withholding taxes paid and imputation credits, because only the net amount was received in cash by the TECT Group.

(viii) Impairment of Assets

The carrying amounts of the Group's assets other than those at fair value through Profit & Loss are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss.

Estimated recoverable amount of investments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at their original effective interest rate. Receivables with a short duration are not discounted.

(ix) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the

Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

obligation. Provisions represent expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Grants and distributions still to be paid are considered to be provisions as the amounts can be estimated reliably and past practice indicates substantially all of the communicated commitments are subsequently paid. Grant provisions are not discounted as the date of cash outflow cannot be estimated reliably and in any event the effect of discounting is not considered to be material.

Grants and distributions recognised in the year are recorded in equity as "reserves for distribution" rather than the Statement of Comprehensive Income as they are for the beneficiaries of the Trust.

(x) *Property, Plant & Equipment*

All property, plant and equipment are stated at cost less depreciation. Depreciation has been calculated in accordance with maximum rates permitted under the Income Tax Act 2007. Trustees consider that these rates give a reasonable approximation of the estimated usable lives of these assets.

Principal depreciation rates are:

Motor Vehicles	30%
Furniture & Fittings	10-16%
Computers & Software	50%
Plant & Equipment	25%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(xi) *Employee Entitlements*

Annual leave entitlements due to employees are accounted for on the basis of contractual requirements.

(xii) *Leased Equipment*

Plant and equipment is leased by TECT. Operating leases are those in which all risks and benefits are substantially retained by the lessor. Operating leases are expensed in the periods in which the amounts are payable.



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Notes to the Financial Report For the Year Ended 31 March 2016

2 EQUITY

		TECT Group	
		2016	2015
		\$	\$
Accumulated Profits			
(including initial share gift in 1993 of \$42.5 million):			
Balance at Beginning of Year		107,552,128	106,517,770
Total Profit After Taxation		146,364,524	38,501,026
Consumer Distributions/Grants Written Back		124,706	591,172
		254,041,358	145,609,968
Less Transfers to Reserves for Distribution		(40,584,000)	(38,057,840)
		213,457,358	107,552,128
Fair Value Reserve			
Balance at Beginning of Year		682,953,557	540,972,094
Current Year Revaluation - Trustpower Shares		(16,668,151)	151,663,103
Net Fair Value Gain on disposal of Trustpower Shares		-	-
Transferred to Profit and Loss		(109,279,971)	-
Current Year Revaluation - Investment Portfolios		2,343,512	-
Deferred Tax on Sale of Trustpower Shares		2,346,181	-
Deferred Tax on Fair Value Movements - Trustpower Shares		(12,000,408)	(9,681,640)
		549,894,720	682,953,557
Reserves for Distributions:			
(Note 14)			
Iconic Projects		-	(500,000)
Community Amenities		256,465	362,218
Community Events		35,617	4,430
Community Development		9,000	97,080
Energy Efficiency		-	106,902
Subsidy Scheme - Unallocated		-	26,074
Catalyst for Change		600,000	-
		901,082	96,704
Total Trust Equity		764,053,160	790,602,389



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

3 ADMINISTRATION EXPENSES

(a) Consumer Related Expenses include the following amounts:

TECT Group		
	2016	2015
	\$	\$
Consumer Consultation, Research & Reporting	22,004	30,856
Community Funding Schemes	6,241	19,381
Election Costs	4,000	113,788
Electricity Consumer Distribution Costs	57,671	72,407
	89,916	236,432

(b) Trustee Expenses include the following amounts:

TECT Group		
	2016	2015
	\$	\$
Trustee Expenses	22,542	6,727
Trustee Fees (Note 13)	174,320	158,519
Trustee Professional Development	5,326	3,757
	202,188	169,003

(c) Other Administration Expenses include the following amounts:

TECT Group		
	2016	2015
	\$	\$
Audit Fees	22,100	18,500
Insurance	10,813	11,027
Marketing	19,161	9,788
Premises & Occupancy	52,372	52,249
Research & Development - Strategic Projects	9,923	20,000
Wages & Staff Expenses	303,460	266,210
Other Administration Expenses	40,224	42,338
	458,053	420,112

4 FINANCIAL INSTRUMENTS

Bank accounts, short term deposits, investments in shares and funds, accounts receivable and accounts payable and advances to subsidiaries are financial instruments.

Interest Rate Risk

TECT Holdings Ltd entered into a swap of \$5m on 31 January 2015 with Westpac. The value of the swap is shown in the Statement of Financial Position at fair value based on mark to market at the reporting date.

Fair Value

All financial instruments are shown at values equivalent to their fair values.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

5 TAXATION

	TECT Group	
	2016 \$	2015 \$
Profit Before Taxation	165,753,514	40,037,028
Add Non-Deductible Expenditure	644,231	507,784
Imputation Tax Credits	9,785,864	9,695,358
	<u>176,183,609</u>	<u>50,240,170</u>
Less		
Beneficiary income distributed to tax exempt entities	(5,691,974)	-
Deductible Distribution Payments	(2,364,272)	(9,822,145)
Tax Amortisation of Loan Fees	-	(29,871)
Non Assessable Gain on Sale of TPW Shares	(128,929,926)	-
Charitable Trust Income Exemption	(5,161,265)	(288,972)
Taxable Income	<u>34,036,172</u>	<u>40,099,182</u>
Current Tax Charge (a)	9,524,899	11,231,360
Less Imputation Tax Credits	(9,785,864)	(9,695,358)
Income Tax Expense/(Benefit)	<u>(260,965)</u>	<u>1,536,002</u>
Tax Expense Comprises:		
Current Taxation Expense	-	962,110
Deferred Tax Expense (Note 12)	(260,965)	573,892
Tax Expense per Statement of Comprehensive Income	<u>(260,965)</u>	<u>1,536,002</u>
Imputation Credits Claimable		
Total Imputation Credits	9,785,864	9,695,358
Less excess ICs unable to claim (converted to loss)	(226,458)	-
Total ICs claimable as Tax Credit	<u>9,559,406</u>	<u>9,695,358</u>

(a) TECT is a Trust and pays tax at 33%; the TECT Group subsidiary companies pay tax at 28%. No tax is payable by TECT Charitable Trust.

6 IMPUTATION CREDITS

As at 31 March 2016 the Group had Imputation Credits available of \$62,765,569 (2015: \$52,931,787).



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

7 PROVISION FOR DISTRIBUTIONS

	TECT Group	
	2016 \$	2015 \$
Opening Balance	15,164,276	5,487,231
Plus Distributions Approved (<i>Note 14</i>)	40,165,173	49,720,749
Less Distributions Written Back (<i>Note 14</i>)	(510,256)	(663,033)
	54,819,193	54,544,947
Less Distributions Paid	(39,264,189)	(39,380,671)
Closing Balance End of Year	15,555,004	15,164,276
Distributions not yet uplifted:		
Iconic Projects	11,034,000	11,000,000
Community Amenities	1,925,223	1,020,358
Community Events	166,489	275,837
Community Development	1,814,881	1,473,783
Energy Efficiency	-	102,651
Community Organisation Subsidy Scheme	66,960	827,330
Direct Consumer Distributions	547,451	464,318
	15,555,004	15,164,277

Payment of grants is generally conditional upon the organisation obtaining the full amount of funds required to complete the project. TECT does not release funds until all conditions imposed by Trustees have been met. Grants are normally paid out within two years except in exceptional circumstances where Trustees may allow an extension of time or in the case of major projects which may require longer time frames for completion. Grant provisions are not discounted as the date of cash outflow cannot be estimated reliably and in any event the effect of discounting is not expected to be material.

8 SUBSIDIARIES

TECT Charitable Trust

On 27 March 2002 TECT settled a Charitable Trust called TECT Charitable Trust. TECT Charitable Trust is registered under the Charities Act 2005 and has donee status.

The purpose of the TECT Charitable Trust is to benefit only charitable purposes of "Charitable Consumers" defined in Clause 1.1 of the TECT Charitable Trust Deed. TECT Charitable Trust is entitled to receive distributions of beneficiary income from TECT. TECT Charitable Trust is governed by the TECT Trustees.

TECT Holdings Limited

TECT Holdings Limited is the entity which holds the Trustpower Limited shares.

TECT Finance Limited

On 31 March 2016 TECT Finance Ltd was amalgamated with TECT Holdings.

TECT Property Limited

On 22 March 2016 TECT Property Ltd was incorporated. There has been no activity in the company from the date of incorporation to 31 March 2016. The purpose of the entity is to be the owner and lessor of the newly planned community hub building.

9 INVESTMENTS

(a) **Trustpower Limited**

Fair value has been assessed at \$7.66 per share (\$7.95 per share 2015), being the closing buy quotation on 31 March 2016 (being last business day of month). No allowance has been made for commission payable on any disposal of shares. Values adopted being:



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

	TECT Group	
	2016	2015
	\$	\$
Opening Balance	825,836,762	674,173,659
Less Sale of 20,000,000 Shares	(159,000,000)	-
Fair Value Movement	(24,324,863)	-
Closing Balance 83,878,838 shares @ \$7.66 per share (2015: 103,878,838 shares @ \$7.95)	642,511,899	825,836,762

The TECT Group has the majority of its funds invested in Trustpower shares, therefore there is a concentration of market risk associated with this investment.

In the two months following balance date (1 April to 31 May 2016) the Trustpower share price fluctuated significantly, ranging from a high of \$8.00 to a low of \$7.65 (2015: \$8.12 to \$7.65).

Trustees constantly monitor the risks outlined above.

The TECT Trust Deed requires that Trustees carry out a Consumer Consultation before selling more than 5% of TECT's base level securities (87,466,000 shares). Additionally Trustees are able to sell any shares in excess of the base level without consultation. In April 2015 TECT Group sold 20 million shares @ \$7.74 per share. The remaining 83,878,838 shares represent 26.8% of the total shares in Trustpower. The Trust Deed requires TECT to wind up if it holds less than 5% of the total share capital of the company. Trustees have a policy to consult with Consumers at five yearly intervals on the retention of the securities.

(b) Diversified Investment Portfolios

	TECT Group	
	Units	\$NZ
Nikko Asset Management		
Opening Balance 1 April 2015	-	-
Plus Application	24,170,473	25,000,000
Less Units Redeemed	(20,164,333)	(21,000,000)
Plus Income Distribution Reinvestment	120,968	124,981
Less Managers Fee	(9,057)	(9,411)
Plus/(Less) Current Year Change in Valuation	-	136,730
Closing Balance 31 March 2016	4,118,051	4,252,300
Devon Trans Tasman Fund		
Opening Balance 1 April 2015	-	-
Plus Application	9,097,277	15,402,600
Less Units Redeemed	(1,994)	(3,452)
Plus/(Less) Current Year Change in Valuation	-	1,516,259
Closing Balance 31 March 2016	9,095,283	16,915,407



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Notes to the Financial Report For the Year Ended 31 March 2016

Mercer Portfolio	Units	\$NZ
Opening Balance 1 April 2015	-	-
Plus Application	19,569,281	19,437,924
Plus/(Less) Current Year Change in Valuation	-	(250,244)
Closing Balance 31 March 2016	19,569,281	19,187,680
Continuity Capital Partners Fund	Units	\$NZ
Opening Balance 1 April 2015	-	-
Plus Application	5,000,000	1,750,000
Plus Time Value of Money	-	66,569
Less Distribution of Time Value of Money	-	(15,145)
Plus/(Less) Current Year Change in Valuation	-	(122,116)
Closing Balance 31 March 2016	5,000,000	1,679,308
Vanguard International	Units	\$NZ
Opening Balance 1 April 2015	-	-
Plus Application	80,581,298	100,116,900
Reinvested Managers Fee Rebate	23,849	28,040
Plus/(Less) Current Year Change in Valuation	-	1,062,883
Closing Balance 31 March 2016	80,605,146	101,207,822
Total Diversified Portfolio Funds		143,242,517

(c) Loans to Consumer Organisations

TECT has advanced interest free loans to two organisations. These loans are classified as loans and receivables and, after initial recognition, are measured at amortised cost using effective interest rate method less any impairment loss.

Fair Value Adjustment of Interest Free Loans

	TECT Group	
	2016 \$	2015 \$
Opening Balance	192,896	179,305
Plus Advances - Bay Venues Limited Loan	750,000	-
Add/(Deduct) Current Year Effective Interest Rate Adjustment	(104,563)	13,591
Closing Balance	838,333	192,896
<u>Comprising:</u>		
Omanu Beach Charitable Trust Loan	180,079	192,896
Bay Venues Trust Loan	658,254	-
	838,333	192,896

10 LOANS

The two Westpac loans of \$9m and \$3m matured in June 2015 and were fully repaid at this time.

11 INTEREST RATE SWAP

Westpac Bank - Interest Rate Swap	Term:	7 years, maturing 15 December 2019
Novated from ANZ Bank March 2015	Notional amount:	\$5 million
	Mark to Market:	\$337,743 (2015: \$148,276)



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

12 DEFERRED TAX ASSET/(LIABILITY)

Deferred Tax shown in the Statement of Financial Position arises from revaluation of financial instruments to fair value.

	TECT Group	
	2016 \$	2015 \$
Opening Balance	(12,651,036)	(2,395,503)
Plus/(Less):		
<u>Deferred Tax Adjustments through Income Statement</u>		
Fair Value Adjustment of Investments	34,506	(4,485)
Deferred Tax on Tax Losses	226,459	-
Deferred Tax on Tax Losses Utilised	-	(569,407)
<u>Deferred Tax Adjustments through Equity</u>		
Deferred Tax on Sale of TPW Shares	652,972	
Deferred Tax on Fair Value Movements - Retained TPW Shares	2,346,181	(9,681,641)
Closing Balance End of Year	(9,390,918)	(12,651,036)

- (i) The deferred tax liability arising in relation to the fair value movements in Trustpower shares is estimated based on the level of imputation credits likely to be attached to future dividends. The Trustees now consider there is more clarity and certainty about the level of imputation credits which are likely to be attached to dividends received although this may still be subject to significant variability. The level of imputation credits has been calculated based on an average of the imputation credits received over the past four financial years to allow for fluctuations between years (2016: 29.79%; 2015: 30.62%). This methodology and the level of imputation credits estimated will be reviewed at each reporting date.
- (ii) A decrease of 100 basis points in the average imputation credits used in the calculation of deferred tax would have resulted in an increase in deferred tax liability of \$1,062,996.

Deferred tax assets and liabilities are attributable to the following:

TECT Group

	Assets		Liabilities		Net	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
Available-for-sale financial assets	-	-	(9,651,883)	(12,653,380)	(9,651,883)	(12,653,380)
Tax Losses	226,459	-	-	-	226,459	-
Loans and receivables	34,506	2,344	-	-	34,506	2,344
Tax assets (liabilities)	260,965	2,344	(9,651,883)	(12,653,380)	(9,390,918)	(12,651,036)
Set off of tax	(260,965)	(2,344)	260,965	2,344	-	-
Net tax assets (liabilities)	-	-	(9,390,918)	(12,651,036)	(9,390,918)	(12,651,036)



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

13 RELATED PARTY TRANSACTIONS

Mr Bill Holland is a Trustee of TECT and TECT Charitable Trust and is a Director on the Board of each of the TECT Group's subsidiary companies. Mr Holland is also a Partner in the law firm Holland Beckett. TECT has entered into an agreement to lease premises with Spoke Investments Limited from Holland Beckett at an annual cost of \$48,000 (excluding GST).

Mr Paul Tustin is a Trustee of TECT and TECT Charitable Trust and is a Director on the Board of each of the TECT Group's subsidiary companies. Mr Tustin is also a Partner in the law firm Cooney Lees Morgan. During the year TECT has engaged the firm to complete work of a minor nature.

Trustees are required to be Consumers as defined in TECT's Trust Deed and are therefore beneficiaries of TECT and accordingly are related parties. All transactions with related parties are undertaken in the normal course of business on normal commercial terms.

No related party debts have been forgiven or written off during the year.

From time to time, applications for grants are received by TECT from organisations in which TECT Trustees have an interest. In these situations, Trustees adhere to the guidance in TECT's Code of Practice and remove themselves from the decision making process to ensure no conflicts of interest occur.

The Trust held 12 formal meetings during the year. As well as attending Board meetings during the year, Trustees attended numerous other meetings as well as events representing the Trust. The Table below records each Trustees attendance at Board meetings and the remuneration paid to each Trustee.

	YE 2016 Monthly Meeting Attendance	YE 2016 Extra Meeting Attendance	YE 2016 Remuneration
William Holland	11	32	\$41,502
Bruce Cronin	11	19	\$29,614
Kenneth Collings	12	27	\$26,771
Ronald Scott	11	13	\$22,998
Peter Blackwell	12	14	\$23,958
Paul Tustin	12	40	\$29,477
Total			\$174,320



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

14 RESERVES FOR DISTRIBUTIONS

	TECT Group	
Summary:	2016 \$	2015 \$
Opening Balance	96,704	11,687,752
Plus Allocated - Annual Distribution Plan	40,584,000	38,057,840
Less Write Back to Retained Earnings	(124,705)	(591,172)
	40,555,999	49,154,420
Less Transfers to Provisions & Payments	(40,165,173)	(49,720,747)
Plus Write Back to Reserve	510,256	663,033
Closing Balance End of Year	901,082	96,704

This comprises:

Iconic Projects

	TECT Group	
	2016 \$	2015 \$
Opening Balance	(500,000)	10,839,660
Plus Allocated - Annual Distribution Plan	3,534,000	3,660,340
	3,034,000	14,500,000
Less Transfers to Provisions & Payments	(3,034,000)	(15,000,000)
Closing Balance End of Year	-	(500,000)

	TECT Group	
Community Amenities	2016 \$	2015 \$
Opening Balance	362,218	3,533
Plus Allocated - Annual Distribution Plan	2,150,000	2,500,000
	2,512,218	2,503,533
Less Transfers to Provisions & Payments	(2,491,035)	(2,141,315)
Plus Write Back to Reserve	235,282	-
Closing Balance End of Year	256,465	362,218

	TECT Group	
Community Events	2016 \$	2015 \$
Opening Balance	4,430	69,737
Plus Allocated - Annual Distribution Plan	600,000	500,000
	604,430	569,737
Less Transfers to Provisions & Payments	(598,813)	(605,307)
Plus Write Back to Reserve	30,000	40,000
Closing Balance End of Year	35,617	4,430



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Notes to the Financial Report For the Year Ended 31 March 2016

	TECT Group	
	2016	2015
	\$	\$
Community Development		
Opening Balance	97,080	-
Plus Allocated - Annual Distribution Plan	2,800,000	2,000,000
Plus Reallocated on Merging Funds	132,976	-
Plus Write Back to Retained Earnings	-	(3,059)
	3,030,056	1,996,941
Less Transfers to Provisions & Payments	(3,141,325)	(1,902,922)
Plus Write Back to Reserve	120,269	3,061
Closing Balance End of Year	9,000	97,080

	TECT Group	
	2016	2015
	\$	\$
Energy Efficiency		
Opening Balance	106,902	525,012
	106,902	525,012
Less Transfers to Provisions & Payments	-	(418,110)
Less Reallocated to Community Development	(106,902)	-
Closing Balance End of Year	-	106,902

	TECT Group	
	2016	2015
	\$	\$
Community Organisation Subsidies		
Opening Balance	24,074	249,810
Plus Allocated - Annual Distribution Plan	-	1,000,000
	26,074	1,249,810
Less Transfers to Provisions & Payments	-	(1,255,595)
Less Reallocated to Community Development	(26,074)	-
Plus Write Back to Reserve	-	31,859
Closing Balance End of Year	-	26,074

	TECT Group	
	2016	2015
	\$	\$
Consumer Distributions		
Opening Balance	-	-
Plus Allocated - Annual Distribution Plan	30,900,000	28,397,500
Less Write Back to Retained Earnings	(124,705)	(588,113)
	30,775,295	27,809,387
Less Transfers to Provisions & Payments	(30,900,000)	(28,397,500)
Plus Unclaimed Cheques Cancelled	124,705	588,113
Closing Balance End of Year	-	-

	TECT Group	
	2016	2015
	\$	\$
Catalyst for Change		
Opening Balance	-	-
Plus Allocated - Annual Distribution Plan	600,000	-
Closing Balance End of Year	600,000	-



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2016

15 CAPITAL MANAGEMENT

The TECT Group's capital includes Trust Capital, Share Capital, Reserves for Distributions and Fair Value Reserve.

The Group's policy is to maintain a strong capital base so as to sustain current distributions and further development of the TECT Group to provide benefits to Consumers.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Trustees.

There have been no material changes in the Group's management of capital during the period.

16 PROPERTY, PLANT & EQUIPMENT

TECT GROUP

	Cost Price	Book Value 31.3.15	Additions	Depreciation \$	Book Value 31.3.16
Motor Vehicles	26,335	17,052	-	5,116	11,936
Furniture & Fittings	24,305	19,421	1,655	3,621	17,455
Computers & Software	42,616	26,291	15,714	21,007	20,998
Plant & Equipment	924	615	18,409	3,762	15,262
Closing Balance End of Year	94,180	63,379	35,778	33,506	65,651

17 COMMITMENTS & CONTINGENCIES

The TECT Group had no commitments or contingencies at the end of the financial year (2015: Nil).

18 SUBSEQUENT EVENTS

There have been no subsequent events to report as at date of approval of financial statements.





Independent auditor's report

To the beneficiaries of Tauranga Energy Consumer Trust

We have audited the accompanying consolidated financial statements of Tauranga Energy Consumer Trust and its subsidiaries ("the group") on pages 2 to 22. The financial statements comprise the consolidated statement of financial position as at 31 March 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the beneficiaries as a body. Our audit work has been undertaken so that we might state to the trust's beneficiaries those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the trust's beneficiaries as a body, for our audit work, this report or any of the opinions we have formed.

Trustees' responsibility for the consolidated financial statements

The trustees are responsible on behalf of the trust for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime) and for such internal control as the trustees determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

Other than in our capacity as auditor we have no relationship with, or interests in, the group.



Opinion

In our opinion, the consolidated financial statements on pages 2 to 22 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Tauranga Energy Consumer Trust as at 31 March 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

A handwritten signature of 'KPMG' in blue ink, written in a cursive style.

1 July 2016
Tauranga