

TAURANGA ENERGY CONSUMER TRUST

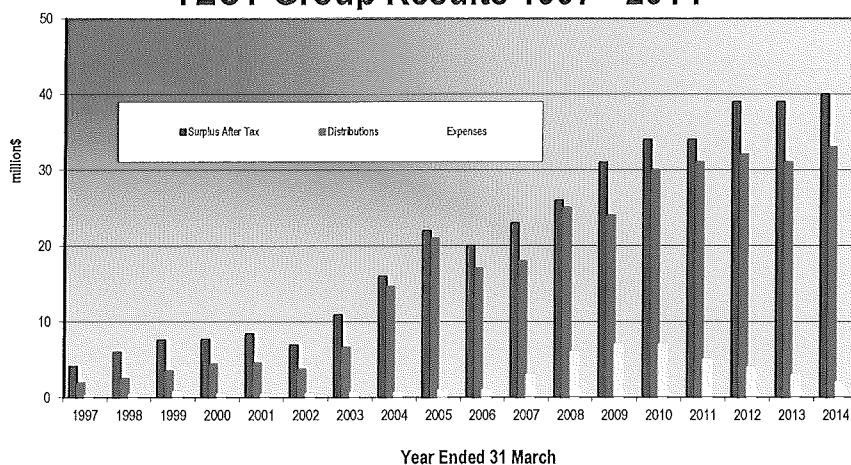
GROUP CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED
31 MARCH 2014

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Financial Highlights at 31 March 2014

TECT Group Results 1997 - 2014



Total Trustee Income
Allocation transferred to
Beneficiary Reserves
(\$m) Total \$318m

\$39.9
2014

\$32.6
2013

\$32.2
2012

\$30.9
2011

\$29.9
2010

\$23.9
2009

\$24.8
2008

\$18.2
2007

\$17.1
2006

\$21.5
2005

\$15.6
2004

\$5.6 2003

\$4.0 2002

\$5.1 2001

\$6.4 2000

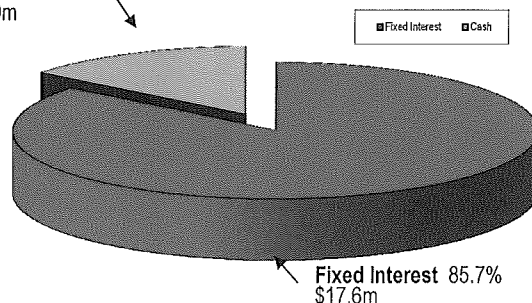
\$4.7 1999

\$3.8 1998

\$2.0 1997

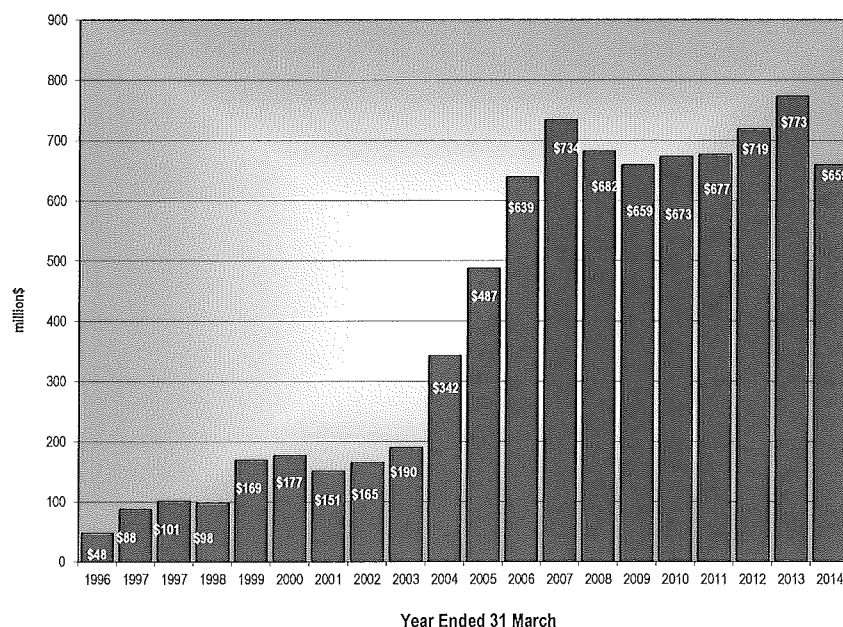
TECT Group Consolidated Investments & Fixed Interest (excl TPW Shares)

Cash 14.3%
\$2.9m



This represents \$20.6m or 3% of total TECT Group Cash & Investments of \$695m

TECT Group Net Equity Growth



TAURANGA ENERGY CONSUMER TRUST

GROUP CONSOLIDATED FINANCIAL REPORT

DIRECTORY

AS AT 31 MARCH 2014

Trustees:	MJ Cooney, Chairperson BW Cronin, Deputy Chairperson K Collings S Devoy WB Holland RJC Scott
Secretary:	KF Lellman (to 31 March 2014) BDO Tauranga Ltd 96 Cameron Road PO Box 800 Tauranga WA Werder (from 1 April 2014) General Manager, TECT
Auditor:	KPMG Tauranga
Solicitors:	Sharp Tudhope, 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 TECT Finance No. 2 Ltd (wound up 2014)

TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	TECT Group		Tauranga Energy Consumer Trust	
	2014 \$	2013 \$	2014 \$	2013 \$
Finance Income				
Dividends	41,551,535	41,551,535	-	39,033,360
Net Change in Fair Value of Derivative designated at Fair Value through Profit & Loss	627,427	112,718	-	-
Effective Interest Adjustment of Interest Free Loans Interest (Note 3d)	12,634	11,728	12,634	11,728
	936,707	1,227,676	889,625	1,055,341
	43,128,303	42,903,657	902,259	40,100,429
Management Fees	-	-	27,600	27,600
Other Income	1,828	1,795	125	-
TOTAL REVENUE	43,130,131	42,905,452	929,984	40,128,029
Less Expenses				
Administration Expenses				
Audit Fees	22,000	17,585	22,000	17,585
Fringe Benefit Tax	618	-	618	-
Goods & Services Tax	4,140	4,243	-	103
Insurance	9,328	8,872	9,328	8,872
Legal and Advisory Fees	39,996	6,697	39,996	6,697
Office Establishment Costs (Note 16)	64,635	-	64,635	-
Research & Development - Strategic Projects	7,980	-	7,980	-
Secretarial Costs	358,001	337,142	358,001	337,142
Stationery	13,186	11,998	13,186	11,998
Sundry Expenses	5,647	5,711	5,596	5,660
	525,531	392,248	521,340	388,057
Finance Expenses				
Bank Charges	5,523	6,308	4,999	5,611
Interest Expense	1,494,552	2,467,603	261,231	253,104
	1,500,075	2,473,911	266,230	258,715
Consumer Related Expenses				
Consumer Consultation, Research & Reporting	52,964	48,303	52,964	48,303
Community Funding Schemes	2,185	1,383	2,185	1,383
Election Costs	4,000	95,485	4,000	95,485
Electricity Consumer Distribution Costs (inc Concession Cards)	56,984	62,141	56,984	62,141
	116,133	207,312	116,133	207,312
Trustee Expenses				
Professional Development - Trustees & Staff	9,028	4,030	9,028	4,030
Trustee Expenses	2,134	2,649	2,134	2,649
Trustee Fees	151,005	129,125	151,005	129,125
	162,167	135,804	162,167	135,804
Depreciation Expense (Note 17)	2,537	-	2,537	-
TOTAL EXPENSES	2,306,443	3,209,275	1,068,407	989,888
PROFIT BEFORE TAXATION	40,823,688	39,696,177	(138,423)	39,138,141
Tax Expense (Note 5)	778,512	802,620	128,890	1,846,662
TOTAL PROFIT AFTER TAXATION	\$ 40,045,176	\$ 38,893,557	\$ (267,313)	\$ 37,291,479
OTHER COMPREHENSIVE INCOME				
Items which will be reclassified to Profit & Loss on certain conditions being met (Note 1(f)(i))				
Valuation Gain/(Loss) on Investments (Note 2)	(125,693,394)	46,745,477	-	-
Capital Loss on Investment written off (Note 1(c)(ii))	-	-	(4,295)	-
Tax on Components of Other Comprehensive Income (Note 2)	5,671,210	(693,979)	-	-
Total Other Comprehensive Income	(120,022,184)	46,051,498	(4,295)	-
TOTAL COMPREHENSIVE INCOME	\$ (79,977,008)	\$ 84,945,055	\$ (271,608)	\$ 37,291,479



**TAURANGA ENERGY CONSUMER TRUST
GROUP CONSOLIDATED FINANCIAL REPORT**



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2014**

	TECT Group		Tauranga Energy Consumer Trust	
	2014 \$	2013 \$	2014 \$	2013 \$
Profit After Taxation	40,045,176	38,893,557	(267,313)	37,291,479
Other Comprehensive Income	(120,022,184)	46,051,498	(4,295)	-
Total Comprehensive Income	(79,977,008)	84,945,055	(271,608)	37,291,479
Distributions of Equity (Note 8)	(33,518,433)	(31,272,781)	(28,353,220)	(27,892,341)
Distributions Written Back (Note 8)	91,952	236,170	91,952	1,853,004
Movements in Equity for the Year	(113,403,489)	53,908,444	(28,532,876)	11,252,142
Trust Equity at Start of the Year	772,581,105	718,672,661	520,977,924	509,725,782
Trust Equity at End of the Year	\$ 659,177,616	\$ 772,581,105	\$ 492,445,048	\$ 520,977,924



TAURANGA ENERGY CONSUMER TRUST GROUP CONSOLIDATED FINANCIAL REPORT



STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

		TECT Group		Tauranga Energy Consumer Trust	
		2014	2013	2014	2013
		\$	\$	\$	\$
Trust Equity					
Accumulated Final Profits	(Note 2)	106,517,770	106,354,299	480,757,296	515,745,396
Fair Value Reserve	(Note 2)	540,972,094	660,994,278	-	-
Reserves for Distribution	(Notes 2, 14)	11,687,752	5,232,528	11,687,752	5,232,528
TOTAL TRUST EQUITY		\$ 659,177,616	\$ 772,581,105	\$ 492,445,048	\$ 520,977,924
<i>Represented by:</i>					
Current Assets					
Cash & Cash Equivalents -					
Bank		604,503	482,812	598,545	478,438
Short Term Deposits (less than 90 days)	(Note 4)	2,332,823	3,705,683	2,332,823	3,705,683
Sharp Tudhope & Co Trust Account		202	-	202	-
Short Term Deposits (Other)	(Note 4)	14,376,347	7,083,783	14,376,347	7,083,783
Advance - TECT Finance No 2 Ltd		-	-	-	3,295
Prepayments		-	9,490	-	9,490
GST Refund Due		28,238	17,954	28,238	17,954
ANZ Bank Interest Rate Swaps		231,000	-	-	-
Taxation Refund Due		-	-	17,420	-
Total Current Assets		17,573,113	11,299,722	17,353,575	11,298,643
Non Current Assets					
Investments					
Shares in TrustPower Ltd	(Note 3a)	674,173,659	799,867,053	-	-
Investment in Subsidiaries		-	-	2,100	3,100
Loan - TECT Holdings Ltd	(Note 9)	-	-	478,930,165	513,899,381
ANZ Senior Bonds	(Note 3b)	3,077,116	3,070,378	3,077,116	3,070,378
Paradise Point Development Trust Loan	(Note 3d)	179,305	166,671	179,305	166,671
Total Investments		677,430,080	803,104,102	482,188,686	517,139,530
Other Non Current Assets					
Deferred Taxation	(Note 12)	-	-	6,829	10,998
Plant & Equipment	(Note 17)	67,579	-	67,579	-
Total Non Current Assets		677,497,659	803,104,102	482,263,094	517,150,528
TOTAL ASSETS		\$ 695,070,772	\$ 814,403,824	\$ 499,616,669	\$ 528,449,171
Less Current Liabilities					
Sundry Accounts Payable		109,169	58,068	109,168	58,065
Bank Overdrafts		264,125	-	264,125	-
Accrued Expenses		1,277	-	1,277	-
Advance from TECT Charitable Trust	(Note 9)	-	-	4,628,554	4,378,268
Provision for Distributions	(Note 8)	5,487,231	5,732,443	2,168,497	2,445,470
Loan - ANZ Bank		125,851	113,073	-	-
Taxation Payable		10,000	434,799	-	589,444
Total Current Liabilities		\$ 5,997,653	\$ 6,338,383	\$ 7,171,621	\$ 7,471,247
Non Current Liabilities					
Loan - ANZ Bank	(Note 10)	27,500,000	27,500,000	-	-
Interest Rate Swap - ANZ Bank		-	396,427	-	-
Deferred Taxation	(Note 12)	2,395,503	7,587,909	-	-
Total Non Current Liabilities		29,895,503	35,484,336	-	-
TOTAL LIABILITIES		\$ 35,893,156	\$ 41,822,719	\$ 7,171,621	\$ 7,471,247
NET ASSETS		\$ 659,177,616	\$ 772,581,105	\$ 492,445,048	\$ 520,977,924

Trustee

Trustee



**TAURANGA ENERGY CONSUMER TRUST
GROUP CONSOLIDATED FINANCIAL REPORT**



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2014**

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
<u>Cash was provided from/(disbursed to):</u>				
Dividends Received	41,551,535	41,551,535	-	34,384,644
Interest Received	929,969	1,227,676	889,625	1,055,157
Other Income	-	-	125	-
Payments to Suppliers & Trustees	(757,770)	(763,223)	(753,053)	(758,338)
Interest Paid	(1,494,552)	(2,534,729)	(3,150)	(253,104)
Taxation Paid	(724,507)	(1,287,544)	(731,585)	(1,273,492)
Donations Received	1,828	1,795	-	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 39,506,503	\$ 38,195,510	\$ (598,038)	\$ 33,154,867
CASH FLOWS FROM INVESTING ACTIVITIES				
<u>Cash was received from/(applied to):</u>				
Purchases of Fixed Assets	(70,116)	-	(70,116)	-
Investments & Loans to Consumer Organisations	-	(5,911)	-	(5,911)
Movement in Intercompany Loans	-	-	34,962,478	(14,255,437)
Movements in Term Deposits	(7,292,564)	11,076,373	(7,292,564)	11,076,373
Movement in Advance Account	-	-	19,805	265,794
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	\$ (7,362,680)	\$ 11,070,462	\$ 27,619,603	\$ (2,919,181)
CASH FLOWS FROM FINANCING ACTIVITIES				
<u>Cash was disbursed to:</u>				
Payments to TrustPower Consumers (including grants)	(33,671,693)	(30,734,240)	(28,538,241)	(27,204,269)
Movement in ANZ Loans	12,778	(15,500,000)	-	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES	\$ (33,658,915)	\$ (46,234,240)	\$ (28,538,241)	\$ (27,204,269)
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS	(1,515,092)	3,031,732	(1,516,676)	3,031,417
Add Opening Cash & Cash Equivalents	4,188,495	1,156,763	4,184,121	1,152,704
CLOSING CASH & CASH EQUIVALENTS	\$ 2,673,403	\$ 4,188,495	\$ 2,667,445	\$ 4,184,121
<u>Represented by:</u>				
Short Term Deposits - Less than 90 Days	2,332,823	3,705,683	2,332,823	3,705,683
Sharp Tudhope & Co Trust Account	202	-	202	-
Bank Current Accounts	604,503	482,812	598,545	478,438
Bank Overdrafts	(264,125)	-	(264,125)	-
	\$ 2,673,403	\$ 4,188,495	\$ 2,667,445	\$ 4,184,121
Reconciliation of Net Surplus after Tax to Cash Flows from Operating Activities				
Surplus after Tax	40,045,176	38,893,557	(271,608)	37,291,479
Movements in Inter-Entity Advances	-	-	-	(4,771,039)
Fair Value Adjustment Investments	(646,799)	(885,551)	(12,634)	(11,728)
Interest & Management Fees	-	-	230,481	94,539
Write off Interentity Investment	-	-	4,295	-
Depreciation	2,537	-	2,537	-
Movements in Deferred Tax	478,804	(346,193)	4,169	3,870
Movements in Accounts Payable	52,378	(15,519)	52,380	(15,522)
Movements in Accounts Receivable and Accruals	9,490	(2,295)	9,490	(2,295)
Movements in GST	(10,284)	(3,737)	(10,284)	(3,737)
Movement in Taxation Payable/Receivable	(424,799)	555,248	(606,864)	569,300
NET CASH FLOWS FROM OPERATING ACTIVITIES (as above)	\$ 39,506,503	\$ 38,195,510	\$ (598,038)	\$ 33,154,867



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

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, TECT Finance Ltd and TECT Finance No. 2 Ltd comprise the TECT Group.

As required by its Trust Deed, TECT complies with the financial reporting requirements of the Financial Reporting Act 1993.

The Financial Report comprises the Consolidated Financial Statements of the Group and the separate Financial Statements of the Parent Trust.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Trustees on 17 June 2014.

(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).

TECT Group holds 103,878,838 shares, representing 33% in the capital of TrustPower Limited. These shares are held by TECT Holdings Ltd, a 100% wholly owned subsidiary company.

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(iv)(b)) 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 2014

(ii) *Subsidiary Entities*

The wholly owned subsidiary entities, TECT Charitable Trust, TECT Holdings Ltd, TECT Finance Ltd and TECT Finance No. 2 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.

TECT Finance No. 2 Ltd was wound up during the year ended 31 March 2014 and advances from TECT were written off.

In the Parent Trust's separate Financial Statements investments in subsidiaries are stated at cost less any impairment losses.

(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) 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'.

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.

(f) **STATUS OF ACCOUNTING STANDARDS**

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

The accounting policies adopted are consistent with those of the previous financial year, except that the Parent and Group have adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Interpretations Committee (IFRIC) interpretations since 1 April 2012.



Tauranga Energy Consumer Trust

Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

Standard/interpretation	Effective date	Effect
<u>Consolidation Standards:</u> NZ IFRS 10 Consolidated Financial Statements NZ IFRS 12 Disclosure of Interests in Other Entities	Periods beginning 1 January 2013	NZ IFRS 10 provides a revised definition of control together with accompanying guidance to identify an interest in a subsidiary. NZ IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. There is no impact on the Group's consolidated financial statements in the year under review.
NZ IFRS 13 Fair Value measurement	Periods beginning 1 January 2013	NZ IFRS 13 does not affect any items that are required to be fair-valued, but does clarify the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. There is no impact on the Group's consolidated financial statements in the year under review.
Amendments to NZ IAS 1 Presentation of Financial Statements	Periods beginning 1 July 2012	The NZ IAS 1 amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: <ul style="list-style-type: none"> • Will not be reclassified subsequently to profit or loss; and • Will be reclassified subsequently to profit or loss on disposal when specific conditions are met. There has been a minor change in the presentation of items in other comprehensive income; however the measurement or recognition of such items is unaffected.

(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 (2009) Financial Instruments	Periods beginning 1 January 2017	The IASB and the XRB aim to replace NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> in its entirety by the end of 2012, with replacement standard (NZ IFRS 9). The new standard is being issued in phases, with early adoption available as each phase is issued. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and financial liabilities have been issued. Further chapters dealing with impairment

Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

		<p>methodology and hedge accounting have also been issued. These chapters are effective for annual periods beginning on or after 1 January 2017.</p> <p>The adoption of NZ IFRS 9 will result in certain financial assets currently being accounted for at amortised cost to have 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 impact the standard is likely to have on the recognition and measurement of financial assets held by the Parent and Group. However, they do not expect to implement the amendments until all chapters of NZ IFRS 9 have been published and they can comprehensively assess the impact of all changes.</p>
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(iii) New Zealand Financial Reporting Framework

The Financial Reporting Act 2013 and Financial Reporting (Amendments to Other Enactments) Act 2013 have brought about two major changes to financial reporting in New Zealand. The first is the separation of 'Not for Profit' (NFP) and 'For Profit' reporting standards. The second is the introduction of a system of financial reporting 'tiers'. Reporting under the new tiers is mandatory from the year beginning 1 April 2014.

TECT Trustees have confirmed that they consider TECT meets the definition of a for profit entity under XRB A1 because a high proportion of distributions are to 'equity holders' (qualifying Consumers).

Review of XRB A1 indicates that TECT falls under Tier 2 provided that it is not publicly accountable. Recognition and measurement standards under Tier 1 and 2 are the same although the Reduced Disclosure Regime (RDR) under Tier 2 has concessions with regard to disclosure requirements. Tier 2 qualifying entities may elect to apply all or any of the RDR concessions. TECT Trustees have confirmed that they do not consider TECT to be publicly accountable. Management have yet to assess the impact of the new reporting framework on the level of disclosures in the Financial Statements.

(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.

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.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

Deferred tax is not recognised on temporary differences associated with investments in subsidiaries because:

- * The parent is able to control the timing of the reversal of the differences; and
- * They are not expected to reverse in the foreseeable future.

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) *Foreign Currencies*

Transactions in foreign currencies are initially recognised in the functional currency of the relevant operating unit at exchange rates at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

At reporting date, foreign monetary assets and liabilities are translated at the functional currency closing rate and exchange variations arising from these transactions are recognised in profit or loss. Translation differences on non-monetary items such as financial assets held at fair value through equity are reported as part of their fair value gain or loss.

(iv) *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.

ANZ Senior Bonds



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

ANZ Senior Bonds are classified as a held to maturity investment measured at amortised cost using the effective interest rate method, less impairment losses.

Loans to Consumer Organisations

These loans are classified as loans and receivables and are interest free, repayable on demand. 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. 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.

(v) Revenue

Revenue is measured at the fair value of consideration received.

(vi) 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 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.

(vii) Finance Expenses

Finance expenses comprise interest expense on borrowings, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, 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.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(viii) 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.

(ix) Impairment of Assets

The carrying amounts of the Group's assets 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.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

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.

(x) *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 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.

(xi) *Property, Plant & Equipment*

All property, plant and equipment is 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.

(xii) *Employee Entitlements*

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



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

2 EQUITY

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Accumulated Final Profits (including initial share gift in 1993 of \$42.5 million):				
Balance at Beginning of Year	106,354,299	100,040,242	515,745,396	506,036,144
Total Profit After Taxation	40,045,176	38,893,557	(271,608)	37,291,479
	146,399,475	138,933,799	515,473,788	543,327,623
Less Transfers to Reserves for Distribution	(39,881,705)	(32,579,500)	(34,716,492)	(27,582,227)
	\$106,517,770	\$106,354,299	\$480,757,296	\$515,745,396
Fair Value Reserve				
Balance at Beginning of Year	660,994,278	614,942,780	-	-
Current Year Revaluation - TrustPower Shares	(125,693,394)	46,745,477	-	-
Deferred Tax on Fair Value Movements - TrustPower Shares	5,671,210	(693,979)	-	-
	\$540,972,094	\$660,994,278	\$-	\$-
Reserves for Distributions: (Note 14)				
Major Amenities	10,839,660	3,139,660	10,839,660	3,139,660
Community Amenities	3,533	943,459	3,533	943,459
Community Events	69,737	106,115	69,737	106,115
Community Special Projects	-	113,527	-	113,527
Energy Efficiency	525,012	425,012	525,012	425,012
Community Organisation Subs - Unallocated	249,810	504,755	249,810	504,755
	\$11,687,752	\$5,232,528	\$11,687,752	\$5,232,528
Total Trust Equity	\$659,177,616	\$772,581,105	\$492,445,048	\$520,977,924



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

3 INVESTMENTS

(a) TrustPower Limited

Fair value has been assessed at \$6.49 per share (\$7.70 per share 2013), being the closing buy quotation on 31 March 2014 (being last business day of month). No allowance has been made for commission payable on any disposal of shares. Values adopted being:

	TECT Group	
	2014 \$	2013 \$
Opening Balance	799,867,053	753,121,576
Add Current Year Change in Valuation	(125,693,394)	46,745,477
Closing Balance 103,878,838 shares @ \$6.49 per share (2013: 103,878,838 shares @ \$7.70)	<u>\$674,173,659</u>	<u>\$ 799,867,053</u>

(b) ANZ Senior Bonds

Opening Balance (Face Value \$3m, Interest @ 8.5%)

	3,070,378	3,064,467
Plus Effective Interest	6,738	5,911
Closing Balance	<u>\$3,077,116</u>	<u>\$3,070,378</u>

(c) Loans to Consumer Organisations

From time to time TECT advances funds to Consumer organisations at low interest rates or interest free. 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. For the purposes of calculating amortised cost a term of 5 years and interest rate applying to the ANZ swap at inception date of the advance are assumed.

(d) Fair Value Adjustment of Interest Free Loans

	TECT Group	
	2014 \$	2013 \$
Opening Balance	166,671	154,943
Add Current Year Effective Interest Rate Adjustment	12,634	11,728
Closing Balance	<u>\$179,305</u>	<u>\$166,671</u>
<u>Comprising:</u>		
Paradise Point Development Trust Loan	179,305	166,671
	<u>\$179,305</u>	<u>\$166,671</u>



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

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.

Credit Risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their obligations in full and on time. It arises principally on cash and cash equivalents, short term deposits, advances, ANZ Senior Bonds and loans receivable.

The Trust's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Statement of Investment Policies and Objectives ("SIPO") and by taking collateral. Credit risk is monitored regularly by the Trustees to minimise the credit risk. Term deposits are placed with multiple institutions including Westpac, Bank of New Zealand, ASB, KiwiBank and ANZ Bank. These financial institutions have investment grade ratings and are considered reputable by the Trustees.

The maximum exposure to credit risk is represented by the carrying value of each of the above financial assets in the Statement of Financial Position at the reporting date.

TECT Group and Tauranga Energy Consumer Trust

Short Term Deposits (Less than 90 Days)

	2014			2013		
These comprised:	\$	Term	Rate	\$	Term	Rate
Westpac	2,332,823	Call	2.55%	1,204,388	Call	3.10%
Westpac	-			2,500,000	79 Days	3.78%
Accrued Interest	-			1,295		
Total Short Term Deposits						
(Less than 90 days)	\$2,332,823			\$3,705,683		

Short Term Deposits (Other)

	2014			2013		
These comprised:	\$	Term	Rate	\$	Term	Rate
Westpac	6,000,000	242 days	4.30%	2,000,000	151 days	4.22%
Westpac	-			5,000,000	177 days	4.25%
BNZ	3,300,000	180 days	4.63%	-		
ASB	5,032,603	245 days	4.25%	-		
Accrued Interest	43,744			83,783		
Total Short Term Deposits (Other)	\$14,376,347			\$7,083,783		

Interest Rate Risk

Interest rate risk is the risk that the value or future value of cash flows from a financial instrument will fluctuate because of changes in interest rates. TECT is subject to interest rate risk where short term deposits and investments in bonds are sensitive to changes in interest rates.

TECT Finance Ltd entered into an interest rate swap for \$27.5m to mitigate interest rate risk on the funds borrowed from ANZ Bank. This swap matured 15 December 2012 and was replaced by three further swaps of \$5m each commencing from 15 December 2012. These swaps mature in December 2015, 2017 and 2019 respectively. The value of the swaps is shown in the Statement of Financial Position at fair value based on mark to market at the reporting date.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

4 FINANCIAL INSTRUMENTS (cont'd)

Sensitivity Analysis

An increase of 100 basis points in interest rates on deposits would have resulted in an increase in surplus before tax of \$168,232 in TECT and the Group (2013: \$179,401).

An increase of 1% in the TrustPower share price would have resulted in an increase in total comprehensive income of \$6,413,291 in the Group (2013: \$7,886,688).

An increase of 100 basis points in interest rates on borrowings would have resulted in a decrease in surplus before tax of \$45,034 (2013: \$42,592) in TECT and \$277,022 (2013: \$358,919) in the Group.

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 \$439,191.

Foreign Currency Risk

Currency risk is the risk of change in fair value of financial instruments due to fluctuations in foreign exchange rates. TECT currently holds no investments denominated in foreign currencies.

Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity measurements on an ongoing basis. TECT Group generates sufficient cash flows from its activities to meet its obligations arising from its financial liabilities.

The following are the contractual maturities of TECT Group's and TECT's financial liabilities, including estimated interest payments:

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Non Derivatives				
6 Months or Less	4,044,004	5,105,505	1,185,182	1,809,574
6-12 Months	2,523,586	2,941,575	5,334,627	5,036,578
1-5 Years	29,356,776	30,326,504	651,813	625,095
Over 5 Years	-	-	-	-
	<u>\$ 35,924,366</u>	<u>\$38,373,584</u>	<u>\$ 7,171,622</u>	<u>\$7,471,247</u>
Carrying amount per Statement of Financial Position	<u>\$ 33,497,653</u>	<u>\$34,882,425</u>	<u>\$ 7,171,622</u>	<u>\$7,471,247</u>

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Derivatives				
6 Months or Less	-	279,831	-	-
6-12 Months	-	116,596	-	-
1-5 Years	-	-	-	-
Over 5 Years	-	-	-	-
	<u>-</u>	<u>\$396,427</u>	<u>-</u>	<u>-</u>



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

4 FINANCIAL INSTRUMENTS (cont'd)

Market Price Risk

Market price risk is the risk that changes in market prices, such as equity prices, will affect the Group's profit or valuation of net assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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. There have been proposals for reforms to the electricity industry from opposition political parties. This proposal involves the compulsory acquisition of electricity by a monopoly state agency. These proposals may impact future dividends payable by TrustPower and the market price of TrustPower shares.

In the two months following balance date (1 April to 31 May 2014) the TrustPower share price fluctuated significantly, ranging from a high of \$7.15 to a low of \$6.42 (2013: \$7.80 to \$7.18) giving the investment a valuation between \$742,733,692 and \$666,902,140 (2013: \$810,254,936 and \$745,850,057) over this period.

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) and 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. In October 2013 Trustees resolved to retain TECT's 33% shareholding in TrustPower, subject to continued monitoring, with the right for Trustees to sell 6.55% of the shareholding if they consider it is in the best interests of TECT and its Consumers.

Other Market Price Risk

The Group is not exposed to substantial other market price risk arising from financial instruments.

Fair Value

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

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

31 March 2014

Shares in TrustPower
Interest Rate Swaps - ANZ Bank

Level 1	Level 2	Level 3	Total
674,173,659	-	-	674,173,659
-	231,000	-	231,000
\$674,173,659	\$231,000		\$674,404,659
31 March 2013			
799,867,053	-	-	799,867,053
-	(396,427)	-	(396,427)
\$799,867,053	(\$396,427)		\$799,470,626



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

5 TAXATION

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Profit Before Taxation	40,823,688	39,696,177	(138,423)	39,138,141
Add Non-Deductible Expenditure	528,998	422,083	528,998	421,899
Imputation Tax Credits	12,927,144	15,350,984	-	16,728,583
	<u>54,279,830</u>	<u>55,469,244</u>	<u>390,575</u>	<u>56,288,623</u>
Less				
Deductible Distribution Payments	(5,128,148)	(3,526,471)	-	-
Tax Amortisation of Loan Fees	(17,069)	(78,179)	-	-
Charitable Trust Income Exemption	(255,593)	(241,691)	-	-
Taxable Income	<u>\$48,879,020</u>	<u>\$51,622,903</u>	<u>\$390,575</u>	<u>\$56,288,623</u>
Current Tax Charge (a)	13,705,654	16,199,355	128,890	18,575,245
Less Imputation Tax Credits	(12,357,737)	(14,352,693)	-	(16,728,583)
Tax Effect of Losses	(569,405)	(1,044,042)	-	-
Income Tax Expense	<u>\$778,512</u>	<u>\$802,620</u>	<u>\$128,890</u>	<u>\$1,846,662</u>
Tax Expense Comprises:				
Current Taxation Expense	299,708	1,842,792	124,721	1,842,792
Deferred Tax Expense	478,804	1,040,172	4,169	3,870
Tax Expense per Statement of Comprehensive Income	<u>\$778,512</u>	<u>\$802,620</u>	<u>\$128,890</u>	<u>\$1,846,662</u>
Imputation Credits Claimable				
Total Imputation Credits	12,927,144	15,350,984	-	16,728,583
Less excess ICs unable to claim (converted to loss)	(569,407)	(998,291)	-	-
Total ICs claimable as Tax Credit	<u>\$12,357,737</u>	<u>\$14,352,693</u>	<u>-</u>	<u>\$16,728,583</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.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

6 IMPUTATION CREDITS

As TECT is not a company it does not have an imputation credit account.

TECT Holdings Limited, TECT Finance Limited and TECT Finance No. 2 Limited are registered as a Group for ICA purposes. As at 31 March 2014 the Group had Imputation Credits available of \$41,917,662. (2013: \$28,997,597).

	TECT Imputation Group	
	2014	2013
	\$	\$
Imputation Credit Account		
Opening Balance 1 April	28,997,597	30,361,143
Plus ICs on Dividends Received	12,927,144	15,350,984
Income Tax Paid	147,567	29,166
Interest Received (Net)	-	5,667
Less ICs attached to Dividends Paid	-	(16,728,583)
Tax Refunds	-	(637)
Net Transfers	(154,646)	(20,143)
Closing Balance 31 March	<u>\$41,917,662</u>	<u>\$28,997,597</u>

7 COMMITMENTS AND CONTINGENCIES

The TECT Group had no commitments or contingencies at the end of the financial year (2013: Not expected to exceed \$1m).

8 PROVISION FOR DISTRIBUTIONS

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Opening Balance	5,732,443	5,430,072	2,445,470	3,610,402
Plus Distributions Approved	33,518,433	31,272,781	28,353,220	27,892,341
Less Distributions Written Back	(91,952)	(236,170)	(91,952)	(1,853,004)
	39,158,924	36,466,683	30,706,738	29,649,739
Less Distributions Paid	(33,671,693)	(30,734,240)	(28,538,241)	(27,204,269)
Closing Balance End of Year	<u>\$5,487,231</u>	<u>\$5,732,443</u>	<u>\$2,168,497</u>	<u>\$2,445,470</u>
Distributions not yet uplifted:				
Major Community Amenities	-	1,291,088	-	-
Community Amenities	1,830,001	1,403,440	30,000	30,074
Community Events	195,116	98,100	91,132	-
Community Special Projects	1,529,389	1,281,530	295,347	757,111
Energy Efficiency	180,707	-	-	-
Community Organisation				
Subsidy Scheme	815,664	852,278	815,664	852,278
Direct Consumer Distributions	936,354	806,007	936,354	806,007
	<u>\$5,487,231</u>	<u>\$5,732,443</u>	<u>\$2,168,497</u>	<u>\$2,445,470</u>

Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

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. Community Organisation Subsidies are paid within 12 months of approval unless an extension of time is approved by Trustees. 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.

9 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 Charitable Trust has advanced funds to TECT. At 31 March 2014 the balance of the advance from TECT Charitable Trust was \$4,628,554 (2013: \$4,378,268). This advance is unsecured, repayable on demand and has interest charged at FBT non concessionary interest rates as at the time the advance payments are made. Interest on the advance totalled \$258,081 in the current year.

TECT Holdings Limited

The balance of the loan at 31 March 2014 was 478,930,165 after offsetting advances made by TECT Holdings Ltd to TECT (2013: \$513,899,381). The loan is interest free and due on demand. The loan is not expected to be repaid within 12 months.

TECT Finance Limited

In 2007 TECT Finance Ltd borrowed funds to on-lend to TECT Holdings Ltd under an 'Intercompany Loan Agreement' to finance the purchase of 14 million TrustPower shares. This loan was refinanced in 2009 and was split into two tranches, the first of which has now been fully repaid. The second tranche of \$27.5m is due in December 2015.

TECT Finance No. 2 Limited

TECT Finance No. 2 Ltd was wound up during the year. The balance of the advance from TECT of \$3,295 as at 31 March 2013 was written off and the company's share capital was cancelled.

10 LOAN – ANZ Bank:

ANZ Bank	Term:	\$27.5m : 6 years, maturing 15 December 2015
	Security:	14.5 million TrustPower Shares valued at \$94.12 million

Loan balances are valued at amortised cost using the effective interest rate method. Interest rates have not been disclosed due to commercial sensitivity.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

11 INTEREST RATE SWAPS – ANZ BANK

ANZ Bank - Interest Rate Swap (commencing 14.12.12)	Term:	3 years, maturing 15 December 2015
	Notional amount:	\$5 million
	Mark to Market:	\$42,283 (2013: (\$58,636))
ANZ Bank - Interest Rate Swap (commencing 14.12.12)	Term:	5 years, maturing 15 December 2017
	Notional amount:	\$5 million
	Mark to Market:	\$91,221 (2013: (\$127,840))
ANZ Bank - Interest Rate Swap (commencing 14.12.12)	Term:	7 years, maturing 15 December 2019
	Notional amount:	\$5 million
	Mark to Market:	\$97,496 (2013: (\$209,951))

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		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Opening Balance	(7,587,909)	(7,934,102)	10,998	14,868
Plus/(Less):				
<u>Deferred Tax Adjustments through Income Statement</u>				
Fair Value Adjustment of Investments	(4,169)	(3,870)	(4,169)	(3,870)
Fair Value Adjustment of Swap	-	-	-	-
Deferred Tax on Tax Losses	569,407	1,044,042	-	-
Deferred Tax on Tax Losses Utilised	(1,044,042)	-	-	-
<u>Deferred Tax Adjustments through Equity</u>				
Fair Value Movement – TrustPower shares	5,671,210	(693,979)	-	-
Closing Balance End of Year	(\$2,395,503)	(\$7,587,909)	\$6,829	\$10,998

- (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 (2013: three years) to allow for fluctuations between years (2014: 32.1%; 2013 32.5%). 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 \$439,191.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

Deferred tax assets and liabilities are attributable to the following:

TECT Group

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Available-for-sale financial assets	-	-	(2,971,739)	(8,642,949)	(2,971,739)	(8,642,949)
Tax Losses	569,407	1,044,042	-	-	569,407	1,044,042
Loans and receivables	6,829	10,998	-	-	6,829	10,998
Tax assets (liabilities)	576,236	1,055,040	(2,971,739)	(8,642,949)	(2,395,503)	(7,587,909)
Set off of tax	(576,236)	(1,055,040)	576,236	1,055,040	-	-
Net tax assets (liabilities)	-	-	(\$2,395,503)	(\$7,587,909)	(\$2,395,503)	(\$7,587,909)

Tauranga Energy Consumer Trust

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Loans and receivables	6,829	10,998	-	-	6,829	10,998
Tax assets (liabilities)	6,829	10,998	-	-	6,829	10,998
Set off of tax	-	-	-	-	-	-
Net tax assets (liabilities)	\$6,829	\$10,998	-	-	\$6,829	\$10,998

13 RELATED PARTY TRANSACTIONS

Mr Michael Cooney is the Chairman of Tauranga Energy Consumer Trust (TECT) and TECT Charitable Trust and is a Director on the Board of each of the TECT Group's subsidiary companies. Mr Cooney is also a Director of TrustPower Limited. The TECT Group owns 103,878,838 shares in TrustPower Limited and during the year received dividends of \$41,551,535 (2013: \$41,551,535). Refer to Note 3(a) for further details of the TECT Group investment in TrustPower Limited.

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. Commencing 1 April 2014 TECT has entered into an agreement to lease premises from Holland Beckett at an annual cost of \$48,000 (excluding GST).

Refer to Note 9 for transactions between the entities that form part of the TECT Group.

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 conflict of interest occurs.



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

14 RESERVES FOR DISTRIBUTIONS

	TECT Group		Tauranga Energy Consumer Trust	
Summary:	2014	2013	2014	2013
	\$	\$	\$	\$
Opening Balance	5,232,528	3,689,638	5,232,528	3,689,638
Plus Allocated - Annual Distribution Plan	39,880,000	32,579,500	34,716,491	27,583,968
	45,112,528	36,269,138	39,949,019	31,273,606
Less Transfers to Provisions & Payments	(33,516,729)	(31,272,780)	(28,353,220)	(27,892,341)
Plus Write Back to Reserve	91,953	236,170	91,953	1,851,263
Closing Balance End of Year	\$11,687,752	\$5,232,528	\$11,687,752	\$5,232,528

This comprises:

	TECT Group		Tauranga Energy Consumer Trust	
Major Amenities	2014	2013	2014	2013
	\$	\$	\$	\$
Opening Balance	3,139,660	1,639,660	3,139,660	1,639,660
Plus Allocated - Annual Distribution Plan	7,700,000	1,500,000	7,700,000	(300,000)
	10,839,660	3,139,660	10,839,660	1,339,660
Less Transfers to Provisions & Payments	-	-	-	1,880,000
Plus Write Back to Reserve	-	-	-	-
Closing Balance End of Year	\$10,839,660	\$3,139,660	\$10,839,660	\$3,139,660

	TECT Group		Tauranga Energy Consumer Trust	
Community Amenities	2014	2013	2014	2013
	\$	\$	\$	\$
Opening Balance	943,459	754,469	943,459	754,469
Plus Allocated - Annual Distribution Plan	1,500,000	1,500,000	(900,000)	188,990
	2,443,459	2,254,469	43,459	943,459
Less Transfers to Provisions & Payments	(2,440,000)	(1,491,010)	(40,000)	-
Plus Write Back to Reserve	74	180,000	74	-
Closing Balance End of Year	\$3,533	\$943,459	\$3,533	\$943,459

	TECT Group		Tauranga Energy Consumer Trust	
Community Events	2014	2013	2014	2013
	\$	\$	\$	\$
Opening Balance	106,115	(19,326)	106,115	(19,326)
Plus Allocated - Annual Distribution Plan	500,000	500,000	92,667	125,441
	606,115	480,674	198,782	106,115
Less Transfers to Provisions & Payments	(556,628)	(406,814)	(149,295)	(30,000)
Plus Write Back to Reserve	20,250	32,255	20,250	30,000
Closing Balance End of Year	\$69,737	\$106,115	\$69,737	\$106,115



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

14 RESERVES FOR DISTRIBUTIONS (cont'd)

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Community Special Projects				
Opening Balance	113,527	602,541	113,527	602,541
Plus Allocated - Annual Distribution Plan	2,000,000	2,000,000	43,824	490,037
	<u>2,113,527</u>	<u>2,602,541</u>	<u>157,351</u>	<u>1,092,578</u>
Less Transfers to Provisions & Payments	(2,113,527)	(2,491,666)	(157,351)	(979,051)
Plus Write Back to Reserve	-	2,652	-	-
Closing Balance End of Year	<u>-</u>	<u>\$113,527</u>	<u>-</u>	<u>\$113,527</u>

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Energy Efficiency				
Opening Balance	425,012	25,012	425,012	25,012
Plus Allocated - Annual Distribution Plan	500,000	400,000	100,000	400,000
	<u>925,012</u>	<u>425,012</u>	<u>525,012</u>	<u>425,012</u>
Less Transfers to Provisions & Payments	(400,000)	-	-	-
Closing Balance End of Year	<u>\$525,012</u>	<u>\$425,012</u>	<u>\$525,012</u>	<u>\$425,012</u>

	TECT Group		Tauranga Energy Consumer Trust	
	2014	2013	2014	2013
	\$	\$	\$	\$
Community Organisation Subsidies				
Opening Balance	504,755	687,282	504,755	687,282
Plus Allocated - Annual Distribution Plan	1,000,000	1,000,000	1,000,000	1,000,000
	<u>1,504,755</u>	<u>1,687,282</u>	<u>1,504,755</u>	<u>1,687,282</u>
Less Transfers to Provisions & Payments	(1,326,574)	(1,203,790)	(1,326,574)	(1,203,790)
Plus Write Back to Reserve	71,629	21,263	71,629	21,263
Closing Balance End of Year	<u>\$249,810</u>	<u>\$504,755</u>	<u>\$249,810</u>	<u>\$504,755</u>

	TECT Group		Tauranga Energy Consumer Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Consumer Distributions				
Opening Balance	-	-	-	-
Plus Allocated - Annual Distribution Plan	26,680,000	25,679,500	26,680,000	25,679,500
	<u>(26,680,000)</u>	<u>(25,679,500)</u>	<u>(26,680,000)</u>	<u>(25,679,500)</u>
Closing Balance End of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

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 TECT Group is subject to externally imposed capital requirements under the Common Terms Agreement (as amended, novated and restated on 15 December 2009) between ANZ National Bank Ltd, Arawata Finance Ltd, TECT Finance Ltd, TECT Holdings Ltd and ANZ National Bank Ltd (as Security Agent). TECT Holdings Ltd is required to maintain a Dividend Escrow Bank Account for the deposit of dividends received from TrustPower on those shares used as security for the loan. Payments from the Dividend Escrow Bank Account are payable twice yearly provided that financial covenants are met and there has been no event of default or review.

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.

Financial Covenants are set out in the table below. No covenants were breached during the year.

Covenant	Compliance Level
Borrower Dividend Cover Ratio	≥ 1.2
Owner Debt Ratio	< 7.0
Interest Cover Ratio	≥ 2.25
Gearing Ratio	$\geq 50\%$
Shareholders' Funds	Minimum Capital Amount
Borrower Total Debt	$\leq \$55m$
Loan to Value Ratio	≥ 2.2

16 TECT Office Establishment Costs

Since the commencement of TECT in 1994, the administrative and operating functions of the Trust and Group have been carried out by the Secretariat (BDO Tauranga Ltd and its predecessor firms) on behalf of the Trust. During the year ended 31 March 2014, Trustees made the decision to open an independent office for TECT with its own staff, premises and equipment. A General Manager was appointed and commenced employment on 1 February 2014 with a view to having the new office operational from 1 April 2014. Accordingly staff were employed, assets purchased and leases and contracts entered into for premises and equipment. Costs incurred in the year ended 31 March 2014 to establish the office, included the following:

Accounting & Operations Consultancy	14,068
Operating Costs (Vehicle, telephone, sundry)	1,206
Purchase of Low Cost Assets	603
Recruitment & Employment Expenses	28,281
Wages & Employee Benefits	20,477
	<u>\$64,635</u>



Tauranga Energy Consumer Trust Group Consolidated Financial Report

Notes to the Financial Report For the Year Ended 31 March 2014

17 Fixed Assets

PARENT & GROUP

	Book Value 31.3.13	Additions	Depreciation \$	Book Value 31.3.14
Motor Vehicles	-	26,335	1,975	24,360
Furniture & Fittings	-	12,367	141	12,226
Computers & Software	-	30,490	396	30,094
Plant & Equipment	-	924	25	899
Closing Balance End of Year	\$ -	\$70,116	\$2,537	\$67,579

18 Leased Assets

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.





Independent auditor's report

To the beneficiaries of Tauranga Energy Consumer Trust

Report on the trust and group financial statements

We have audited the accompanying financial statements of Tauranga Energy Consumer Trust ("the trust") and the group, comprising the trust and its subsidiaries, on pages 2 to 26. The financial statements comprise the statements of financial position as at 31 March 2014, the 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, for both the trust and the group.

Trustees' responsibility for the trust and group financial statements

The trustees are responsible for the preparation of trust and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the trustees determine is necessary to enable the preparation of trust and group 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 trust and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the trust and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the trust and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trust and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trust and 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 financial statements.

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

Partners and employees of our firm may also deal with the trust and group on normal terms within the ordinary course of trading activities of the trust and group as TrustPower consumers. This matter has not impaired our independence as auditor of the trust and group. The firm has no other relationship with, or interest in, the trust and group.



Opinion

In our opinion the financial statements on pages 2 to 26:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the trust and the group as at 31 March 2014 and of the financial performance and cash flows of the trust and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Tauranga Energy Consumer Trust as far as appears from our examination of those records.

17 June 2014
Tauranga