

**TAURANGA ENERGY CONSUMER TRUST**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**  
**31 MARCH 2018**

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# TAURANGA ENERGY CONSUMER TRUST

## CONSOLIDATED FINANCIAL STATEMENTS

### DIRECTORY

#### AS AT 31 MARCH 2018

<b>Trustees:</b>	W Holland, Chairperson P Tustin, Deputy Chairperson P Blackwell N Bridges R Scott A Sutcliffe
<b>Secretary:</b>	WA Werder General Manager, TECT Ground Floor, 525 Cameron Road PO Box 356 Seventh Avenue Tauranga
<b>Auditor:</b>	KPMG Tauranga
<b>Solicitors:</b>	Sharp Tudhope Tauranga
<b>Accountant:</b>	BDO Tauranga Limited
<b>Date of Commencement:</b>	TECT - 21 December 1993 TECT Charitable Trust – 27 March 2002 TECT Holdings Ltd – 15 December 2006 TECT Property Ltd – 22 March 2016

**TAURANGA ENERGY CONSUMER TRUST**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2018**

	Note	TECT Group	
		2018	2017
		\$	\$
<b>REVENUE</b>			
Dividends		31,652,057	33,664,017
Distributions Received		15,155,045	1,748,078
Interest		3,699	38,909
Other Income		59,965	36,724
<b>Total Revenue</b>		<b>46,870,765</b>	<b>35,487,728</b>
<b>EXPENSES</b>			
<b>Administration Expenses</b>			
Accounting & Financial Consultancy		85,670	102,125
Consumer Related Expenses	3a	169,477	210,112
Depreciation Expense	16	14,851	20,734
Investment Expenses		66,116	8,890
Legal and Advisory Fees		245,108	273,828
Trustee Expenses	3b	216,713	196,221
Other Administration Expenses	3c	550,583	520,315
<b>Total Administration Expenses</b>		<b>1,348,518</b>	<b>1,332,223</b>
<b>Finance Expenses</b>			
Effective Interest Adjustment of Interest Free Loans	9d	(37,280)	(36,446)
Interest Expense		135,428	139,127
Net Change in Fair Value of Derivative		51,514	102,349
Other Finance Expenses		132,781	104,145
<b>Total Finance Expenses</b>		<b>282,442</b>	<b>309,175</b>
<b>Total Expenses</b>		<b>1,630,960</b>	<b>1,641,399</b>
<b>PROFIT BEFORE TAXATION</b>		<b>45,239,804</b>	<b>33,846,328</b>
Tax Expense/(Benefit)	5	2,317,393	(2,293,065)
<b>TOTAL PROFIT AFTER TAXATION</b>		<b>42,922,410</b>	<b>36,139,393</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items which will be reclassified to Profit &amp; Loss on certain conditions being met</b>			
Deferred Tax on Fair Value Movements - Trustpower Shares	2	-	9,427,768
Valuation Gain/(Loss) on Investments	2	52,747,316	(55,442,291)
<b>Total Other Comprehensive Income</b>		<b>52,747,316</b>	<b>(46,014,523)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>95,669,726</b>	<b>(9,875,130)</b>



**TAURANGA ENERGY CONSUMER TRUST  
CONSOLIDATED FINANCIAL STATEMENTS**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	TECT Group	
		2018	2017
		\$	\$
Trust Equity at Start of the Year		716,079,744	764,053,160
Total Comprehensive Income for the year		95,669,726	(9,875,130)
Capital Distribution			-
Distributions of Equity	7	(35,897,976)	(38,400,776)
Distributions Written Back	7	356,775	302,490
Movements in Equity for the Year		60,128,525	(47,973,416)
Trust Equity at the End of the Year		776,208,269	716,079,744



**TAURANGA ENERGY CONSUMER TRUST**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2018**

	Note	TECT Group	
		2018	2017
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Accounts Receivable & Prepayments		204,778	67,902
Cash and cash equivalents		2,182,495	1,858,384
Interest Rate Swaps	11	183,880	235,394
Taxation Refund Due		9	7
		<u>2,571,163</u>	<u>2,161,686</u>
<b>Non-current assets</b>			
Deferred Tax	12	12,521	2,329,915
Investment Portfolios	9c	164,538,852	162,352,063
Investment Property - Work in Progress		4,264,781	1,208,479
Loans to Consumer Organisations	9d	882,060	862,780
Property, Plant & Equipment	16	60,109	47,642
Shares in TILT Renewables Ltd	9b	150,143,120	179,500,713
Shares in TrustPower Ltd	9a	468,882,704	385,842,655
		<u>788,784,148</u>	<u>732,144,247</u>
<b>TOTAL ASSETS</b>		<u><u>791,355,312</u></u>	<u><u>734,305,935</u></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts Payable		136,627	139,444
Accrued Expenses		21,413	19,937
Provision for Distributions	7	14,989,004	16,566,810
Westpac Loan	10	-	1,500,000
		<u>15,147,044</u>	<u>18,226,191</u>
<b>TOTAL LIABILITIES</b>		<u><u>15,147,044</u></u>	<u><u>18,226,191</u></u>
<b>NET ASSETS / EQUITY</b>		<u><u>776,208,269</u></u>	<u><u>716,079,744</u></u>
<i>Represented By:</i>			
<b>TRUST EQUITY</b>			
Accumulated Profits	2	217,070,595	209,713,106
Fair Value Reserve	2	556,427,512	503,680,196
Reserves for Distributions	2, 14	2,710,161	2,686,443
<b>TOTAL TRUST EQUITY</b>		<u><u>776,208,269</u></u>	<u><u>716,079,744</u></u>

Trustee 

Trustee .....

**KPMG**

**TAURANGA ENERGY CONSUMER TRUST**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2018**

	TECT Group	
	2018	2017
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<u>Cash was provided from/(disbursed to):</u>		
Dividends Received	31,652,057	33,664,017
Interest Received	3,699	38,910
Distributions Received and Other Income	15,747,262	2,213,403
Payments to Suppliers & Trustees	(1,618,898)	(1,520,940)
Interest Paid	(135,428)	(139,128)
Cash Flows from Other Investments	(3,038,302)	(983,416)
Cash Flows from Portfolio Investments	(3,623,892)	2,253,995
Taxation Received	-	416,932
<b>NET CASH FLOWS FROM/(DISBURSED TO) OPERATING ACTIVITIES</b>	<b>38,986,498</b>	<b>35,943,773</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<u>Cash was received from/(applied to):</u>		
Purchases of Fixed Assets	(43,379)	(2,801)
<b>NET CASH FLOWS FROM/(APPLIED TO) INVESTING ACTIVITIES</b>	<b>(43,379)</b>	<b>(2,801)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<u>Cash was received from/(disbursed to):</u>		
Payments to Trustpower Consumers (including grants)	(37,119,007)	(37,086,479)
Drawdown Loans		1,500,000
Repayment of Loans	(1,500,000)	-
<b>NET CASH FLOWS FROM (DISBURSED TO) FINANCING ACTIVITIES</b>	<b>(38,619,007)</b>	<b>(35,586,480)</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>324,112</b>	<b>354,493</b>
Add Opening Cash & Cash Equivalents	1,858,384	1,503,891
<b>CLOSING CASH &amp; CASH EQUIVALENTS</b>	<b>2,182,495</b>	<b>1,858,384</b>
<u>Represented by:</u>		
Bank Current Accounts	2,182,495	1,858,384





# **Tauranga Energy Consumer Trust Consolidated Financial Statements**

## **Notes to the Financial Statements For the Year Ended 31 March 2018**

### **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 Statements comprise the Consolidated Financial Statements of the Group.

#### **APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Trustees on 19 June 2018.

#### **(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 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.

##### **(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.



# **Tauranga Energy Consumer Trust Consolidated Financial Statements**

## **Notes to the Financial Statements For the Year Ended 31 March 2018**

### **(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'.

During the 2018 financial year the trustees determined that there is insufficient evidence that the TECT Group will be able to utilise tax losses in future years. Accordingly they have decided to derecognise the deferred tax asset arising from tax losses.

All other accounting policies have been consistently applied by TECT for all periods covered by these financial statements.

### **(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 and Tilt Renewables dividends.

### **(f) 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.

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.



# **Tauranga Energy Consumer Trust**

## **Consolidated Financial Statements**

### **Notes to the Financial Statements**

#### **For the Year Ended 31 March 2018**

(ii) *Goods and Services Tax*

These financial statements have been prepared on a GST exclusive basis. TECT, TECT Charitable Trust and TECT Property Ltd are registered for GST and GST payable or receivable by these entities are shown in the Group's Statement of Financial Position. Accounts Receivable and Payable are shown inclusive of GST.

TECT Holdings Ltd is not registered for GST and GST paid by TECT Holdings Ltd 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 but not held for trade. 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 and Tilt Renewables Investments

TECT Group has determined that it does not have significant influence over Trustpower Ltd or Tilt Renewables Ltd and has classified the investments as 'available for sale'. The investments are recognised at fair value in the 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 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 in the 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.

TECT Group has committed to investing with Oriens Capital, Pencarrow Bridge Fund, Enterprise Angels, Waterman Fund, Continuity Capital Partners and WNT Investments. These investments have been recognised in the Statement of Financial Position based on the Group's share of the Private Equity's Net Assets. Uncalled Capital is disclosed further in Note 9 (c).

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 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.

# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

#### 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 comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale assets and 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.

#### (v) *Finance Expenses*

Finance expenses comprise interest expense on borrowings, fair value adjustments on interest free loans and losses on hedging instruments that are recognised in profit or loss.

#### (vi) *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.

#### (vii) *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.

#### (viii) *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.

#### (ix) *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.





# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

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.

- (x) *Employee Entitlements*  
Annual leave entitlements due to employees are accounted for on the basis of contractual requirements.

## 2 EQUITY

TECT Group		
	2018	2017
	\$	\$
<b>Accumulated Profits</b>		
(including initial share gift in 1993 of \$42.5 million):		
Balance at Beginning of Year	209,713,106	213,457,358
Total Profit After Taxation	42,922,410	36,139,396
Consumer Distributions/Grants Written Back	135,079	116,355
	252,770,595	249,713,109
Less Transfers to Reserves for Distribution	(35,700,000)	(40,000,000)
	217,070,595	209,713,106
<b>Fair Value Reserve</b>		
Balance at Beginning of Year	503,680,196	549,694,720
Current Year Revaluation - Trustpower Shares	83,040,050	(72,135,801)
Current Year Revaluation – Tilt Renewables Shares	(29,357,593)	(5,032,730)
Current Year Revaluation – Investment Portfolios	(935,141)	21,726,239
Deferred Tax on Fair Value Movements - Trustpower Shares	-	9,427,768
	556,427,512	503,680,196
<b>Reserves for Distributions:</b> (Note 14)		
Iconic Projects	2,000,000	2,000,000
Community Amenities	2,033	47,311
Community Events	106,528	26,736
Community Development	1,600	12,395
Catalyst for Change	600,000	600,000
	2,710,161	2,686,442
<b>Total Trust Equity</b>	776,208,269	716,079,744



# Tauranga Energy Consumer Trust Consolidated Financial Statements

## Notes to the Financial Statements For the Year Ended 31 March 2018

### 3 ADMINISTRATION EXPENSES

- (a) Consumer Related Expenses include the following amounts:

	TECT Group	
	2018	2017
	\$	\$
Consumer Consultation, Research & Reporting	106,204	31,308
Community Funding Schemes	6,419	9,248
Election Costs	-	112,410
TECT Cheque Distribution Costs	56,854	57,146
	<b>169,477</b>	<b>210,112</b>

- (b) Trustee Expenses include the following amounts:

	TECT Group	
	2018	2017
	\$	\$
Trustee Expenses	5,149	7,074
Trustee Fees (Note 13)	206,794	182,106
Trustee Professional Development	4,770	7,041
	<b>216,713</b>	<b>196,221</b>

- (c) Other Administration Expenses include the following amounts:

	TECT Group	
	2018	2017
	\$	\$
Audit Fees	27,700	27,200
Insurance	16,807	10,829
Marketing	26,301	22,517
Premises & Occupancy	53,154	52,238
Research & Development - Strategic Projects	2,778	16,935
Wages & Staff Expenses	368,825	339,453
Other Administration Expenses	55,018	59,031
	<b>550,583</b>	<b>529,203</b>

### 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 Consolidated Financial Statements

## Notes to the Financial Statements For the Year Ended 31 March 2018

### 5 TAXATION

	TECT Group	
	2018 \$	2017 \$
Profit Before Taxation	45,239,804	33,846,331
Add Non-Deductible Expenditure	875,718	828,823
Imputation Tax Credits	11,090,646	10,112,060
	57,206,168	44,787,214
<u>Less</u>		
Deductible Distribution Payments	(6,559,117)	(5,310,894)
Less utilisation of tax losses Brought Forward	(9,054,041)	-
Non Assessable Income	(56,219)	(52,086)
Charitable Trust Income Exemption	(19,335,642)	(11,219,949)
<b>Taxable Income</b>	22,201,149	28,204,285
Current Tax Charge (a)	5,529,103	7,818,995
Less Imputation Tax Credits	(11,090,646)	(10,112,060)
Tax Effect of current year losses & excess IC's not recognised	7,878,936	-
<b>Income Tax Expense/(Benefit)</b>	2,317,393	(2,293,065)
<b>Tax Expense Comprises:</b>		
Current Taxation Expense	-	-
Deferred Tax Expense (Note 12)	2,317,393	(2,293,065)
<b>Tax Expense per Statement of Comprehensive Income</b>	2,317,393	(2,293,065)
<b>Imputation Credits Claimable</b>		
Total Imputation Credits	11,090,646	10,112,060
Less excess ICs unable to claim (converted to loss)	(5,573,845)	(2,305,092)
<b>Total ICs claimable as Tax Credit</b>	5,516,801	7,806,968

(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 2018 the Group had Imputation Credits available of \$83,571,511 (2017: \$72,480,863).



# Tauranga Energy Consumer Trust Consolidated Financial Statements

## Notes to the Financial Statements For the Year Ended 31 March 2018

### 7 PROVISION FOR DISTRIBUTIONS

	TECT Group	
	2018 \$	2017 \$
Balance at the beginning of year	16,566,810	15,555,004
Plus Distributions Approved ( <i>Note 14</i> )	35,897,972	38,400,776
Less Distributions Written Back ( <i>Note 14</i> )	(356,775)	(302,490)
	52,108,007	53,653,290
Less Distributions Paid	(37,119,003)	(37,086,480)
<b>Balance at End of Year</b>	<b>14,989,004</b>	<b>16,566,810</b>
<b>Distributions not yet uplifted:</b>		
Iconic Projects	8,749,120	11,034,000
Community Amenities	3,280,401	2,459,879
Community Events	193,119	248,152
Community Development	1,899,102	1,782,271
Catalyst for Change	150,000	400,000
Direct Consumer Distributions	717,262	642,508
	<b>14,989,004</b>	<b>16,566,810</b>

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 and Tilt Renewables Limited shares.

#### **TECT Property Limited**

TECT Property Ltd was incorporated on 22 March 2016. The purpose of the entity is to be the owner and lessor of the community hub building which is currently under construction.



# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

#### 9 INVESTMENTS

##### (a) Trustpower Limited

Fair value has been assessed at \$5.59 per share (\$4.60 per share 2017), being the closing buy quotation on 31 March 2018 (being last business day of month). No allowance has been made for commission payable on any disposal of shares. Values adopted being:

	TECT Group	
	2018	2017
	\$	\$
Opening Balance	385,842,655	642,511,899
Less Demerger Split	-	(184,533,444)
Fair Value Movement	83,040,049	(72,135,800)
Closing Balance 83,878,838 shares @ \$5.59 per share (2017: 83,878,838 shares @ \$4.60)	468,882,704	385,842,655

The 83,878,838 shares represent 26.8% of the total shares in Trustpower.

##### (b) Tilt Renewables Limited

Fair value has been assessed at \$1.79 per share (\$2.14 per share 2017), being the closing buy quotation on 31 March 2018 (being last business day of month). No allowance has been made for commission payable on any disposal of shares. Values adopted being:

	TECT Group	
	2018	2017
	\$	\$
Opening Balance	179,500,713	-
Plus Demerger Split	-	184,533,444
Fair Value Movement	(29,357,593)	(5,032,731)
Closing Balance 83,878,838 shares @ \$1.79 per share (2017: 83,878,838 shares @ \$2.14 per share)	150,143,120	179,500,713

The TECT Group has the majority of its funds invested in Trustpower and Tilt Renewables shares, therefore there is a concentration of market risk associated with these investments.

Trustees constantly monitor the risks outlined above.

On 17 October 2016 Trustpower announced that the Trustpower Board resolved to demerge Trustpower. On 1 November 2016 Trustpower shareholders received shares in both Tilt Renewables Limited (Trustpower's Australian and New Zealand wind generation assets and its wind and solar development projects) and Bay Energy Limited (New Trustpower which retains the same Trustpower name and brand). Accordingly TECT acquired 83,878,838 shares in Tilt Renewables Limited. These shares are also held by TECT Holdings Ltd.

In May 2018 The Tauranga Energy Consumer Trust (TECT) sold 74.59% of its 26.8% holding in Tilt Renewables to Mercury New Zealand for \$2.30 per share. Total proceeds from this divestment is \$144m and Trustees have signalled their intention to utilise the funds realised to further diversify their investments. The price of \$2.30 represents a significant premium of 24.3% over the closing price of \$1.85 at 31 March 2018. The Trust has also granted Mercury an option over its remaining 6.8% holding in Tilt at \$2.30 per share. If this option is exercised, the Trust will receive a further \$49m.





# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

(c) Diversified Investment Portfolios

	TECT Group 2018		TECT Group 2017	
	Units	\$NZ	Units	\$NZ
<b>Nikko Asset Management</b>				
Opening Balance 1 April 2017	621,035	644,446	4,118,051	4,252,300
Plus Application	26,853,707	28,000,000	12,037,309	12,500,000
Less Units Redeemed	(25,833,835)	(27,000,000)	(15,672,427)	(16,282,042)
Plus Income Distribution Reinvestment	226,684	235,812	138,102	142,977
Less Managers Fee	(16,953)	(17,688)	-	-
Plus/(Less) Current Year Change in Valuation		68,938		31,212
Closing Balance 31 March 2018	1,850,638	1,931,511	621,035	644,446
<b>Devon Trans Tasman Fund</b>				
Opening Balance 1 April 2017	9,033,531	18,974,028	9,095,283	16,915,407
Plus Application			-	-
Less Units Redeemed	(49,540)	(107,679)	(61,752)	(121,974)
Plus/(Less) Current Year Change in Valuation		526,495		2,180,595
Closing Balance 31 March 2018	8,983,991	19,392,843	9,033,531	18,974,028
<b>Mercer Portfolio</b>				
Opening Balance 1 April 2017	22,944,658	25,007,383	19,569,281	19,187,680
Plus Application			3,375,377	3,367,276
Plus/(Less) Current Year Change in Valuation		2,287,582	-	2,452,427
Closing Balance 31 March 2018	22,944,658	27,294,965	22,944,658	25,007,383
<b>Vanguard International</b>				
Opening Balance 1 April 2017	76,840,811	113,125,042	80,605,146	101,207,822
Plus Application			-	-
Less Units Redeemed	(1,656,374)	(2,379,215)	(5,146,269)	(7,000,000)
Plus Income Distribution Reinvestment	1,656,374	2,385,675	1,302,076	1,638,272
Plus Reinvested Managers Fee Rebate			79,858	103,693
Plus/(Less) Current Year Change in Valuation		(4,255,757)	-	17,175,255
Closing Balance 31 March 2018	76,840,811	108,875,745	76,840,811	113,125,042
<b>Continuity Capital Partners Fund</b>				
Opening Balance 1 April 2017	5,000,000	1,983,213	5,000,000	1,679,308
Plus Application		736,375	-	750,000
Less Capital Distribution		(544,975)	-	(487,395)
Plus/(Less) Current Year Change in Valuation		124,995	-	41,300
Closing Balance 31 March 2018	5,000,000	2,299,608	5,000,000	1,983,213



# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

Enterprise Angels	Units	\$NZ	Units	\$NZ
Opening Balance 1 April 2017	200,000	61,400	-	-
Plus Application		40,000	200,000	60,000
Plus/(Less) Current Year Change in Valuation			-	1,400
Closing Balance 31 March 2018	200,000	101,400	200,000	61,400
WNT Investment	Units	\$NZ	Units	\$NZ
Opening Balance 1 April 2017	-	-	-	-
Plus Application	-	10,000	-	-
Plus/(Less) Current Year Change in Valuation	-	(6,611)	-	-
Closing Balance 31 March 2018	-	3,389	-	-
Oriens Capital	Units	\$NZ	Units	\$NZ
Opening Balance 1 April 2017	-	389,851	-	-
Plus Application	-	25,000	-	425,000
Plus/(Less) Current Year Change in Valuation	-	46,743	-	(35,149)
Closing Balance 31 March 2018	-	461,594	-	389,851
Pencarrow Bridge Fund	Units	\$NZ	Units	\$NZ
Opening Balance 1 April 2017	-	1,218,438	-	-
Plus Application	-	400,000	-	1,225,000
Plus/(Less) Current Year Change in Valuation	-	(11,313)	-	(6,562)
Closing Balance 31 March 2018	-	1,607,125	-	1,218,438
Waterman Fund	Units	\$NZ	Units	\$NZ
Opening Balance 1 April 2017	-	948,262	-	-
Plus Application	-	1,325,000	-	1,062,500
Plus/(Less) Current Year Change in Valuation	-	297,412	-	(114,238)
Closing Balance 31 March 2018	-	2,570,674	-	948,262
<b>Total Diversified Portfolio Funds</b>		<b>164,538,852</b>		<b>162,352,063</b>



# Tauranga Energy Consumer Trust Consolidated Financial Statements

## Notes to the Financial Statements For the Year Ended 31 March 2018

(d) **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**

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**10 LOAN – Westpac Bank:**

Westpac Bank	Term:	\$1.5m: 2 months, matured 8 May 2017
	Total:	Nil (2017: \$1.5m)

**11 INTEREST RATE SWAP**

Westpac Bank - Interest Rate Swap	Term:	7 years, maturing 15 December 2019
<i>Novated from ANZ Bank March 2015</i>	Notional amount:	\$5 million
	Mark to Market:	\$183,880 (2017: \$235,394)

**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	
	2018	2017
	\$	\$
Opening Balance	2,329,915	(9,390,918)
Plus/(Less):		
<u>Deferred Tax Adjustments through Income Statement</u>		
Fair Value Adjustment of Investments	(12,302)	(12,027)
Deferred Tax on Tax Losses	226,459	2,531,551
Deferred Tax on Tax Losses Utilised	(2,531,551)	(226,459)
<u>Deferred Tax Adjustments through Equity</u>		
Deferred Tax on Fair Value Movements - TPW Shares	-	9,427,768
Closing Balance End of Year	12,521	2,329,915



# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

- (i) Since the demerger of Trustpower and Tilt Renewables, Trustpower has paid fully imputed dividends and has indicated that it expects future dividends to be fully imputed for the foreseeable future. Accordingly no deferred tax has been provided for on the revaluation of the Trustpower shares.

Since the demerger Tilt Renewables has paid unimputed dividends. The company has given no indication of expected future imputation credits, but based on the history to date, it appears likely that dividends will be unimputed. Accordingly an upward revaluation of the Tilt Renewable shares would be treated as subject to deferred tax in full with no reduction for expected imputation credits. As at 31 March 2018 the market value of the Tilt Renewables shares was lower than the issue price (tax base) at demerger. Any loss on sale of these shares would not be tax deductible and accordingly no deferred tax has been provided.

A significant part of the Tilt shares was sold in May 2018 at a price greater than the issue price. However the decision to sell had not been made at balance date and the shares have accordingly not been revalued. The sale of these shares will not be taxable.

Deferred tax assets and liabilities are attributable to the following:

#### TECT Group

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Tax Losses	-	2,305,092	-	-	-	2,305,092
Loans and receivables	12,521	24,823	-	-	12,521	24,823
Tax assets (liabilities)	12,521	2,329,915	-	-	12,521	2,329,915
Set off of tax						-
<b>Net tax assets (liabilities)</b>	<b>12,521</b>	<b>2,329,915</b>	<b>-</b>	<b>-</b>	<b>12,521</b>	<b>2,329,915</b>

#### 13 RELATED PARTY TRANSACTIONS

Mr Bill Holland is a Trustee of TECT and TECT Charitable Trust. Mr Holland is also a Partner in the law firm Holland Beckett. TECT Charitable Trust has entered into an agreement with Spoke Investments Limited (a company associated with Holland Beckett) to lease premises at an annual cost of \$48,000 (excluding GST).

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.





# Tauranga Energy Consumer Trust Consolidated Financial Statements

## Notes to the Financial Statements For the Year Ended 31 March 2018

	YE 2018 Monthly Meeting Attendance	YE 2018 Extra Meeting Attendance	YE 2018 Remuneration
William Holland, Chairperson	12	47	\$47,054
Paul Tustin, Deputy Chairperson	11	62	\$40,494
Peter Blackwell	11	39	\$31,060
Natalie Bridges	11	28	\$27,807
Ronald Scott	12	35	\$30,254
Amanda Sutcliffe	12	37	\$30,125
<b>Total</b>	<b>69</b>	<b>248</b>	<b>\$206,794</b>

### 14 RESERVES FOR DISTRIBUTIONS

	TECT Group	
Summary:	2018 \$	2017 \$
Opening Balance	2,686,442	901,082
Plus Allocated - Annual Distribution Plan	35,700,000	40,000,000
Less Write Back to Retained Earnings	(135,079)	(116,355)
	38,251,363	40,784,727
Less Transfers to Provisions & Payments	(35,897,972)	(38,400,775)
Plus Write Back to Reserve	356,774	302,490
<b>Closing Balance End of Year</b>	<b>2,710,161</b>	<b>2,686,442</b>

	TECT Group	
This comprises:	2018 \$	2017 \$
<b>Iconic Projects</b>		
Opening Balance	2,000,000	-
Plus Allocated - Annual Distribution Plan	1,000,000	2,000,000
	3,000,000	2,000,000
Less Transfers to Provisions & Payments	(1,000,000)	-
<b>Closing Balance End of Year</b>	<b>2,000,000</b>	<b>2,000,000</b>

	TECT Group	
Community Amenities	2018 \$	2017 \$
Opening Balance	47,311	256,465
Plus Allocated - Annual Distribution Plan	2,500,000	2,350,000
	2,547,311	2,606,465
Less Transfers to Provisions & Payments	(2,712,160)	(2,604,154)
Plus Write Back to Reserve	166,883	45,000
<b>Closing Balance End of Year</b>	<b>2,033</b>	<b>47,311</b>





# Tauranga Energy Consumer Trust

## Consolidated Financial Statements

### Notes to the Financial Statements For the Year Ended 31 March 2018

	TECT Group	
	2018 \$	2017 \$
<b>Consumer Distributions</b>		
Opening Balance	-	-
Plus Allocated - Annual Distribution Plan	28,000,000	31,200,000
Less Write Back to Retained Earnings	(135,079)	(116,355)
	27,864,921	31,083,645
Less Transfers to Provisions & Payments	(28,000,000)	(31,200,000)
Plus Unclaimed Cheques Cancelled	135,079	116,355
<b>Closing Balance End of Year</b>	-	-

	TECT Group	
	2018 \$	2017 \$
<b>Community Events</b>		
Opening Balance	26,736	35,617
Plus Allocated - Annual Distribution Plan	700,000	750,000
	726,736	785,617
Less Transfers to Provisions & Payments	(637,065)	(796,277)
Plus Write Back to Reserve	16,857	37,396
<b>Closing Balance End of Year</b>	106,528	26,736

	TECT Group	
	2018 \$	2017 \$
<b>Catalyst for Change</b>		
Opening Balance	600,000	600,000
Plus Allocated - Annual Distribution Plan	-	400,000
	600,000	1,000,000
Less Transfers to Provisions & Payments	-	(400,000)
<b>Closing Balance End of Year</b>	600,000	600,000

#### 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.



# Tauranga Energy Consumer Trust Consolidated Financial Statements

## Notes to the Financial Statements For the Year Ended 31 March 2018

### 16 PROPERTY, PLANT & EQUIPMENT

#### TECT GROUP

	Cost Price	Book Value 31.3.17	Additions/ (Sales)	Depreciation Recovered	Depreciation \$	Book Value 31.3.18
Motor Vehicles	32,730	8,355	28,194	(3,819)	4,909	27,821
Furniture & Fittings	21,180	15,034	(2,877)	-	1,407	10,742
Computers & Software	67,979	12,862	9,649	-	9,472	13,039
Plant & Equipment	19,333	11,391	-	-	2,881	8,509
Closing Balance End of Year	<b>141,222</b>	<b>47,642</b>	<b>34,966</b>	<b>(3,819)</b>	<b>18,669</b>	<b>60,110</b>

Depreciation as indicated on the Statement of Comprehensive Income represent the depreciation net of depreciation recovered.

### 17 COMMITMENTS & CONTINGENCIES

The TECT Group had the following commitments at the end of the financial year: (2017: Nil)

#### **Uncalled Capital on Private Equity Investments**

Continuity Capital Partners Fund	\$1,750,000
Enterprise Angels	\$ 100,000
Oriens Capital	\$2,050,000
Pencarrow Bridge Fund	\$ 875,000
Waterman Fund	\$2,613,000
WNT Ventures	\$ 240,000
<b>Total</b>	<b>\$7,628,000</b>

#### **Community Hub Work in Progress**

The estimated expenditure for investment property contracted for at balance date but not provided is \$5million (2017: \$9.3). This relates to construction contracts and other costs associated with the Community Hub Development.

The TECT Group had no contingencies at the end of the financial year. (2017: Nil).

### 18 SUBSEQUENT EVENTS

There have been no other subsequent events to report as at date of approval of financial statements, except as mentioned below.

During May 2018 TECT sold 74.59% of its shareholding in TILT Renewables Limited, (62,563,302 shares) to Mercury Energy New Zealand Limited (MENZL) for \$2.30 per share. Following the sale TECT retained 21,315,536 shares (6.8% of the total shares on issue). MENZL has a six month option to purchase these remaining shares at \$2.30 per share, subject to MENZL shareholder support and compliance with New Zealand Takeovers Code. This is likely to require a takeover offer for at least half the company.





# Independent Auditor's Report

To the beneficiaries of Tauranga Energy Consumer Trust

## Report on the consolidated financial statements

### Opinion

In our opinion, the accompanying consolidated financial statements of Tauranga Energy Consumer Trust (the Trust) and its subsidiaries (the Group) on pages 2 to 21:

- i. Present fairly in all material respects the Group's financial position as at 31 March 2018 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

We have audited the accompanying consolidated financial statements which comprise:

- The consolidated statement of financial position as at 31 March 2018;
- The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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



### Use of this independent auditor's report

This independent auditor's report is made solely to the beneficiaries as a body. Our audit work has been undertaken so that we might state to the beneficiaries those matters we are required to state to them in the independent 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 beneficiaries as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.





## **Responsibilities of the Trustees for the consolidated financial statements**

The Trustees, on behalf of the Trust, are responsible 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);
- Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our independent auditor's report.



Tauranga

19 June 2018