



NZ Windfarms
POWERED BY NATURE

NZ WINDFARMS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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INTRODUCTION

Welcome to the annual report for 2017. Let me start by thanking the shareholders for their patience as the company was transformed. It has been my pleasure to lead the transformation with my fellow directors Stuart our deputy Chairman, John who chairs our audit and remuneration committee, John Worth our new CEO and Alison who takes on a new role in the company as Financial Controller. It may sound trite to say it but our success this year is the product of a strong team who know where they are going, from the team of windsmiths through to the board.

2017 has been a very significant year in the development of NZ Windfarms (NWF). Since its inception the company has struggled for commercial success against a background of being a small merchant generator with high operating costs who has been exposed to the vagaries of the wholesale energy spot market. The company and its neighbours have been engaged in a long debate with Palmerston North City Council over the original noise consents, compliance with them and their appropriateness. At the 2016 AGM I and my fellow directors promised that things would change – and they have.

We said that we had a plan for how the company could go forward and that plan had three parts.

- We had to get the company functioning as efficiently as possible, manage our exposure to the energy spot market (stop being a price taker) and undertake a restructure of the company capital.
- We have to include a retail operation in the ambit of the company.
- We have to acquire an alternative fuel generation capability.

I am pleased to report that we have achieved the first part of our plan if you as shareholders choose to endorse the ordinary resolutions for the acquisition of the PowerCo electrical reticulation assets.

Since the last AGM we have:

- Appointed a new CEO John Worth who you will meet at the AGM
- Reviewed the staffing levels that we need to effectively operate the company which has resulted in a significant reduction in head count of 25% including a member of the senior management team
- Introduced a curtailment management protocol to protect our wind turbines in high and turbulent wind conditions and we are negotiating with the regulator to endeavour to ensure that we only generate when the market price exceeds our marginal cost of production
- Introduced a hedging policy which seeks to hedge up to 40% of our average production looking forward to baseline future revenues and profitability as part of our move away from spot price taking status
- Agreed a binding transaction (subject to two ordinary resolutions) with PowerCo to purchase the electrical infrastructure that delivers our energy to the grid
- Introduced a dynamic noise curtailment regime

These actions have a net positive impact on the cashflow of the company and in a full year will add \$1.4M - \$1.8M p.a; circa \$400k per annum from the restructure, circa \$700k per annum from the PowerCo transaction and circa \$300k - \$700k from curtailment. The impact of the hedging policy is yet to be assessed but is considered to be net positive, particularly in periods of low price. The first impacts of hedging will be realised in Q1 of this financial year.

The next two steps in the plan are the acquisition of a retail customer base and the acquisition of alternative fuel generation; your board has advanced it's thinking in both areas and is actively canvassing the market for opportunities. It is the board's intention to execute at least one of these opportunities in this financial year.

ELECTRICITY REVENUE

The year has been characterised by volatile low production and sustained low pricing. Hedging will reduce our revenue volatility in coming periods however the company will ever be exposed in part to the vagaries of the weather as all other wind and hydro producers are. Success in acquiring alternative fuel generation will add to the reduction in price volatility augmenting the hedging programme.

Thermal plant closures over recent years, and an increase in global aluminium prices that is underlining the future of the Tiwai smelter alongside sustained population growth and strong economic activity, indicate that supply and demand are much more in balance than we have seen for the last 5 to 8 years, and with this we see electricity prices recovering.

However of concern to your board is the increasing and challenging task of making a profit in the wind sector. I note that over the last year wholesale prices earned by large generators fell by about 8% while those of NWF fell by 13%. Whilst the wholesale market declined interestingly retail prices rose by around 1%. This idiosyncratic market behaviour puts all merchant generators at risk and suppresses the build out of existing wind farm consents pushing away the day that NZ can depend fully on sustainably generated energy. I encourage the incoming government to critically review the current market structure to address this market anomaly.

OPERATIONAL PERFORMANCE

There is no doubt that being the operator of a unique wind turbine fleet is a tough place to be, however the challenge that we have addressed in the last year has been to bring together:

- A fundamentally robust turbine platform
- Appropriate bespoke management strategies as used for all wind turbines to protect the turbines from adverse wind conditions (through curtailment)
- Expert engineering expertise in improving turbine performance and component lives
- A market overlay (electricity price) driving how we stock parts and replace components

This is what we have been focussed on for much of this year – essentially the basic hygiene factors that every wind farm operator on the planet must be completely across. We have made fundamental shifts in how we operate the plant and after a year leading the company we can only wonder at how NWF fortunes would have been different had the company taken action earlier.

FINANCIAL PERFORMANCE

The company achieved reasonable performance on the cost side of the ledger, but on the revenue side the performance was poor and was simply the outcome that can occur with an unhedged price-taking business. This will not occur again.

The board has driven a philosophic change in the company from a wind farm business run by engineers almost in total isolation of the wholesale market and the regulated environment – to the new ethos where we run the business in such a way that we only spend your dollars when there is a clear payoff. We are actively working with the regulator (the Electricity Authority) and the grid owner and operator to improve the operating environment and financial sustainability of merchant wind generators. As I have noted earlier all wind and hydro generators are subject to these vagaries; the companies that succeed are those that manage the risks of price and costs most effectively. NWF is closely focused on just those risks.

RESOURCE CONSENTS

The board recognises that success in putting noise issues sustainably behind us requires both technical outcomes and cultural change. Our neighbours are our partners in that we operate in their environment and we must and will work closely with them to achieve a solid balance between commercial outcomes and effects. The company has not ever shown that it understood the concept of a social license to operate. The result has been 7 years of prolonged, expensive and distracting litigation costing the shareholders circa \$2M. This Board will end the foolishness because it's cost effective, it's the fair thing to do for our neighbours and we have much more exciting things that will drive shareholder value to be getting on with rather than being distracted by this pointless litigation.

CAPITAL MANAGEMENT

When I was elected to the board last year with Stuart Bauld and John Southworth there was shareholder concern about the large cash reserves that the company had on its balance sheet. Your board had similar concerns. Companies that have underutilised balance sheets are denying their shareholders the opportunity to place their capital to more profitable ends. With this in mind the board has aggressively pursued the purchase of the PowerCo transmission assets and should the shareholders agree plans to take on loans of \$12.3M to part fund the purchase. The effect of this transaction is to release cash to the company such that it is now in a position to fund a distribution which I will detail at the AGM. I believe that this shows clearly the board intent to focus on building shareholder wealth. Again it is a shame that past boards and CEO's have not shown the resolution necessary to execute the transaction which has been in contemplation for some years. Your current board and CEO have executed the transaction in four months. This makes the business more profitable and builds rigour in managing a debt book – essential as we contemplate growth and changing our fuel mix.

OUTLOOK

So the first stage of the plan is in place and we now turn our minds to where we go in the coming year. The new strength we have in our refreshed management team led by John Worth puts us in a strong position to develop the acquisition of alternative fuel generation and move in the area of developing or acquiring a retail base. The company will not remain a merchant generator. The timing of these plans cannot easily be predicted but with the skills the refreshed board and company leadership team bring to the table it is my intention that we will execute one or other of the strategies before the next AGM – our small team has significant experience in development, consenting, transmission and other generation fuel classes including hydro, geothermal and other renewables. We're looking forward to deploying these resources as we move beyond being a one-asset company. Based on our historic production and hedging position we will achieve a significant improvement in revenue; this year our revenue was \$6.2M and in the coming year our target is \$8.2M.

We, the board and all the staff are making this company sustainably profitable – not easy within the NZ electricity market structure, but we're way ahead of where the company has been before and it will give me much pleasure to announce a distribution at the AGM in the near future.



Rodger Kerr-Newell
Chairman
25 August 2017

OVERVIEW

NZ Windfarms has made good progress this year in addressing the issues affecting the company's operations and the resulting financial performance, and initiatives undertaken throughout the 2017 financial year position the company particularly well for 2018.

Operating performance throughout the 2017 financial year has remained strong, with turbine availability at 96.0%. The on-site maintenance team continues to build capability in efficiently maintaining the turbine fleet. Importantly we are now seeing a significant drop in the failure rates of key components, particularly gearboxes and pitch bearings, suggesting that improvement projects undertaken recently and in the past and our new curtailment strategy are bearing fruit.

Financial performance in FY2017 was significantly impacted by a combination of low wind conditions and low price, creating a very significant drop in revenue. Pricing received in the 2017 year was significantly below our long-term average. We have taken important steps to reduce our exposure to periods of low price and turned the dial on our future cost base.

The board completed an organisational review in 2016, and I joined the organisation in March 2017. Since then it has been a very busy time. The Board made a number of commitments to shareholders at the 2016 AGM, and from day one these have been on the top of my list, alongside moving wind farm operations as quickly as possible to be consistent with global best practice.

In April the company made a fundamental change to the wind farm operating strategy. Dynamic turbulence intensity curtailment was put in place across the whole wind farm, following an earlier trial on eleven turbines, as the first step in this strategy. The objective is to protect turbines from mechanical damage in adverse wind conditions. A modest decrease in revenue is offset by mechanical savings forecast to be up to \$700k per annum. While we have been experiencing light wind conditions, we have not had a gearbox failure since April, and fault incidence is also down. We appear to be on the right track.

A further outcome of the curtailment regime we now have in place is a substantial decrease in the short run marginal cost (SRMC) of the plant. This measure assesses the wind farm generation volume against the operational cost of running the turbines. In 2016 the wind farm SRMC was \$29.22/MWh; for the FY18 year we are forecasting that we will achieve a SRMC of around \$20/MWh.

We believe we can achieve further mechanical savings through at least two further rounds of more elaborate curtailment. We have commissioned computation fluid dynamic modelling work undertaken by an offshore wind expert to better understand other wind parameters on our site, including wind shear, inflow angle and wake effects. We are building our way towards a five-axis curtailment strategy we hope to have in place in Q2 2018. We are anticipating a rule change early next year which will permit price curtailment which we anticipate will offer us real value.

In June we announced an increase in the value in use of the wind farm assets of \$4.6m, as a function of the adoption of a new best-practice impairment model developed by PWC and cost savings forecast to be achieved through curtailment, and already being realised through the combination of the CFO and CEO roles into the Commercial Director role. The refresh of the impairment model is important for the business. It replaces the optimistic Ministry of Business, Innovation and Employment price path with the ASX forward electricity price path (out to the extent of the curve, currently December 2020) and thereafter utilises a more conservative PWC price path. Alongside this PWC calculated a more realistic weighted average cost of capital (7.65% versus the notional 10% used in the old model). While these two changes largely cancelled each other out, the improved model allows us to assess the impact of changes on the underlying asset value.

Further organisational refinement was carried out in June, with the disestablishment of three technical roles and the reshaping of the Commercial Director's role into that of Chief Executive Officer alongside the creation of a Financial Controller role. While it is always sad to see staff move on, lower workload through the curtailment strategy combined with hours based servicing (rather than time based) reduced our need for technical staff. We were delighted that Financial Administrator Alison Angove accepted the FC role and these moves position the company optimally and bring a period of restructuring to a close.

We have been working closely with the industry regulator, the Electricity Authority, and the grid owner and system operator Transpower in recent months. As the only large-scale merchant wind generator in the New Zealand electricity spot market, we have loudly participated in consultation on proposed code changes. All wind generation is currently mandated to be offered into the wholesale market at \$0.01/MWh and price curtailment is not permitted. As a result, all wind generation is purchased by the market at the market clearing price. This has two effects; the positively time-correlated nature of wind generation nationally means that the clearing price is compressed when the wind is blowing, and wind farms operate in many periods when the clearing price is below the short run marginal cost of production. We had anticipated a rule change in June 2017 which would permit a degree of price curtailment, however this has been deferred to a more comprehensive rule change forecast to occur in Q2 2018. This change is intended to treat wind like any other fuel, where generation is offered into the market in five price/volume bands. This will allow us to price our generation above our production cost plus margin and we anticipate it will reduce the market clearing price compression we currently experience. We see this as an essential step to making wind generation sustainable in the New Zealand electricity market.

After four months of sustained negotiations, in August we announced that the company has entered into a binding deal to purchase the Powerco-owned electrical reticulation assets that are the subject of finance and operating leases and a cash guarantee. This move improves operating cashflows by c\$700k per annum (increasing annually) and gives the company full control of all its assets. Having been contemplated for many years, getting this done was a major priority for the Board and I started working on this transaction in my first week. Our own and independent analysis has confirmed that the \$17.3m purchase price represents good value over the retention of current arrangements. We have secured bank funding for \$12.3m and we plan on using the bank guarantee funds for the balance, noting that this structure frees up cash. We anticipate closing the transaction in late September or early October.

We commenced hedging our forward revenues in June. Our objective is to insulate the company against the low electricity prices it has received in recent years. We have developed a policy where we seek to achieve 12 months of forward revenue cover for a proportion of our typical generation volume. Forward electricity price contracts typically "price-in" a degree of dry year risk; we can benefit from this by forward contracting. As at 10 August, the company held forward cover for FY2018 for around 30% of average production at an average price of \$83.04, a substantial uplift on the pricing received for much of FY2017.

The use of the ASX price curve alongside the use of hedges to baseline forward revenues to predict forward profitability is an important step for the business. It means we are using the market's best view of forward price to make operational decisions. An example of this is the model we now run to assess turbine repair decisions against forward price expectations. We know that if we have a gearbox failure and the forward price is below a certain level, it is economically advantageous to "rob" a gearbox from a low revenue producing turbine and delay repair and replacement until the electricity price justifies it. This sort of dynamic approach is a complete reversal from the old management approach where the farm was kept 100% operational even when this made no economic sense. We take the same approach to the management of inventory; high forward pricing expectations reward appropriate spares inventory and more significantly, low forward pricing means we must keep spares inventories as low as possible.

The company continues to make progress in resolving consent issues in relation to wind farm noise. The review of the consent conditions under Section 128 of the Resource Management Act is underway. The Board and I have agreed to a fresh approach to dealing with noise issues based around genuine engagement with near neighbours to resolve concerns. Our near neighbours are universally in support of wind energy and acknowledge our need to profitably generate energy, however noise emissions in the non-prevailing south easterly wind direction appears to be particularly problematic for them. Following our rollout of turbulence intensity curtailment, in July we commenced a voluntary sector-specific noise curtailment trial consistent with international best practice aimed at providing a degree of night-time relief to these residents. We can configure this curtailment to have minimal effect on revenue whilst providing meaningful relief to near neighbours. The Section 128 submissions period closed in June and just twelve submissions were made. Three support no changes to the current consent conditions and nine wish for more onerous noise limits. Only five plan to appear at the hearing, which is scheduled for late September. The hearing will be heard by three independent commissioners who will seek the views of a range of wind farm acoustics experts. Of the five residents who will present evidence, two support nil or negligible change to the consent conditions and the remaining three seek condition changes. My team and I will present evidence on our new operating approach and how we plan to continue to work with near neighbours to achieve a sustainable outcome to noise issues. Prior to the hearing we will endeavour to agree to equitable amended conditions with these three parties. We remain confident that our refreshed approach to dealing with noise issues maximises the likelihood of an enduring end to noise issues this calendar year. Whilst we will do all we can to bring this to a close, some risk of a party taking an appeal to the Environment Court remains.

OPERATING PERFORMANCE

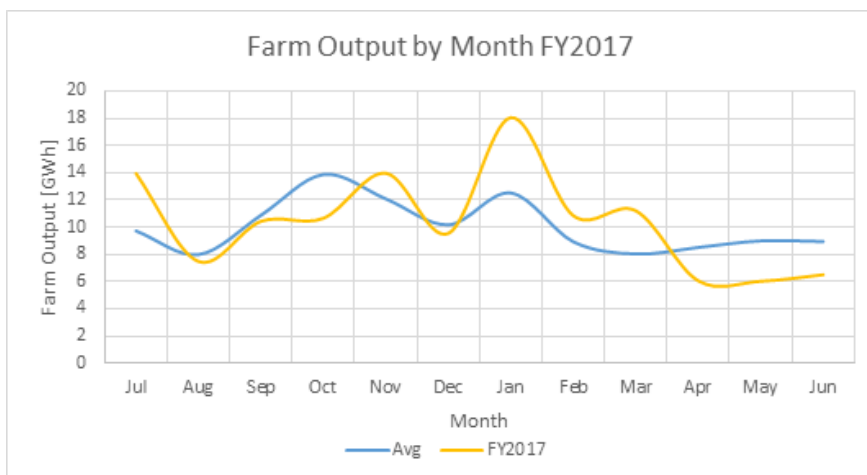
Turbine performance has remained strong, with the organisation achieving 96.0% availability for the year.

NZ Windfarms uses a dedicated in-house operations team to operate the fleet of Windflow 500 turbines. Availability for the wind farm has remained consistent with FY2016 (96.2%) which given the multitude of operational changes is a strong outcome. The on-site team continues to make progress in reducing the costs to repair, maintain and operate the turbines. After-hours monitoring by this team has been successful in keeping as much of the plant as possible on-line 24-7, and call-out regimes are tailored to support this. Our operations team is supported by the on-site finance and administration functions and has access to all of the requisite spares, tooling and replacement components located at the workshop adjoining the Te Rere Hau site office.

Variable wind conditions meant that the anticipated 130GWh output was not met this year, with actual production of 124.6GWh, 4% below target. This illustrates the annual variability we are exposed to.

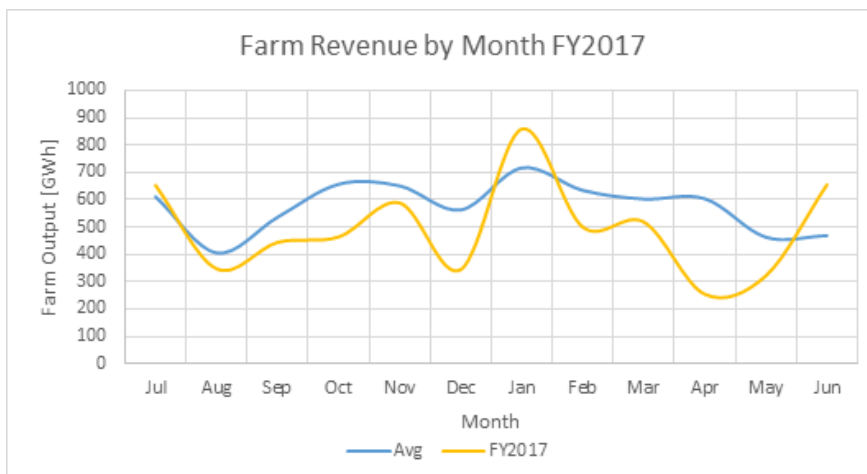
The year was also notable for high resource volatility, and unusual seasonal conditions. October typically provides the best wind resource, however October 2016 was historically poor. January is typically a modest resource month, however January 2017 was hugely productive. While April, May and June typically only offer modest wind resource, in 2017 these months were particularly poor. Wind resource captured in FY2017 is shown in Figure 2.

Figure 2; FY2017 Wind farm output by month



FY2017 was also characterised by high price volatility. Wholesale pricing through much of calendar 2017 did not appear to reflect declining hydro storage volumes in the South Island. An energy broker commented that after two consecutive “wet” (high hydrology inflow) years the market participants appeared to have forgotten the impacts of a dry year like 2017. Very high July pricing saw this hypothesis borne out. Revenue volatility for the FY2017 year is shown in Figure 3.

Figure 3; FY2017 Revenue volatility



TE RERE HAU TURBINES

Operations

Significant repairs and refurbishments

In addition to operating the turbines, and performing the scheduled maintenance program required to protect the turbine fleet, the operations team performed the following significant repairs and refurbishments:

- 10 (2016 – 15) gearboxes replaced
- 20 (2016 – 36) pitch bearings replaced
- 56 (2016 – 61) torque limiting (Poclair) pumps replaced
- 6 (2016 – Nil) Generators replaced

The company continues to make progress on extending the life and performance of key components.

Gearboxes

We continue to refurbish gearboxes on failure with improvements being made to the first, third and fourth stages. No new failure modes have come to light in FY2017, suggesting that the company is finally getting on top of these long standing performance issues.

There are currently three turbines with gearboxes in advanced stages of wear where we have extended their life by reducing the rated turbine output from 500kW to 400kW from June 2017. This has a negative revenue impact of circa \$1k per turbine per month, but delays the \$70k per turbine repair cost. The extent to which we will achieve life extension can't be accurately quantified, however we have successfully deferred repair so far.

One turbine with a failed gearbox has been decommissioned in the short to medium term as it is in a relatively low revenue producing location. It will be recommissioned when forward power prices make it economical to do so. This reduces the productive farm to 95 turbines (noting that one of the 97 turbines located on a very poor site has been permanently decommissioned).

Pitch Bearings

A change to the greasing schedule has shown immediate and promising results with a significant reduction in failures in the last 6 months of the financial year. There are a number of other factors such as low wind resource in calendar 2017 that will have contributed to this reduced failure rate. Some earlier trials of different design have shown disappointing results, but we continue to evaluate improved designs and have made some progress.

Torque Limiting Pumps

Continued development of improvements has seen a slight reduction in failures in FY2017 and we expect to see this trend continue as these get rolled out across the fleet as pumps fail.

Generators

FY2017 saw six generator failures. A design issue with the cooling system was solved by a retrofit rolled out in 2010. The six generator failures were all original units that were run for significant periods before the retrofits were put in place.

Improvement projects

A range of improvement projects have been progressed over the last twelve months, including:

- Moving to a run hours based maintenance scheme from a fixed period saving \$80k a year
- Doubling of the greasing frequency of pitch bearings from 6 months to 3 months. This increases costs annually by \$40k, but has seen an immediate reduction in failures. Although it is early days we have seen a reduction in failure rate from 18 turbines a year to 10 (each turbine contains two pitch bearings) with the cost of each failure around \$25k
- Poclain pump improvements that have seen an annual usage a year ago reduce markedly over the last 12 months, suggesting the modifications improve durability noting that low wind conditions may be contributing to this outcome
- Pitch actuator improvements that have seen an improvement in life that we are yet to quantify
- Improved gearboxes that have been installed in 35 of the highest producing turbines. The reduction in annual failure rate from 15 to 10 per annum is a strong indicator that these modifications are proving successful
- A multitude of minor component and control improvements including improved speed sensors, improved pendant cable restraint systems, improved alarm handling methodologies and modified gearbox idling controls

The lifespan of turbine components remains challenging to predict, however we are now starting to see real results from relentless focus since commissioning on improving mechanical performance. Reducing the failure interval of components makes a major contribution to minimising the company's cost base.

HEALTH AND SAFETY

There were no work-related lost time incidents in FY2017 and only one minor recordable incident. Health and Safety remains a primary focus for the company and all operational staff are involved in monthly Health and Safety meetings and activities. In joining an organisation that operates in a hazardous environment I was pleased to find a very strong health and safety and safe work culture at the company.

Bench marking and target setting for key indicators has been set up through the central Wind Energy Health and Safety Committee which includes key New Zealand wind industry participants Meridian, Genesis, Tilt, Vestas and Siemens. Initial benchmarking shows that our health and safety performance is comparable to that achieved by other wind farm operators. We will continue to benchmark our performance against others to ensure that we seek out all opportunities for improvement and excellence.

We have continued to develop our in-house SCADA system with a focus on Health and Safety to ensure all possible safety systems are automated and fail-safe. Our SCADA developer has requested use of it as an industry show case. Improvements include automated permit to work systems with automated text-notified hand-over to technicians, automated alarms that text individuals when conditions at the turbine they are working on are approaching safe limits, global warning and emergency communications to all staff and automation of lightning warnings.

We have completed our in-house development of safe work procedures. We continue to develop improved ways to maintain the turbines safely and alongside this efforts are continuing to develop customised tooling and equipment to permit maintenance works to be carried out as safely as possible.

FINANCIAL PERFORMANCE

FY2016 was a relatively low wind year due to seasonally light wind conditions, with production around 4% below expectations.

Revenue for the year came in well below budget principally as a function of poor electricity pricing received. The average electricity price received in FY2017 was \$47.98/MWh compared to \$55.37/MWh received in FY2016, a 13% drop. Revenues received (\$5,981k) were 17% down on FY2016 revenues (\$7,174k). Pricing heading into winter 2017 was low and at odds with low South Island hydro storage levels. South Island lake levels were relatively high at the end of summer, however as volumes were expended in hydro generation and dry weather prevailed, lake levels dropped to very low levels. Market prices remained low despite hydro storage volumes decreasing rapidly. The Company has been entirely exposed to the wholesale electricity market and sustained periods of low pricing in FY2017 is an example of exactly this in practice.

Total operating costs were reduced from \$5.9 million to \$5.8 million this financial year, despite significant one-off costs of c\$300k associated with the organisational and other reviews and resulting disestablishment of the previous CEO and CFO and the recruitment of the new CEO. These one-off costs were essential components in reconfiguring the business for success. Aside from one-off costs, savings were made in administration, audit and directors fees and legal and consulting costs. As the company makes progress in resolving noise issues legal costs are expected to be further reduced over time, alongside other declared savings. The cost base for FY2018 is markedly different with the full year impacts of savings anticipated from the new curtailment strategy, the management and team restructure and the purchase of the electrical reticulation assets.

FY2017 has seen intense scrutiny on the financial performance of the business. This has resulted in a range of sustainable cost saving measures, a programme of further improvements to be rolled out through FY2018, and a revenue baselining strategy through the use of hedges. These measures are forecast to make the company robustly cashflow positive.

OTHER MATTERS

In March the company received an unsolicited approach from a third-party corporate expressing an interest in either acquiring its assets or conducting a takeover of the company. The approach was from a credible party. The approach at no time constituted a formal bid as defined under the NZX Takeovers Code and was incomplete in a number of material aspects. After some initial information exchange over a prolonged period discussions were terminated as the parties were unable to agree on price and value.

FUTURE PROSPECTS

The company operates in a difficult segment of the New Zealand electricity market; that of merchant generation. Generation assets are highly valued, however these are usually paired with either a retail base or other fuel sources (or both). The real value in generation assets is where they fit within a supply mix paired with a vertically integrated distribution strategy. Gaining full control of our generation base through the purchase of the Powerco assets is an essential part of tidying up our asset base.

The company is well positioned to expand its operational base. Our fuel mix needs to change to incorporate other fuel types as we prepare the company for a better offtake or sales position. Our team has expertise across a diverse range of generation types. The challenge for us this year is to complete the improvement programme that has consumed most of our time – essentially the hygiene factors that any great global wind farm operator should have in place – such that we can use our time to contemplate and put in place a more diverse future.

Whilst merchant generator status is problematic, it is no less challenging to be an independent electricity retailer without any generation capability. There are clear synergies in bringing these positions together, to in effect create a gentailer type of model. We will be investigating these opportunities in FY2018.

CONCLUSION

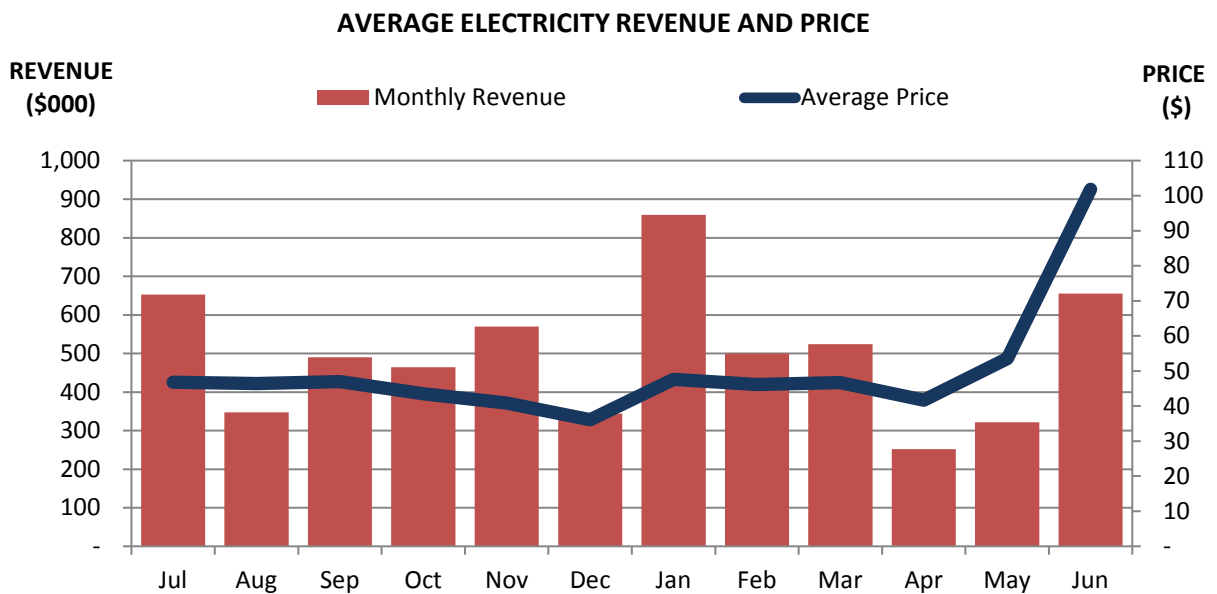
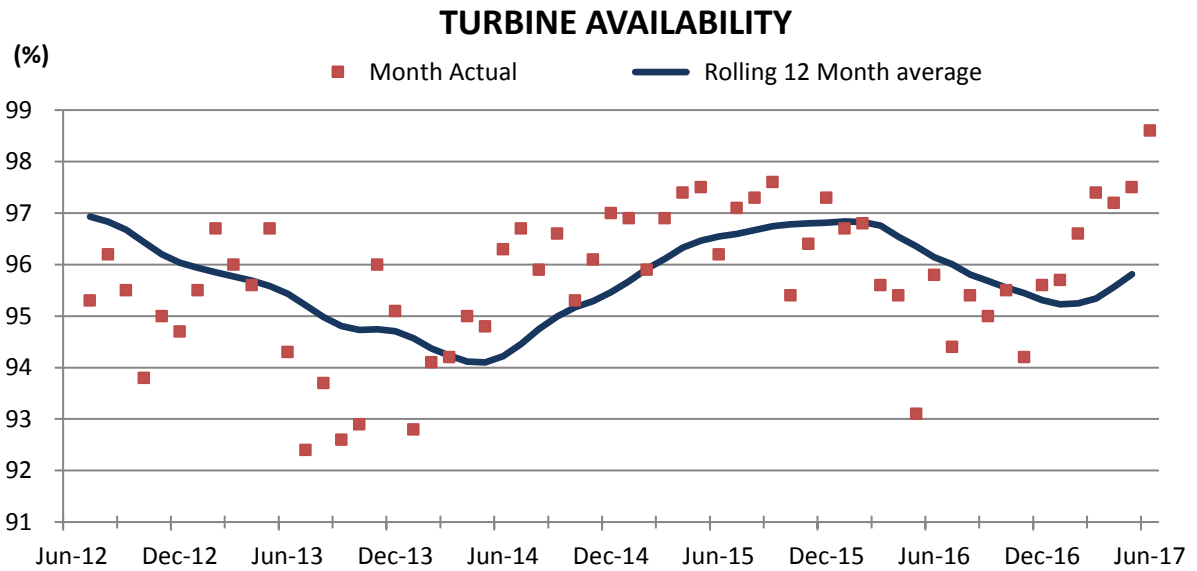
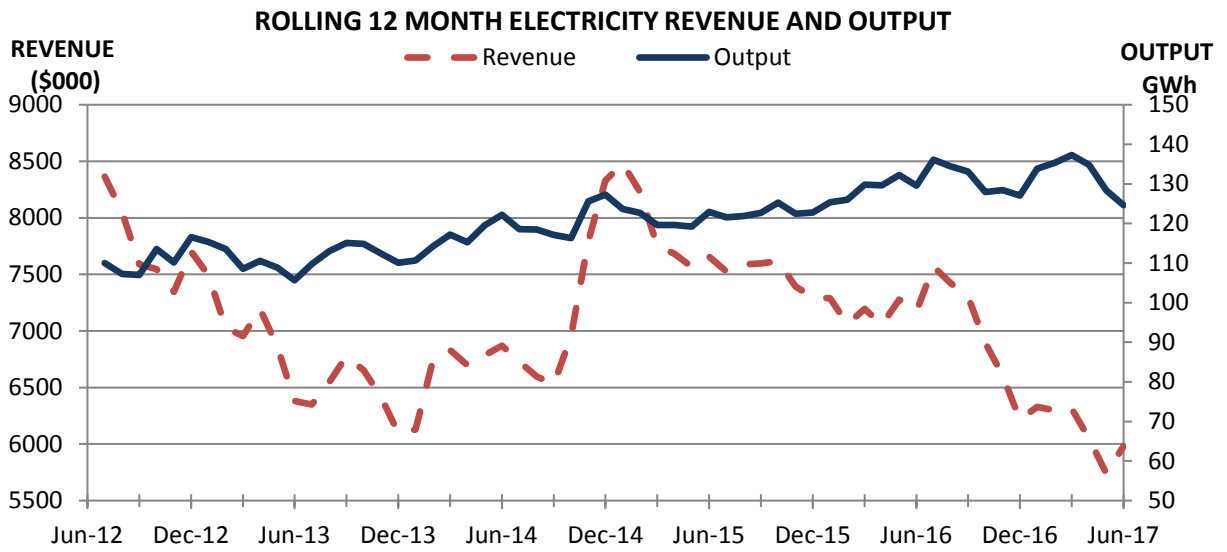
The wide-ranging initiatives that have been undertaken in recent months position the company favourably for FY2018. Moving to an international best practice curtailment model to reduce mechanical failure is an essential part of our operating strategy, and while full benefits will take time to crystalize, we are confident we have moved the dial on mechanical costs. Alongside this, we have been able to right-size our site team and minimise management overheads. Release of the company from the reticulation asset leases is a key step in improving underlying cashflow and profitability. Finding a way to operate the wind farm in conjunction with our near neighbours is an essential step to end prolonged litigation which has been expensive and distracting, and will in time build our social license to operate. Building capability in hedging to baseline forward revenues provides the company with protection against low power prices and allows us to run the business dynamically to maximise profitability. The combination of these initiatives presents a vastly different company to the one facing you a year ago.

As the Chairman has articulated, our medium-term future will be in moving away from our current status as a pure merchant generator.

My team and I are resolutely committed to making this company sustainably profitable under the board's leadership. We have taken the essential first steps, but the exciting stuff is yet to come. Thank you for your support as we go on this journey together.



JOHN WORTH
Chief Executive Officer
25 August 2017



DIRECTOR PROFILES

The Directors of NZ Windfarms Limited are:

Rodger Kerr-Newell, Chairman

Rodger Kerr-Newell has extensive senior management and governance experience in both the public and private sector. Rodger is a past Chief Executive of Hutt City Council, New Plymouth District Council, Rodney District and Taranaki Investment Managers Ltd, and is a former board member of Business NZ.

Rodger brings key strengths in strategy, financial management, cost cutting and knowledge of local government regulatory processes to NZ Windfarms Limited

Stuart Bauld, Director

Stuart Bauld is a Chartered Accountant and a former partner of PWC. He is presently a self-employed consultant providing services principally related to governance, financial structures and general investment matters.

Stuart has extensive experience in audit and corporate finance and has governance experience in both private and charitable organisations.

John Southworth, Director

John Southworth ED, B.C.A, NZSE Dip, plsc

John has 25 years of experience in the finance sector including funds management, share-broking sales and research, and special situations investment. He has been involved in a number of high value transactions either as manager or advisor across a range of industries.

He represents the company's third largest shareholder as a non-independent director on the board.

This statement is an overview of the Group's main corporate governance policies, practices and processes followed by the Board.

COMPLIANCE WITH NZX BEST PRACTICE CODE AND OTHER GUIDELINES

The NZX Limited Main Board Listing Rules require listed companies to disclose in their annual report whether and to what extent their corporate governance principles materially differ from the NZX Corporate Governance Best Practice Code. NZ Windfarms has no significant differences from the NZX Corporate Governance Best Practice Code. The following section summarises the key governance and compliance policies and procedures in place:

Code of Conduct

NZ Windfarms expects its Directors and employees to maintain high ethical standards that are consistent with its core values, business objectives and legal and policy obligations. The Directors support the principles set out in the Code of Practice for Directors issued by the Institute of Directors in New Zealand. Whilst recognising that the Code expresses principles and does not purport to determine the detailed course of conduct by Directors on any particular matter, the Directors are committed to the highest standards of behaviour and accountability.

A formal Code of Conduct has been adopted by the Board. The Code sets the ethical standards expected of the Directors, employees and contractors of NZ Windfarms and deals specifically with conflicts of interest, receipt and use of corporate information, assets and property, delegated authorities, compliance with applicable laws, regulations, rules and policies, the Company's Whistleblowers Policy and disciplinary procedures. The Code of Conduct is on the Company's website.

Role of the Board of Directors

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of the Group. The Board is the final body responsible for decision making within the Group and maintaining the Group's corporate governance and ethical business practices. The Board of Directors corporate governance responsibilities include overseeing the management of the Company and Group to ensure proper direction and control of NZ Windfarms' activities.

Corporate Governance encompasses the requirement for the Board to discharge such responsibilities, to be accountable to shareholders and other stakeholders for the performance of the Group and to ensure that the Group is compliant with laws and standards.

The Board establishes the corporate objectives of the Group and monitors management's implementation of strategies to achieve the objectives. It is engaged in on-going strategic planning in order to meet the objectives. It provides an oversight of compliance and risk, it measures and monitors management performance and it sets in place the policy framework within which the Group operates.

The Board monitors financial results, comparing them to budgets, annual plans and forecasts, at regular monthly meetings.

The Board has delegated components of its powers to subcommittees of the Board. The ambit of these delegations is documented in the subcommittees' Terms of Reference and by relevant Board resolutions.

Delegation of authority

Where appropriate the Board delegates its authority to the Chief Executive Officer for the day-to-day affairs of NZ Windfarms. Formal policies and procedures exist that detail the delegated authorities and parameters that the Chief Executive Officer and in turn, his direct reports, are able to operate within.

Continuous disclosure obligations

Continuous disclosure obligations in the NZX Limited Main Board Listing Rules require all listed companies to advise the market about any material events and developments as soon as the Company becomes aware of them. The Company complies with these obligations on an on-going basis.

Share trading by Directors and management

The Board has adopted an Insider Trading Policy that ensures compliance with New Zealand's insider trading laws. The policy requires prior consent by the Chief Executive Officer to any trading by insiders, including all employees of NZ Windfarms. The Chief Executive Officer must obtain the written consent of the Chairman of the Board of Directors prior to any trading in securities by the Chief Executive Officer. On receipt of an application for consent from a Director, the Chief Executive Officer must obtain approval from two Directors (neither of whom is the Director applying) prior to any consent being granted.

Treasury Policy

NZ Windfarms has a Treasury Policy to manage interest rate, electricity derivatives and foreign exchange risks. The policy approves the use of certain instruments for risk management purposes, and it prohibits any activity that is purely speculative in nature. It also sets out details of authorised counterparties, exposure limits, delegated authorities and internal controls.

Board composition and membership

In accordance with the Company's Constitution, the Board will comprise not less than three Directors. At 30 June 2017 the Board comprised three Directors: an independent non-executive Chairman, and two non-executive Directors, of which one is an independent Director.

The Board has a broad base of knowledge and experience in energy, engineering, financial management, politics, legal compliance and other expertise to meet the Company and Group's objectives.

The details and backgrounds of the Directors are detailed above. The Chairman is elected by the Board of Directors and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the Chief Executive Officer. He has no significant external commitments that conflict with this role. The Company maintains an Interests Register and if necessary conflicts of interest are recorded in the minutes. Procedures for the operation of the Board, including the appointment and removal of Directors, are governed by the Company's Constitution.

Operation of the Board

The Board meets regularly (usually monthly) for meetings. Key executives attend Board meetings by invitation. For each meeting the Chief Executive Officer prepares a report to the Board that includes a summary of the Company and Group's activities, together with financial reports and wind farm capital expenditure and operational updates. In addition the Board receives regular briefings on key strategic issues from management.

The Company offers a Director's induction programme for newly appointed Directors. All Directors have advice of Board policies and procedures, Company Constitutions, the Board timetable and Board Committees' Terms of Reference.

Chief Executive Officer

The Board is responsible for the evaluation of the Chief Executive Officer against his key performance objectives and is responsible for the setting of these objectives on a periodic basis and ensuring that they are appropriate measurable targets.

The Chief Executive Officer provides financial and risk reports to the Audit and Risk Committee, which meets at least four times per annum.

Independence of Directors

To be independent a Director must, in the opinion of the Board, be removed from any relationship or business that could materially interfere or be reasonably perceived to materially interfere with the exercise of his or her independent judgment.

It has been determined by the Board that all Directors are independent except for John Southworth, being a Director of LET Securites Ltd, the Company's third highest shareholder holding 7.58%.

All Directors are required to immediately advise if any new relationships could interfere with such independence and so enable the Board to consider and determine the materiality of the relationship. These relationships are noted in the Interests Register which is updated at each monthly Board meeting.

Rotation of Directors

In accordance with the Company's Constitution and NZX Listing Rules, at each Annual General Meeting of the Company one third (or the nearest number to one third) of the Directors must retire from office. A retiring Director is eligible for re-election.

Directors and Officers gender composition

At 30 June 2017 there were four (2016: five) Directors and Officers. The gender composition is shown in the table below.

	2017	2016
Directors - female	-	-
Directors - male	3	3
Officers - female	-	-
Officers - male	1	2
Total	4	5

BOARD COMMITTEES

The following standing committees have been established to assist in the execution of the Board's responsibilities. Each of these committees has a charter outlining its responsibilities and objectives:

Audit and Risk Committee

The Audit and Risk Committee at the end of the financial year comprised John Southworth (Chair), Rodger Kerr-Newell and Stuart Bauld.

The Audit and Risk Committee is responsible for monitoring the on-going effectiveness of risk management activities. The Committee monitors trends in the Group's risk profile and considers how the business manages or mitigates key risk exposures. It implements risk management through its business processes of planning, budgeting, investment, project analysis and operations management.

The Committee also monitors and oversees the quality of financial reporting and financial management. In order to achieve this the Committee considers accounting and audit issues and makes recommendations to the Board of Directors as required and monitors the role, responsibility and performance of the external auditor. The function of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 2013 on matters relating to the Group's accounting practices, policies and controls relevant to the financial position, and to liaise with external auditors on behalf of the Board of Directors.

The Chief Executive Officer and Financial Controller attend Committee meetings by invitation as does the external auditor when required.

Remuneration Committee

The Remuneration Committee at the end of the financial year comprised Stuart Bauld (Chair), Rodger Kerr-Newell and John Southworth. The Remuneration Committee's primary purpose is to review Directors' fees, the Chief Executive Officer's remuneration package and performance, and the policy for remuneration of senior management. These reviews form the basis of recommendations to the Board. Details of Directors' remunerations are set out under the section headed Directors remuneration.

Nominations Committee

The Nominations Committee at the end of the financial year comprised Stuart Bauld (Chair), Rodger Kerr-Newell and John Southworth. The Nominations Committee's primary purpose is to ensure the Company has formal and transparent processes for the nomination and appointment of Directors and to identify any skill gaps to ensure diversity and experience on the Board.

Conflicts of interest

If conflicts of interest exist in any transaction then a Director must declare their conflict of interest and not exercise their right to vote in respect of such matters. The Company maintains an Interests Register which is updated at each monthly Board meeting.

Audit governance and independence

The work of the External Auditor is limited to audit and related work only and the Company is committed to auditor independence. The Board, through the Audit and Risk Committee, annually reviews the independence and objectivity of the External Auditor. No employees or partners of the auditor's firm hold shares in the Company. In addition the lead audit partner must rotate after a maximum of five years, and the External Auditor must confirm annually its commitment to strict procedures to ensure independence.

Representatives of the Company's External Auditor are invited to attend the Annual General Meeting.

Reporting and disclosure

Annual and Interim six monthly reports are published in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the NZX Limited Main Board Listing Rules and are communicated on a periodic basis to all shareholders. The Annual Report is audited.

A Company website is maintained and contains regular updates to shareholders. The Annual and Interim reports are available online at our website www.nzwindfarms.co.nz.

Shareholder relations

The Board's policy is to ensure that shareholders are informed of all major and strategic developments affecting the Company and Group's state of affairs. All major disclosures are posted on the Company's website on a timely basis. The Company releases all material information via the NZX website under its continuous disclosure requirements.

DIRECTORS' SHAREHOLDINGS AS AT 30 JUNE 2017

Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the NZX Listing Rules at 30 June 2017 are listed below:

Name of Related Party	Relationship	Shares 30 June 2016	Movement	Shares 30 June 2017	Share options at 12.5c/share	Share options at 15c/share
Rodger Kerr-Newell	Director	-	-	-	2,875,000	2,875,000
Stuart Bauld	Director	-	-	-	2,875,000	2,875,000
John Southworth	Director	21,911,799*	-	21,911,799*		

No options have been exercised at 30 June 2017

*LET Securities Ltd hold 21,824,799 shares

STATUTORY INFORMATION

INTERESTS REGISTER

In accordance with the Companies Act 1993 the Company maintains an Interests Register in which the particulars of certain transactions and matters involving Directors are recorded. The following table summarises details of entries made in the Interests Register during the financial year. Cessation of an interest is marked with an asterisk.

Director	Period	Counterparty	Nature of Interest
Rodger Kerr-Newell	Full year	Shire of Halls Creek Western Australia	CEO
		EYE93	Director/Shareholder
		NZWL-TRH Ltd	Director
		TRH Services Ltd	Director
Stuart Bauld	Full year	Whitholden Holdings Limited	Director/Shareholder
		Addictive Design Limited	Director/Shareholder
		OneSteel NZ Holdings Limited	Director
		OneSteel NZ Limited	Director
		OneSteel NZ Recycling	Director
		Palmer Tubemills (NZ) Limited	Director
		Daffodil Enterprises Limited	Director
		Cancer Society of NZ	Principal
		Ellis King Clark	Director
		NZWL-TRH Limited	Director
TRH Services Limited	Director		
John Southworth	Commenced 1 December 2016	LET Securities Limited	Director/Shareholder
		LET Capital Limited	Director/Shareholder
		NZWL-TRH Limited	Director
		TRH Services Limited	Director
Simon MacKenzie*	1 July 2016 to 25 October 2016	Vector Ltd	CEO
		Various Vector Group subsidiary companies	Director
Sean Joyce*	27 October 2016 to 31 March 2017	NZF Group Limited – listed	Director
		TruScreen Limited – listed	Director
		CSM Group Limited – listed	Director
		Sektor Group Limited	Director
		Best Start Educare Limited	Director
		CM Partners Limited	Director
		Connaught Trust Limited	Director
		Connemara Capital Limited	Director
		Connemara Consulting Limited	Director
		East Investments Limited	Director
		Excalibur Capital Partners Limited	Director
		Excalibur Capital Nominee Company Limited	Director
		FGI Capital Limited	Director
		Holland Park Limited	Director
		Mounterowen Limited	Director
		North Investments Limited	Director
		TB Trust Limited	Director
		Wilary NZ Limited	Director
		Oceania Capital Trust Limited	Director
		NZ Windfarms Ltd	Director/Lawyer
NZWL-TRH Limited	Director		
TRH Services Limited	Director		

NZX WAIVERS

The NZX Limited Main Board Listing Rules require listed companies to disclose in their Annual report a summary of all waivers granted and published by NZX within the twelve months preceding the date two months before the date of the publication of the Annual Report. There were no waivers granted by NZX in the reporting period.

STATUTORY INFORMATION (CONTINUED)

DIRECTORS REMUNERATION

Directors' fees total \$145,625 (2016: \$171,250) per annum. The Board Chairman receives \$60,000, the Deputy Chair \$37,500 and the remaining Directors \$30,000. The Chair of the Audit and Risk Committee receives an additional \$6,000 and the other members of the Audit and Risk Committee an additional \$3,000 per annum.

The following table summarises Directors' remuneration for the year to 30 June 2017:

Name	Directors Fees	Other Fees
Rodger Kerr-Newell	\$60,250	-
Stuart Bauld	\$36,875	\$125,192
John Southworth	\$21,000	-
Sean Joyce	\$15,000	\$25,496
Simon Mackenzie	\$12,500	-

No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly airfares and taxis to meetings) were made.

DIRECTORS INDEMNITY AND INSURANCE

The Company has Directors' and Officers' Liability Insurance of \$20,000,000 (2016: \$20,000,000) in the aggregate.

SUBSIDIARIES

The following persons held the office of Director of NZ Windfarms Limited's subsidiaries at 30 June 2017. No Director of any subsidiary received any Director's fees or other benefits as a Director of the subsidiary companies.

NZWL-TRH Limited (100% owned): Rodger Kerr-Newell (Chairman), Stuart Bauld and John Southworth.

TRH Services Limited (100% owned): Rodger Kerr-Newell (Chairman), Stuart Bauld and John Southworth.

EMPLOYEE REMUNERATION

Details of the salary ranges for employees or former employees of the Group receiving remuneration and benefits in excess of \$100,000 for the year ended 30 June 2017 were as follows:

Remuneration range	Number of employees
\$200,000 - \$260,000	1
\$150,000 - \$200,000	1
\$100,000 - \$150,000	4

DONATIONS

The Group made no donations during the year.

SHAREHOLDER INFORMATION

The ordinary shares of NZ Windfarms Limited are listed on the New Zealand Stock Exchange's Market (NZX). The information in the disclosures below has been taken from the Company's register at 30 June 2017.

Twenty largest ordinary shareholders

Shareholder	Address	Shares	% Issued Capital
Vector Limited	Auckland	63,684,362	22.11%
Robert Alexander Stone	Singapore	38,850,000	13.49%
Let Securities Limited	Wellington	21,824,799	7.58%
New Zealand Central Securities Depository Limited	Auckland	15,718,330	5.46%
Philip George Lennon	Christchurch	14,758,000	5.12%
Kericrest Properties Limited	Kerikeri	10,844,988	3.76%
Hsu Cheng Yang	Auckland	9,300,000	3.23%
Bruce Howden Blake	Auckland	6,024,010	2.09%
Talleys Group Limited	Motueka	4,187,461	1.45%
Po Hui Chi	Auckland	3,100,000	1.08%
Rotoruatrust Perpetual Capital	Rotorua	2,656,062	0.92%
Anthony Anselmi & Ross Alleman	Auckland	2,566,667	0.89%
Tony Whyman	Wellington	2,500,000	0.87%
Ian Douglas & Basil Cook	Katikati	1,914,759	0.66%
David Cormack, Peter Cormack & Renu Cormack	Auckland	1,750,000	0.61%
Custodial Services Limited	Tauranga	1,706,095	0.59%
Anthony George Gledhill	Taupo	1,622,688	0.56%
Westward Management Limited	Auckland	1,587,639	0.55%
Custodial Services Limited	Tauranga	1,521,491	0.53%
Yao Tsung Yang	Auckland	1,350,000	0.47%
Totals		207,467,351	72.02%
Holdings Ranges	Number of Holders	Shares	% Issued Capital
1 to 1,000	108	76,806	0.03%
1,001 to 5,000	524	1,740,005	0.60%
5,001 to 10,000	301	2,367,375	0.82%
10,001 to 50,000	709	17,077,141	5.93%
50,001 to 100,000	188	13,921,715	4.83%
100,001 to 500,000	140	29,366,411	10.19%
500,001 and 1,000,000	15	11,091,316	3.85%
1,000,001 and Over	24	212,422,815	73.74%
Totals	2009	288,063,584	100.00%

SHAREHOLDER INFORMATION (CONTINUED)

Substantial security holders

This information is given in accordance with the Financial Markets Conduct Act 2013. The substantial security holders in the Company as at 30 June 2017 were as follows:

Shareholder	Number of shares directly held	%
Vector Limited	63,684,362	22.11
Robert Alexander Stone	38,250,000	13.49
LET Securities Limited	21,824,799	7.58
Philip George Lennon	14,758,000	5.12

The total number of issued voting securities as at 30 June 2017 was 288,063,584 (30 June 2016: 288,063,584).

Directors statement

The Annual Report is dated 25 August 2017 and is signed on behalf of the Board by:



Rodger Kerr-Newell
Chairman



John Southworth
Director / Chair of Audit and Risk Committee

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$000's	2016 \$000's
Income			
Electricity sales		5,981	7,174
Other income		97	1,011
Total income (excluding interest income)		6,078	8,185
Administration		359	421
Audit fees	3	50	75
Directors' fees	15	146	171
Employment expenses		1,888	1,776
Insurance		107	120
Lease and rental expenses	20	902	895
Legal and consulting expenses		387	433
Te Rere Hau wind farm operational expenses		1,758	1,750
Other operating expenses		201	219
Total operating expenses		5,798	5,860
Profit (Loss) before interest, impairment, amortisation, depreciation and tax		280	2,325
Interest income		296	388
Interest expense		(944)	(958)
Profit (Loss) before impairment, amortisation, depreciation and tax		(368)	1,755
Impairment reversal of Te Rere Hau wind farm	13	(3,781)	4,900
Depreciation	4	2,016	2,343
Loss on disposal of property, plant and equipment		219	153
Amortisation	5	268	273
Profit (Loss) before tax		910	(5,914)
Income tax expense (benefit)	1	261	(1,935)
Profit (Loss) after tax for the year	10	649	(3,979)
Basic and diluted earnings (loss) per share	10	\$0.002	\$(0.014)

Profit (Loss) after tax for the year is equal to the total comprehensive income (loss) for the year attributable to equity holders of the Parent.

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 47.

NZ WINDFARMS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2017

	Notes	2017 \$000's	2016 \$000's
Assets			
Current assets			
Cash and cash equivalents	12	1,291	2,606
Term deposit		6,500	8,000
Trade and other receivables	2	1,005	698
Inventories		1,244	1,247
Total current assets		10,040	12,551
Non-current assets			
Property, plant and equipment	4	38,117	35,247
Intangible assets	5	3,535	3,746
Convertible notes	16	11	11
Deferred tax	7	19,188	19,449
Total non-current assets		60,851	58,453
Total assets		70,891	71,004
Liabilities			
Current liabilities			
Trade and other payables	8	813	1,102
Current portion of finance lease	19	514	474
Total current liabilities		1,327	1,576
Non-current liabilities			
Finance lease	19	8,372	8,885
Total non-current liabilities		8,372	8,885
Equity			
Share capital	9	107,005	107,005
Retained (loss)/earnings	9	(45,813)	(46,462)
Total equity		61,192	60,543
Total equity and liabilities		70,891	71,004
Net tangible assets per share	10	\$0.134	\$0.130

Signed for and on behalf of the Board as at 25 August 2017.



Rodger Kerr-Newell
Chairman



John Southworth
Director / Chair Audit and Risk Committee

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 47.

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$000's	2016 \$000's
Equity at beginning of year		60,543	64,522
Profit (Loss) after tax for the year		649	(3,979)
Equity at end of year		61,192	60,543
Represented by:			
Share capital	9	107,005	107,005
Retained earnings (loss)	9	(45,813)	(46,462)
Total equity		61,192	60,543

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 47.

NZ WINDFARMS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$000's	2016 \$000's
Operating activities			
Cash was received from:			
Trading revenue		5,738	7,276
Other income		53	1,000
Interest received		282	507
		6,073	8,783
Cash was applied to:			
Interest paid		945	959
Payments to suppliers and employees		5,953	5,759
		6,898	6,718
Net cash inflow (outflow) from operating activities	11	(825)	2,065
Investing activities			
Cash was provided from:			
Sale of property, plant and equipment		11	-
		11	-
Cash was applied to:			
Investment in Term Deposit		(1,500)	1,500
Purchase of property, plant and equipment		1,530	1,048
		30	2,548
Net cash inflow (outflow) from investing activities		(19)	(2,548)
Financing activities			
Finance lease		471	435
		471	435
Net cash inflow (outflow) from financing activities		(471)	(435)
Net increase/(decrease) in cash and cash equivalents		(1,315)	(918)
Cash and cash equivalents, beginning of year		2,606	3,524
Cash and cash equivalents, end of year		1,291	2,606
Cash and cash equivalents			
Short term deposits		-	1,800
Bank account and on call deposits		1,291	806
Ending cash and cash equivalents carried forward		1,291	2,606

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 47.

REPORTING ENTITY AND STATUTORY BASE

NZ Windfarms Limited (the “Company”) is a profit oriented company in the business of operating a wind power generation asset for the purpose of generating and selling electricity. The Company operates solely within New Zealand.

The Company is registered under the Companies Act 1993 of New Zealand and listed on the New Zealand Stock Exchange (NZX).

The consolidated financial statements of NZ Windfarms Limited as at 30 June 2017 comprise the Company and its 100% owned subsidiaries NZWL–TRH Limited and TRH Services Limited (the “Group”). In accordance with the Financial Reporting Act 2013, the consolidated financial statements are only presented for the Group.

BASIS OF PREPARATION

The Company is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and the financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The financial statements of the Group have been prepared in accordance with the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013 and prepared in accordance with and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented entities. The Group financial statements comply with International Financial Reporting Standards (IFRS) and have been prepared on a going concern basis.

The financial statements are expressed in New Zealand dollars which is the Group’s functional currency.

MEASUREMENT BASE

The measurement base adopted in the preparation of these financial statements is historical cost, except that certain financial instruments and operating assets are recognised at fair value.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying accounting policies, the Group is required to make judgments, estimates and assumptions about the carrying value of assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable in the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

In particular, information about areas with significant risk of material adjustment in the next 12 months and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following accounting policies and notes:

- Carrying value, impairment and useful life of property, plant and equipment - accounting policy, notes 4 and 13.
- Carrying value, impairment and useful life of intangible assets - accounting policy, notes 5 and 13.
- Realisation of Deferred Tax Asset – note 7.

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by all companies within the Group.

Basis of consolidation

Subsidiaries are those entities controlled directly by NZ Windfarms Limited. Control is achieved where the Company has the power over the investees; is exposed to, or has rights, to variable returns from its investment in the investees, and has the ability to use the power to affect returns.

The Group financial statements are prepared from the financial statements of the Company and its subsidiaries using the purchase method of consolidation. All significant inter-company transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated on consolidation.

Revenue recognition

Electricity revenue is recognised at the point the electricity is delivered to the national grid.

Interest

Interest income and expenses are recognised on an accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset or liability or, when appropriate, a shorter period to the net carrying amount of the financial instrument. Where interest cost has been directly incurred in the construction of an asset the cost has been capitalised to the cost of construction of the asset.

Taxation

The taxation expense or benefit charged to earnings represents the sum of the current tax payable and deferred tax.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Tax losses are recognised when future utilisation of the losses is probable.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are generally recognised for deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date.

Trade and other receivables

Trade receivables are recorded initially at fair value. Subsequent to initial recognition, trade receivables are measured at amortised cost less any provision for bad or doubtful accounts. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Trade receivables are subject to credit risk exposure.

Inventories

Inventories are valued at the lower of cost or net realisable value, determined principally on the moving average price basis.

Property, plant and equipment

Property, plant and equipment is stated at cost, and other than land, is depreciated in equal instalments over the estimated economic lives of the assets. For constructed assets, depreciation commences when construction is completed and where appropriate, the asset has been commissioned.

The economic lives have been estimated as follows:

Office equipment	5 years
Buildings, plant and equipment	5 to 40 years
Motor vehicles	4 years
Foundations	50 years
Electrical	20 to 50 years
Roading	50 years
Wind turbines – including tower, blades and components	5 to 40 years

All assets are included at acquisition cost less subsequent accumulated depreciation and accumulated impairment losses.

Assets are transferred from capital work in progress to property, plant and equipment when they are commissioned.

Intangible assets

Intangible assets are recognised if it is probable that expected future economic benefits relating to the intangible assets will accrue to the Group and the cost is able to be reliably measured.

The useful lives have been estimated as follows:

Land use consents and wind rights	36 years
Wind farm grid connection rights	20 years

The Group capitalises the direct costs associated with obtaining land use resource consents to build wind farms. Capitalised costs include external direct costs of services consumed, including expert advice directly associated with the land use consents, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project. Resource consents and other intangible assets, are initially recorded at cost, less amortisation calculated on a straight line basis and accumulated impairment losses.

Financial assets and liabilities

The Group's financial assets include cash and cash equivalents, short term deposits, electricity derivatives, trade and other receivables and convertible notes. These financial assets are recognised at their fair value at initial recognition. Financial assets are classified as 'loans and receivables' and fair value via profit and loss. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest method less any impairment.

The fair value of derivative contracts has been calculated based on *NZ IAS 39: Financial Instruments and Measurement*. This standard requires derivatives to be valued on a fair value basis, as defined under *NZ IFRS 13: Fair Value Measurement* as; "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The Group will recognise gains or losses from these contracts in the income statement on a net settled basis.

The Windflow derivative (option to convert) is part of the convertible notes and is recognised at fair value via profit and loss.

The Group's financial liabilities include trade and other payables and the finance lease liability. These financial liabilities are measured initially at fair value, net of transaction costs, and subsequently at amortised cost using the effective interest method.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages, salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

All provisions made in respect of employee benefits are expected to be settled within 12 months and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Leases

The Group leases certain plant and equipment.

Finance leases, which effectively transfer to the Group substantially all of the risks and benefits of ownership of the leased item, are capitalised at the lower of the fair value of the assets or present value of the minimum future lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Group is expected to benefit from their use. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Statement of Comprehensive Income.

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are included in the determination of net profit/(loss) in equal instalments over the period of the lease. Lease incentives received are recognised as an integral part of the total lease payments made and also spread on a basis representative of the pattern of benefits expected to be derived from the leased asset.

Impairment of assets

At each balance sheet date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Estimates of future cash flows are adjusted for the timing of tax payments and future capital expenditure, both of which have a material impact on future cash flows.

If the recoverable amount of an asset (cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the statement of comprehensive income.

If the recoverable amount of an asset (cash generating unit) is estimated to be more than its carrying amount, the carrying amount of the asset (cash generating unit) is increased to its recoverable amount. A reversal of impairment is recognised as a gain immediately in the statement of comprehensive income.

Statement of cash flows

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in short term money market instruments. The following terms are used in the statement of cash flows:

Operating activities are the principal revenue generating activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash and cash equivalents.

Financing activities are the activities that result in changes to the size and composition of the contributed equity and borrowings.

Contingent assets and liabilities

Probable inflows of economic benefits that arise from past events and whose existence will only be confirmed by the occurrence or non occurrence of an uncertain future event are considered contingent assets.

In cases where the possible outflow of economic resource as a result of a past event and that existence will only be confirmed by the occurrence or non occurrence of one or more uncertain future events and the present obligations are considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the balance sheet.

Goods and services tax (GST)

The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and payables, which include invoiced GST.

Share-based payment arrangements

Equity-settled share-based payments to directors and employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 9.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in the share option reserve within equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Changes in accounting policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent with those used in previous years.

New accounting standards

In the current year, the Group adopted all mandatory new and amended standards and interpretations. There are a number of other new and amended accounting standards and interpretations not yet effective that will be adopted when they become mandatory, detailed below. The Group does not intend to early adopt these standards.

NZ IFRS 9 Financial Instruments – effective for periods beginning 1 January 2018

NZ IFRS 9 includes a framework for classification and measurement of financial instruments and a single forward looking impairment model. The standard is not expected to have a significant impact on the financial statements but a full assessment has not yet been completed.

NZ IFRS 15 Revenue from Contracts with Customers – effective for periods beginning 1 January 2018

NZ IFRS 15 provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenue when (or as) the entity satisfies a performance obligation. The standard is not expected to have a significant impact on the financial statements but a full assessment has not yet been completed.

NZ IFRS 16 Leases – effective for periods beginning 1 January 2019

NZ IFRS 16 supersedes NZ IAS 17, with the main changes affecting lessee accounting only. The new leases standard eliminates the distinction between operating and finance leases for lessees. Assets and liabilities will from 1 July 2019 be recognised on balance sheet in respect of all leases, with the exception of certain short term leases and leases of low value assets.

1. INCOME TAX EXPENSE (BENEFIT)

For the year to	2017 \$000's	2016 \$000's
(Loss)/profit for the year before tax	910	(5,914)
Expected tax expense (benefit) at 28%	255	(1,656)
Adjustment recognised in the current year in relation to the current tax of prior years	-	3
Adjustment for non deductible expenses and non-assessable income		
Other income from Windflow Technology Limited Settlement	-	(283)
Other non deductible expenses	6	1
	261	(1,935)
Represented by:		
Deferred	261	(1,935)
Total tax expense (benefit)	261	(1,935)
Tax loss from previous years	69,187	62,594
Tax loss for year	6,187	6,593
Tax loss carried forward	75,374	69,187

Tax losses included in the table above have been recognised as deferred tax assets (refer note 7).

2. TRADE AND OTHER RECEIVABLES

As at	2017 \$000's	2016 \$000's
Trade debtors	803	474
less: provision for doubtful debts	-	-
Accrued income	131	118
Prepayments	71	75
Goods and services tax	-	31
Closing balance	1,005	698

Changes in the net carrying amount for provision for doubtful debts follow:

Opening balance	-	(931)
Provided in the current year	-	-
Recovered from the previous year	-	931
Other	-	-
Closing balance	-	-

Of the trade debtors \$52,189 (2016: nil) relate to balances not received by their due date.

As at 30 June 2017, the Group has not provided for any trade debtors not being recovered (2016: nil).

3. FEES PAID TO AUDITOR

	2017 \$000's	2016 \$000's
Audit of financial statements	50	47
Other assurance services	-	28
Total	50	75

Other assurance services relate to services performed by Deloitte Limited in their capacity as statutory auditors including half year procedures, technical accounting and scrutineering at the Annual Shareholders' Meeting.

4. PROPERTY, PLANT AND EQUIPMENT

The carrying book value amounts of property, plant and equipment are analysed as follows:

As at	2017 \$000's	2016 \$000's
Land		
Opening carrying amount	3,300	3,300
Closing carrying amount	3,300	3,300
Office equipment		
Opening carrying amount	54	32
Additions	5	62
Depreciation	(41)	(40)
Closing carrying amount	18	54
Buildings, plant and equipment		
Opening carrying amount	866	849
Additions	4	81
Depreciation	(64)	(64)
Closing carrying amount	806	866
Motor Vehicles		
Opening carrying amount	88	139
Additions	30	-
Disposals	(5)	-
Depreciation	(56)	(51)
Closing carrying amount	57	88
Foundations		
Opening carrying amount	1,851	2,121
Impairment	13	(222)
Depreciation	(43)	(48)
Closing carrying amount	1,980	1,851
Electrical		
Opening carrying amount	4,222	4,878
Impairment	13	(541)
Depreciation	(101)	(115)
Closing carrying amount	4,538	4,222

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

		2017	2016
		\$000's	\$000's
Roading			
Opening carrying amount		1,957	2,247
Impairment	13	169	(219)
Depreciation		(66)	(71)
Closing carrying amount		2,060	1,957
Wind Turbines			
Opening carrying amount		22,909	28,733
Additions		1,574	929
Disposals		(445)	(177)
Write off of retentions		-	(780)
Impairment	13	2,965	(3,842)
Depreciation		(1,645)	(1,954)
Closing carrying amount		25,358	22,909
Total property plant and equipment			
Opening carrying amount		35,247	42,299
Additions		1,613	1,072
Disposals		(450)	(177)
Write off of retentions		-	(780)
Impairment	13	3,723	(4,824)
Depreciation		(2,016)	(2,343)
Closing carrying amount		38,117	35,247

During the year ended 30 June 2017, the Group carried out a review of the carrying values of its assets in accordance with NZ IAS 36 - Impairment of Assets, and determined that a positive value in use adjustment was required of \$3,723,000 (2016: -\$4,824,000). Note 13 provides further information.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Represented by:

As at 30 June	2017 \$000's	2016 \$000's
Land		
Gross and Net carrying amount	3,300	3,300
Office equipment		
Gross Carrying amount	407	402
Accumulated depreciation	(389)	(348)
Net carrying amount	18	54
Buildings, Plant and equipment		
Gross carrying amount	1,437	1,433
Accumulated depreciation	(631)	(567)
Net carrying amount	806	866
Motor Vehicles		
Gross carrying amount	269	244
Accumulated depreciation	(212)	(156)
Net carrying amount	57	88
Foundations		
Gross carrying amount	4,651	4,651
Accumulated impairment	(2,149)	(2,321)
Accumulated depreciation	(522)	(479)
Net carrying amount	1,980	1,851
Electrical		
Gross carrying amount	12,593	12,593
Accumulated impairment	(5,226)	(5,643)
Accumulated depreciation	(2,829)	(2,728)
Net carrying amount	4,538	4,222
Roading		
Gross carrying amount	4,953	4,953
Accumulated impairment	(2,117)	(2,286)
Accumulated depreciation	(776)	(710)
Net carrying amount	2,060	1,957
Wind Turbines		
Gross carrying amount	81,383	80,254
Accumulated impairment	(37,141)	(40,106)
Accumulated depreciation	(18,884)	(17,239)
Net carrying amount	25,358	22,909
Total property plant and equipment		
Gross carrying amount	108,993	107,830
Accumulated impairment	(46,633)	(50,356)
Accumulated depreciation	(24,243)	(22,227)
Net carrying amount	38,117	35,247

5. INTANGIBLE ASSETS

Intangible assets are carried at cost less impairment, less annual amortisation over the estimated useful lives of the assets.

The cost to acquire the connection rights of the Te Rere Hau transmission asset to the national grid have been included as an intangible asset and amortised over the useful life of the asset.

The following amortisation methods and useful lives for intangible assets are:

	Amortisation Method	Useful life
Land use consents and wind rights	Straight line	36 Years
Wind farm grid connection rights	Straight line	20 years

Changes in the net carrying amount of intangible assets follow:

As at 30 June	2017 \$000's	2016 \$000's
Land use consent and wind rights		
Opening carrying amount	788	832
Impairment	16	(21)
Amortisation	(22)	(23)
Closing carrying amount	782	788
Grid connection		
Opening carrying amount	2,957	3,263
Impairment	42	(55)
Amortisation	(246)	(250)
Closing carrying amount	2,753	2,958
Total closing carrying amount	3,535	3,746

During the year ended 30 June 2017, the Group carried out a review of the carrying values of its assets in accordance with NZ IAS 36 - Impairment of Assets, and determined that a positive value in use adjustment was required of \$58,000 (2016: -\$76,000). Note 13 provides further information.

6. INVESTMENTS IN SUBSIDIARIES

As at 30 June	Percent Held	
	2017	2016
NZWL -TRH Limited	100%	100%
TRH Services Limited	100%	100%

NZWL-TRH Limited and TRH Services Limited are both 100% owned subsidiaries of the Company. NZWL-TRH Limited holds the Group's interest in the Te Rere Hau wind farm. TRH Services Limited is responsible for the operations and maintenance of the turbines at the Te Rere Hau wind farm.

7. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year follows:

As at 30 June	2017 \$000's	2016 \$000's
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The analysis of deferred tax assets and liabilities is as follows:

Deferred tax assets:

- To be recovered within 12 months	44	68
- To be recovered after more than 12 months	19,947	20,051
	19,991	20,119

Deferred tax liabilities:

- To be recovered within 12 months	-	-
- To be recovered after more than 12 months	(803)	(670)
	(803)	(670)
Deferred tax assets (net)	19,188	19,449

Movement in temporary differences during the year

Opening balance

Property, plant and equipment	669	238
Provisions	(602)	(260)
Losses	19,372	17,526
Other	10	10
Tax assets/(liabilities)	19,449	17,514

Recognised in profit (loss)

Property, plant and equipment	(1,837)	430
Provisions	(157)	(341)
Losses	1,732	1,846
Other	-	-
Movement in temporary differences	(261)	1,935

Closing balance

Property, plant and equipment	(1,168)	668
Provisions	(759)	(601)
Losses	21,105	19,372
Other	10	10
Tax assets/(liabilities)	19,188	19,449

Utilisation of the Group's recognised tax losses is considered probable as it is expected that sufficient tax profits will accrue in future periods. The ability to utilise the losses is also dependent on meeting certain Inland Revenue rules, including those in respect of shareholder continuity.

The tax depreciation applicable to the windfarm assets is significantly higher than the accounting depreciation in the early years of the project. This reflects the diminishing value method of depreciation applied for tax purposes and the higher depreciation rates allowed for tax. As this tax depreciation charge reduces over time taxable, profits are expected to be earned, as modelled in the impairment testing process. This modelling predicts tax losses to peak in 2017 (2016: 2019) and be fully utilised from that point until 2037 (2016: 2034).

No movements in deferred tax have been recognised directly in equity.

8. TRADE AND OTHER PAYABLES

As at 30 June	2017 \$000's	2016 \$000's
Trade payables	520	676
Accrued expenses	196	250
Employee entitlements	91	176
Goods and services tax	6	-
Closing balance	813	1,102

The Directors consider the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value. Trade payables are generally settled within 30 days.

9. EQUITY

As at 30 June	2017 \$000's	2016 \$000's
Opening issued share capital	107,005	107,005
Closing issued share capital	107,005	107,005
Retained earnings		
Opening balance	(46,462)	(42,483)
Net profit (loss)	649	(3,979)
Closing retained earnings	(45,813)	(46,462)
Closing balance	61,192	60,543

Share capital

As at 30 June 2017 share capital comprised 288,063,584 ordinary shares (30 June 2016: 288,063,584).

The shares are fully paid and have no par value.

All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at shareholders' meetings of NZ Windfarms Limited.

Dividends

No dividends are proposed by the Directors for the year ended 30 June 2017.

9. EQUITY (CONTINUED)

Share Options

Details of the share option plan

During the year, the Company entered into a share option plan for two of its directors and its chief executive officer. In accordance with the terms of the said plan, the two directors and the chief executive officer are granted options to purchase ordinary shares in the company subject to vesting conditions under the plan. During the year to 30 June 2017, the Company issued 14,500,000 share options.

Each share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipients on receipt of the share options. The options carry no voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry which is the earlier of the termination of services date or 3 years from the date of grant.

The following share based payment arrangements were in existence during the year:

Number of options	Grant date	Expiry date	Exercise price	Fair value at grant date
5,750,000	14-Dec-16	14-Dec-19	12.5c	0.72c
5,750,000	14-Dec-16	14-Dec-19	15.0c	0.42c
1,500,000	15-Mar-17	15-Mar-20	12.5c	0.72c
1,500,000	15-Mar-17	15-Mar-20	15.0c	0.42c

Of the total number of options granted above, 11,500,000 share options vested immediately. The remaining 3,000,000 options will vest in three equal tranches with the first tranche on 15 March 2017 and then subsequently on 15 March 2018 and 15 March 2019 respectively.

Fair value of share options granted in the year

The share options were priced using a standard share options valuation model.

The valuation of the share options assumes that the options can be sold prior to maturity. Two years in substitution for the three year life of the share options is used with reference to other comparable firms where exercise dates typically occur on average half way through the life of the share options. Significant inputs to the valuation model are disclosed below:

Inputs into the model	2017
Grant date share price	8c -8.4c
Exercise price	12.5c – 15.0c
Annualised standard deviation	0.36
Option life	2 years
Risk-free interest rate	2.3%

Share based payments expenses for the year ended 30 June 2017 are not material.

No share options have been exercised as at 30 June 2017.

10. EARNINGS AND NET TANGIBLE ASSETS PER SHARE

The basic and diluted earnings per share are calculated using the net result attributable to shareholders of the Company as the numerator.

For the year ended	2017 \$000's	2016 \$000's
Net profit (loss) for the year	649	(3,979)
Number of shares on issue over year (000's)	288,064	288,064
Basic and diluted earnings (loss) per share	\$0.00	\$(0.01)
Net tangible assets per share		
As at 30 June	2017 \$000's	2016 \$000's
Net assets	61,192	60,543
Less:		
Intangible assets	3,535	3,746
Deferred tax	19,188	19,449
Net tangible Assets	38,469	37,348
Number of shares on issue over year (000's)	288,064	288,064
Net tangible assets per share	\$0.13	\$0.13

The net tangible assets per share is calculated using the total equity less intangible assets and deferred tax attributable to shareholders of the Company as the numerator.

11. RECONCILIATION OF PROFIT (LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATIONS

For the year to 30 June	Notes	2017 \$000's	2016 \$000's
Net profit (loss) attributable to equity holders of the company		649	(3,979)
Non Cash Items:			
Depreciation	4	2,016	2,343
Amortisation of intangible assets	5	268	273
Deferred taxation		261	(1,935)
Convertible notes	16	-	(11)
Provision for doubtful debts		-	-
Loss on sale of fixed assets		218	153
Impairment of non-current assets	13	(3,781)	4,900
		(369)	1,744
Changes in working capital			
Retentions write-off to wind turbines		-	780
Trade and other payables		(262)	(743)
Inventories		113	(51)
Trade and other receivables		(307)	335
Net cash flow from operating activities		(825)	2,065

12. CASH AND CASH EQUIVALENTS

As at 30 June	2017 \$000's	2016 \$000's
Operating accounts	133	18
On call accounts	1,158	788
Term deposits	-	1,800
Closing balance	1,291	2,606

13. TE RERE HAU WIND FARM ASSET IMPAIRMENT

The Group has only one cash generating unit which is the Te Rere Hau wind farm. The value in use method has been used to establish the carrying value of the assets of the wind farm using a remaining life of thirty five years from 30 June 2017 with no terminal value. The remaining life is based on the turbine manufacturers design life for the turbines and the group's long term replacement strategy for the major turbine components. During the year ended 30 June 2017, the Group carried out a review of the carrying values of the assets in accordance with NZ IAS 36 - Impairment of Assets, and determined that a positive impairment adjustment of \$3,871,000 is required (2016: \$-4,900,000). The impairment has been allocated to property plant and equipment and intangible assets (refer notes 4 and 5). The details of the key assumptions including changes made from 30 June 2016 are set out below.

Electricity price

The wholesale electricity price path used is based on the prices quoted on the 30 June 2017 ASX futures market prices through to December 2020 (the extent of the ASX futures market at 30 June 2017) and thereafter the latest PricewaterhouseCoopers (PWC) Price Path, released in June 2017. Both ASX futures market prices and PWC prices are Otahuhu node (OTA) prices.

This contrasts with the price path used in the FY2016 accounts, which employed the Ministry of Business, Innovation and Employment (MBIE) electricity price path. This was seen by many in the industry as high, and better suited to long run marginal cost modelling associated with the evaluation of new plant build decisions.

The Otahuhu node prices are reduced to allow for location (4.5%) and for the weighted average price received for generation by the wind farm at the connection node Tararua Wind Centre (TWC) as compared with the average spot price (11%). The reductions are based on historical actual results and remain unchanged from 30 June 2016.

Output

Output for the 2017 financial year reached 124.6 GWh (2016: 129.6 GWh), around 4% below forecast. The wind farm experienced prolonged low wind resource conditions through April, May and June, where generation was around 30% below average for these months. If average production had been achieved in April, May and June, total production for the year would have exceeded the 130GWh forecast by 3GWh.

Operating costs

Significant progress has been made on managing the operation of the turbine fleet. Turbulence intensity curtailment previously in place on just eleven of the turbines was rolled out across the whole fleet in early April. Curtailing in turbulent conditions is forecast to reduce turbine mechanical wear and damage. Early indications through May and June have confirmed this logic. Reduced forecast mechanical failure due to curtailment has permitted the Company to reduce mechanical labour, and the NZX was advised on 7 June that this created a positive change in the impaired value of the assets of \$2.4m. Three technical roles were disestablished later in June with annual savings of around \$200k.

The company has been particularly focussed on turbine short run marginal cost, as this can be readily benchmarked. Current and proposed curtailment is forecast to reduce the whole-fleet short run marginal cost. This will then be nearing industry performance standards and provides confidence in the Company's ability to efficiently run the plant, and provides a degree of surety on the underlying robustness of the turbine.

13. TE RERE HAU WIND FARM ASSET IMPAIRMENT (CONTINUED)

Mid-life refurbishment

The model assumes a mid-life refurbishment of the turbines is performed when the fleet age is around 25 years, in 2031, thereby allowing the existing turbines to operate for a further fifteen years up to age forty. A substantial part of the cost of the turbine is contained in the structural components such as the tower and blades. These components have an operational life of well in excess of fifty years. Conversely experience has shown that other major components have operational lives that are less than the twenty year design life of the turbines and these components are being replaced progressively over time. The mid-life refurbishment has been costed out to renew the non-wear turbine components at around \$200k per turbine in 2017 dollars, escalated to 2031 costs.

Inflation

Inflation is based on the predicted long term Consumer Price Index. The current rate is 2% and remains unchanged from 30 June 2016.

Discount rate

The discount rate used in the impairment model is a PWC calculated weighted average cost of capital (WACC), which is 7.65%. This contrasts with the rate used in the 2016 accounts which was the MBIE 10% real and after tax discount rate, which was intended for use in the modelling of long run marginal cost of energy, alongside use of their forward electricity price path.

The PWC price path is based on the ASX futures curve and is updated twice annually.

Other changes

The remaining changes in the impairment model result from the roll forward of the model and the reduction in the carrying value of the property plant and equipment, intangible assets and working capital.

Sensitivity to changes in the assumptions

The assumptions set out above have resulted in the enterprise value in the impairment model being sufficient to support the carrying value of the Group's property, plant and equipment, intangible assets, and net working capital assets (excluding cash and financing facilities) after recognition of the impairment reversal. However due to the thirty four year time horizon and variability of the metrics upon which the key assumptions are based the valuation is sensitive to any change in the assumptions. The following table shows the impact of a plus or minus 5% change in each of the key assumptions.

Assumption	Additional value (impairment)	
	+5% movement \$000's	-5% movement \$000's
Electricity price or output	5,543	(1,176)
Operating costs	(2,535)	2,515
Inflation rate	758	(786)
Discount rate	(17,846)	50,424

14. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs include all interest-related income and expenses. There has been no interest capitalised during 2017 (2016: nil).

15. RELATED PARTY TRANSACTIONS

Vector Limited is a related party holding 22.11% of the shares in NZ Windfarms Ltd.

NZ Windfarms Limited has negotiated an arms-length agreement with Vector Limited whereby Vector provides control room services. In the year ended 30 June 2017, \$120,000 of fees was paid to Vector Limited (2016: \$120,000).

Key management

Key management personnel short term employee benefits, including remuneration to Directors, was \$734,000 during the year ended 30 June 2017 (2016: \$627,000).

Directors remuneration

Directors' remuneration of \$145,625 was paid and expensed during the year (30 June 2016: \$171,250).

16. WINDFLOW TECHNOLOGY LIMITED

Convertible notes held in Windflow Technology Ltd were valued as at 30 June 2017 at \$11,000 (2016: \$11,000). The value was reduced to \$11,000 as at 30 June 2016 predominantly due to Windflow Technology Limited advising that interest payments were being suspended due to that Company's financial position, as provided for in the agreement.

17. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Bank guarantee

The Bank of New Zealand ("BNZ") has provided a bank guarantee of \$10,058,000 to lines company Powerco on behalf of the Company. The guarantee relates to finance and operating leases that permit NZ Windfarms use of Powerco-owned wind farm electrical reticulation assets. The obligation of BNZ under the current guarantee terminates on 30 November 2017. The guarantee is secured by way of security interests over the Group's present and after-acquired property, including first mortgages over the Group's land and a specific security interest over \$6,500,000 of cash deposited with the BNZ. Therefore this amount in the term deposit balance is a restricted balance.

The Company signed a binding sale and purchase agreement on 3 August 2017 to purchase the electrical reticulation assets that are the subject of the guarantee from Powerco, with settlement scheduled to occur on 29 September 2017. At settlement, the bank guarantee will no longer be required and will cease.

Resource Consent

Palmerston North City Council (PNCC) has initiated a review of the Company's resource consents under section 128 of the Resource Management Act 1991 due to the inaccuracies identified in the original Assessment of Environmental Effects for the Te Rere Hau Wind Farm. The review is being conducted within the terms of a Memorandum of Understanding in place between the Company and PNCC that sets out how the review process will occur. This action will likely result in a number of the noise and other general conditions of consent being amended. A number of amendments to conditions have been agreed with PNCC, and a planning hearing is scheduled to occur from 12 September to 15 September 2017. The Company has been engaging with near neighbours to understand concerns and trialled a noise curtailment regime from 1 July. Three independent commissioners will preside over the hearing. The estimated cost of the hearing is expected to be \$100,000.

The commissioners are likely to make a decision in late 2017 and submitters have rights of appeal to the Environment Court.

18. CAPITAL COMMITMENTS

The Group had \$186,698 of capital commitments as at 30 June 2017 (2016: \$422,000).

19. FINANCE LEASE

On 8 October 2007 the subsidiary, NZWL-TRH Limited, entered into a 20 year agreement to lease an internal electricity gathering system from lines company subsidiary Powerco Transmission Services Ltd, which connects the turbines at Te Rere Hau to the onsite sub-station. The finance lease commenced in September 2008 and was increased during the 2011 financial year to include the internal electricity gathering system to connect the Stage 4 turbines to the onsite sub-station. At the end of the lease NZWL-TRH Limited has the option to acquire the assets for a nominal price.

New Zealand Windfarms has contracted to purchase the transmission assets that are the subject of the finance lease, and an operating lease, with settlement scheduled to occur on 29 September 2017. The vendor, Powerco Transmission Services and NZ Windfarms signed a binding sale and purchase agreement for the transaction on 3 August 2017. At settlement, the finance lease will be extinguished.

The lease liability is as follows:

Minimum future lease payments		
As at 30 June	2017	2016
	\$000's	\$000's
Non-cancellable lease commitments:		
Within 1 year	1,438	1,418
1 to 5 years	5,919	5,855
More than 5 years	9,526	11,027
Minimum lease payments	16,883	18,300
less future finance charges	(7,997)	(8,941)
Present value of minimum lease payments	8,886	9,359
As at 30 June	2017	2016
	\$000's	\$000's
Non-cancellable lease commitments:		
Within 1 year	514	474
1 to 5 years	2,517	2,324
More than 5 years	5,855	6,561
Present value of minimum lease payments	8,886	9,359
Included in the Financial Statements as:		
Finance lease - current	514	474
Finance lease - non-current	8,372	8,885

The interest rate inherent in the lease was fixed at the contract date for the entire lease term. The annual interest rate is 8% per annum. The Group considers the present value of the lease payments shown above to be equal to the fair value of the future lease payments.

20. OPERATING LEASES

The Group has operating leases and the minimum operating lease payments are:

As at 30 June	2017 \$000's	2016 \$000's
Lease payments expensed during the year	902	895
Non-cancellable lease commitments:		
Within 1 year	913	906
1 to 5 years	3,772	3,749
More than 5 years	6,299	7,303
Total operating lease commitments	10,984	11,958

The Group is party to four wind rights agreements for the Te Rere Hau Wind Farm Eastern Extension. The landowners own the land on which 32 installed turbines are located. Under the agreements, in return for the wind farm development rights, the Group pays the landowners royalties. The periods of the agreements, including renewals, are for between 40 and 50 years.

On 8 October 2007, the Group entered into a 20 year agreement to lease an internal electricity gathering system that connects the onsite sub-station to the Trustpower sub-station, which in turn connects to the national grid. The operating lease commenced in September 2008. As outlined above, on 1 August 2017 NZ Windfarms contracted to purchase the electricity reticulation assets which at settlement (scheduled to occur on 29 September 2017) will extinguish this operating lease.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group is exposed to a variety of financial, operating and investing risks. Key risks that affect the Group include:

Electricity price risk

The Group sells electricity on the wholesale spot market. This market sets prices according to demand and accordingly there is uncertainty about the returns that can be achieved from the sale of electricity based on the wholesale electricity spot price.

For an increase in average electricity spot price of \$10/MWh there would be an equal and opposite impact on profit and equity.

The Company began trading electricity futures on 20 June 2017. Each contract is a standardised 'contract for difference' for the sale of 0.1MW of electricity into the NZ wholesale market at the Otahuhu or Benmore pricing node at a specified future date. They are openly traded on the Australian Securities Exchange (ASX). At 30 June, the Company held 57 quarterly sale contracts from Q3 2017 to Q2 2018, ranging in price from \$70.80/MWh to \$130.00/MWh.

We have applied the market approach to valuing the contracts by valuing them as the difference between the contracted price and the market settlement price as at 30 June 2017. The face value of the contracts in place as at 30 June was \$1,158,353 and the fair value was \$1,153,423. At 30 June 2017, \$125,788.68 was held on account with the Company's broker. The current liability associated with contracts expiring before June 2018 is \$4,930.

Concentration of credit risk

In the normal course of business, the Group incurs credit risk from transactions with financial institutions and other counterparties e.g. for the sale of electricity. The Group has a Treasury policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Directors and are monitored on a regular basis. Financial instruments which potentially subject the Group to credit risk consist of cash, funds on deposit and trade receivables.

The Group places its cash and funds on deposit with approved registered banks with limits on the amount of exposure to any one financial institution.

Electricity generated from the Te Rere Hau wind farm is sold on the spot market to the Clearing Manager (Energy Clearing House Limited). The Clearing Manager acts as a broker for all the wholesale market participants, meaning a concentration of credit risk. The Group does not generally require or hold collateral against credit risk.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is monitored by continuously forecasting cash flows and matching them with the maturity profiles of financial assets and liabilities.

Interest rate risk

The Group's income and operating cash flows are affected by changes in market interest rates. The Group has been primarily exposed to interest rate risk as a result of placing surplus funds on term deposits for up to 360 days.

A decrease in the average deposit interest rates by 10 basis points would have decreased interest income by approximately \$8,000 (2016: \$10,000). For an increase in average deposit rates by 10 basis points there would be an equal and opposite impact on profit and equity.

Fair values of financial instruments

The carrying amounts of cash and cash equivalents, short term deposits, trade and other receivables and trade and other payables are approximately equivalent to their fair value because of the short term to maturity and because surplus funds on deposit are placed with approved registered banks with limits on the amount of exposure to any one financial institution.

Capital management

The Group's capital structure includes share capital and retained earnings.

The Group's capital is managed at Company level. The Group's capital structure is managed and adjustments are made, with Board approval, to the structure in light of economic conditions at the time. There were no changes to objectives, policies or processes during the current financial year.

22. SEGMENT ANALYSIS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Board of Directors, in order to allocate resources to the segment and to assess its performance.

The NZ Windfarms Group operates in one segment, being the generation for sale of electricity to the national grid in New Zealand. Sales of electricity are made via Energy Clearing House Limited, representing 100% of the Group's trading revenue.

As there is only one reportable segment for the Group the segment profit represents profit earned for the segment after all costs including all administration costs, Directors' fees, salaries, interest revenue, finance costs and income tax expense.

The Board makes resource allocation decisions to this segment based on the expected cash flows and results of Group operations as a whole. No operations were discontinued during the year. For the purposes of monitoring segment performance and allocating resources to the segment, the Board monitors the tangible, intangible and financial assets attributable to the segment. All assets are allocated to the reportable segment.

23. IMPUTATION CREDIT ACCOUNT

Dividends paid by New Zealand resident companies may include imputation credits representing the taxation already paid by the Group on the profits distributed. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credit attached to the dividends. Overseas shareholders in general are not entitled to claim the benefit of imputation credits.

The movements in the imputation credit account are detailed below:

For the year to 30 June	2017	2016
	\$000's	\$000's
Credit at beginning of the year	1,159	1,159
Income tax refunded	-	-
Credit balance at end of the year	1,159	1,159

24. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Other than those events already disclosed within the financial statements (refer notes 17 & 19), there were no other significant events subsequent to balance date.

Independent Auditor's Report

To the Shareholders of NZ Windfarms Limited

Opinion

We have audited the consolidated financial statements of NZ Windfarms Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 30 June 2017, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 23 to 47, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in NZ Windfarms Limited or any of its subsidiaries.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be \$151,000.

Key audit matters

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

Key audit matter

How our audit addressed the key audit matter and results

Impairment assessment of the Te Rere Hau wind farm assets (Notes 4, 5 and 13)

The Group's wind farm assets at 30 June 2017 include \$38.1m of property, plant and equipment and \$3.5m of intangible assets as described in Notes 4 and 5, respectively. A reversal of impairment loss of \$3.781m was recorded in profit or loss in relation to these assets during the year.

The Group assesses the wind farm assets for indicators of impairment or whether an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indications exist, the Group shall estimate the recoverable amount of the wind farm assets at reporting date.

Our audit procedures included assessing the methodology and key inputs to the value in use model. We assessed the overall appropriateness of the model and in particular whether the changes to the model from the prior period were appropriate and we checked the mechanical accuracy of the model.

We involved our internal valuation experts in assessing the Group's forecasting of the electricity price path, discount rate, and inflation rate to determine whether they are consistent with available market data.

The Group performed an impairment assessment of wind farm assets at 30 June 2017 using the value in use method. For the purpose of impairment assessment, the wind farm is considered to be one cash generating unit ('CGU'). The recoverable amount of the CGU was determined using a discounted cash flow analysis which reflects a number of unobservable inputs including the electricity price path, generation volumes, operating costs, mid-life refurbishment costs, inflation rate and discount rate as described in Note 13.

We identified the impairment assessment as a key audit matter due to the significance of the wind farm assets to the financial position of the Group and the significant judgement involved in determining the value in use of the CGU.

We assessed the annual generation volume of the wind farm and the long range windspeed and direction in the current and previous periods to ensure this supports the assumptions used in the model.

We compared the forecast operation costs to approved budgets and agreed a sample of items to supporting cost documentation.

We evaluated the Group's estimate of the mid-life refurbishment cost by obtaining pricing documentation for the components that will need to be replaced.

We also assessed the historical accuracy of the Group's previous budget forecasts by comparing prior year budgets to actual performance.

We evaluated the Group's sensitivity analysis on the key assumptions applied in the valuation model to determine the extent to which any changes would affect the recoverable amount of the CGU.

Recognition of deferred tax assets (Note 7)

As at 30 June 2017 the Group has recognised a net deferred tax asset of \$19.2m primarily relating to tax losses arising in the current and prior financial reporting periods. As outlined in Note 7, tax depreciation applicable to wind farm assets are significantly higher than the accounting depreciation in the early years of the windfarm operations.

The recognition of deferred tax assets involves judgement by the Group about the likelihood of realisation, which is dependent on future taxable profits being sufficient to offset the accumulated tax losses and the Group meeting the shareholder continuity requirements to carry forward the losses.

In assessing the recoverability of the deferred tax asset, the Group prepared detailed forecasts of the taxable profits expected to be generated from the wind farm over its life.

We identified this as a key audit matter due to the significance of the deferred tax asset to the financial position of the Group and the judgement applied by the Group in determining the extent to which a deferred tax asset should be recognised for the Group's accumulated tax losses.

We evaluated the Group's assessment of whether there would be sufficient taxable profits in future periods to support the carrying value of the deferred tax asset. We confirmed that the assumptions used in the forecasts of taxable profit were consistent with the assumptions applied in the value in use model used to assess the recoverable amount of the wind farm assets. We challenged the key assumptions in the value in use model as described above.

We also considered whether the recognition of additional deferred tax assets in relation to current year tax losses would be appropriate.

We examined correspondence with the Inland Revenue Department supporting the Group's calculation of available tax losses.

We evaluated the Group's assessment that it met the shareholder continuity requirements under New Zealand tax legislation in the current financial reporting period and considered whether there is a reasonable basis for the Group's assessment that it will continue to meet these requirements in future periods.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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 objectives are 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 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 and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

**Trevor Deed, Partner
for Deloitte Limited**
Wellington, New Zealand
25 August 2017

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Stuart Bauld of Auckland (Deputy Chair)
John Southworth of Auckland

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