NZ WINDFARMS LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

Contents

OVERVIEW

Welcome to the interim report for the six months to December 2017. I'd like to start by noting our continued strong progress in transforming the company, alongside my fellow directors Stuart Bauld (Deputy Chairman), John Southworth who chairs our audit and remuneration committees, our Chief Executive John Worth, and his team. At the annual general meeting (AGM) we promised change; we are now seeing tangible improvements from the big changes we started making early in 2017.

The first half of the 2017/18 year has been particularly significant for NZ Windfarms (NWF). Since its inception the company has been engaged in legal debate with Palmerston North City Council over the original noise consents and compliance with them. In December, a new set of operating parameters were agreed, such that this litigation is now firmly behind us; a significant milestone for the company. This was achieved in close collaboration with our neighbours without recourse to the Environment Court.

We continue to evolve our dynamic curtailment regime that governs how the turbines operate, essentially protecting them from high-wear turbulent wind conditions. After extensive engagement through 2017, we obtained some operating relief from the industry regulator, the Electricity Authority, which permits us to curtail in response to wind conditions and price. In December, we put a multi-axis version of this in place, and now every turbine on the wind farm "decides" when to operate based on a range of wind parameters and price. In the first half of the year we have not had a single gearbox failure, compared to a six-month failure rate of 6 in the previous year; it is clear to us we have really moved the dial on reducing mechanical costs.

On 29 September 2017, we took ownership of the Powerco electrical reticulation assets on the wind farm as planned. We thank our shareholders for near-unanimous votes in support of the transaction and the accompanying debt facility at the AGM. We are now realising the forecast $700k/annum savings. We have achieved further savings in the business since then; stock levels have been reduced as a function of reduced mechanical failure rates, and in October we restructured out a senior role no longer required under our new leadership regime. Alongside improved underlying financial performance, the Powerco transaction permitted us to pay a $2.45m maiden dividend in the half year. The hedging programme was fully in place for the first two quarters of the year, providing income in both quarters and importantly providing a degree of insurance against low market pricing.

The impact of all these initiatives is baselined higher revenues alongside a significantly lower cost base, supporting greater profitability. These steps were always available to the organisation; simply put, in 2017 we put them firmly in place.

As we went into Christmas we reflected on our strategic goals. With the issue of the favourable noise consent decision in December, we have achieved all of our "internal" reconfiguration objectives; curtailment regimes are working, reduced mechanical costs are being achieved, the Powerco assets have been successfully purchased with the attendant capital restructuring, staff optimising and cost saving is complete, the maiden dividend has been paid and hedging is in place. Specifically, since the AGM we have:

- Bedded in our new management structure under CEO John Worth
- Eliminated one General Manager role delivering annual savings of over $200k
- Taken ownership of the Powerco electrical assets realising savings of c$700k/annum
- Established the company's first debt facility of $12.3m
- Met our first debt facility banking covenants
- Banked hedging revenues from Q1 and Q2, with 12 months forward hedge cover in place
- Implemented advanced curtailment
- Significantly reduced mechanical failure rates and costs
- Brought noise litigation proceedings to an end
- Paid the maiden dividend

What this allows us to do in 2018 is to turn our attention to the critical "external" initiatives that will further transform this company. The impact of these initiatives on the value in use of the assets is likely to be positive and will be calculated as is customary at year end (30 June 2018).

We are now working hard on acquiring alternative fuel generation capacity. We are committed to renewables, and we see a number of high quality options in the market. We will provide further detail on these in coming months. It is our view that a changed generation mix will markedly improve our electricity sales position. We remain cautious around the outlook for electricity retail; we are starting to see a value shift away from retail and towards wholesale, where we currently operate. We will continue to assess retail options and the vertical integration this provides.

ELECTRICITY REVENUE

The half year to date has been characterised by relatively low production, offset by strong pricing and hedging revenues. Total production was 52.4GWh with electricity revenue at $4.2m. Average wholesale market pricing received was $79.55/MWh of generated revenue, and when hedging revenues are taken into account this increased by c6% to $84.68/MWh. Much of 2017 was marked by poor wind conditions underlying the value in financial hedge contracts. Our exposure to seasonal weather swings with our single wind farm asset remains challenging for the company; changing this exposure through the addition of new fuel remains a key focus.

The ASX futures curve remains strong through 2018 and 2019. While we typically see dry-year risk priced in around twelve months ahead, futures pricing for 2019 remains, at the time of writing, stronger than 2018, potentially indicating a settling of supply and demand issues that the industry has grappled with over the last 5 to 8 years.

OPERATIONAL PERFORMANCE

Operational performance for the first half has been very strong, with a significant drop in failure rates of key components. While this is due in part to sustained low-wind conditions, the scale of reduction in failure rates is such that we are confident that curtailment regimes in place are bearing fruit.

A short summary of the change in key component failure rates is presented in Table 1 below:

Table 1; Key component failure rates comparison

Key Component	FY2017 – failure rate per 6 months	First half FY2018 – failure rate per 6 months
Gearboxes	6	0
Pitch Bearings	17	12
Generators	1.5 (3 for full year)	0
Torque Limiting Pumps[1]	38	12

Note 1; Torque limiting pump failures are particularly sensitive to windy conditions, this lower failure rate likely reflecting sustained low wind conditions.

The company's hypothesis is that the turbine platform is inherently robust, such that when the turbine fleet is operated with an intelligent curtailment regime to minimise wear and damage in aggressive wind conditions, significantly enhanced component life can be achieved. This is certainly being achieved, with direct savings being realised in the half year to 31 December 2017. We closely watch industry benchmarks on the full fleet wind turbine short run marginal cost achieved by wind farm operators, and it is our view that for a comparable scale fleet and fleet age, we are approaching parity.

We continue to mature our direct relationships with suppliers, allowing us to carry lower spares inventory and to reduce the turbine cost to service.

FINANCIAL PERFORMANCE

The company achieved strong performance on both the revenue and cost sides of the ledger for the six months to 31 December 2017. Total revenues were $4.3m offset by derivatives net position of -$75k and a cost base of $2.2m, to yield an EBITDA for the period of $2.0m.

The Board and CEO have successfully implemented an organisational culture where decision making is driven by forward price expectations. Team sizing and component repair/replace/substitution decisions reflect the electricity forward price profile (the ASX curve) and optimise use of funds. When combined with intelligent curtailment and regulatory relief permitting curtailment based on wind conditions and price, we are now more in control of our financial performance than ever before.

RESOURCE CONSENTS

At the AGM we outlined our commitment to working with near neighbours to sustainably resolve long standing noise issues. This commenced with a voluntary curtailment regime we put in place in July, and since early 2017 we have been working closely with our community to understand their concerns. At the consent conditions hearing in September and in conjunction with neighbours we proposed a new set of operating conditions focussed on the low-wind start up speed of three turbines located close to residences, and the replacement of a gearbox in one of the same turbines with a quieter model. The commissioners accepted these proposals in their November decision, and no valid appeals were lodged, bringing a long period of noise litigation to an end. We remain committed to continuing to work closely with our neighbours to achieve a sustainable operating position. Putting noise litigation behind us will yield significant savings for the company.

CAPITAL MANAGEMENT

The Powerco transaction was a key move in the maturation of the company. The transaction facilitated a maiden dividend and provides annual savings of c$700k/annum. In addition, it is particularly unusual for an infrastructure owner to have no debt, and the poor use of the $8m bond guarantee and strong cash reserves certainly contributed to less than optimal behaviours at the company. With the $12.3m debt facility (and attendant covenants) in place, the organisation must be much more rigorous in managing expenditures and in hedging revenues. We are seeing this rigour from our leadership team, and we met our December 2017 first banking covenants with ease.

Making the organisation utilise capital better is a key step as we prepare for further significant acquisitions around fuel mix. We see that good financial management, appropriate leveraging and company bankability go hand in hand.

OUTLOOK

As we march into 2018, we reflect that in the half year to Dec 2017 we have completed all of the internal tidy-up work essential to optimising the performance of our business as it stands today. This is significant for two reasons; we have configured this organisation to be as profitable as possible, and secondly, we have been able to free up our small team to seriously contemplate the road ahead. Our new capital structure eliminates laziness from our balance sheet and prepares us for further acquisitions.

Also I am sure that you have noted the exit of Vector from the share register late in February 2018. This exit opens up new opportunities for the company to flourish in the second half of the year. I warmly welcome our new shareholders to the company.

We are very committed to changing our fuel mix as a priority. Single fuel generation is problematic, particularly when that fuel is the most variable of them all; wind power. We have identified a range of options to do this and we will advise of our progress in coming months. We have an exceptional team in place, under CEO John Worth's leadership, and fresh out of the Powerco transaction we know we can work through major acquisitions.

We, the board, and our management team will continue to work relentlessly to make this company profitable, and to reconfigure it for success. We've taken many of the essential steps and this permitted us to pay a maiden dividend.

With our 2017 strategic moves bearing fruit and with the current state of the market, and all other things being equal, profitability is on track for a good full year result.

Rodger Kerr-Newell
Chairman
28 February 2018

	Notes	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Income				
Electricity sales		4,168	2,869	5,981
Derivative income	**6**	(75)		
Other income		99	-	97
Total income (excluding interest income)		**4,192**	**2,869**	**6,078**
Administration expenses		139	189	359
Audit fees		24	24	50
Directors' fees	**15**	90	64	146
Employment expenses		756	1,012	1,888
Insurance		59	56	107
Lease and rental expenses	**10**	245	450	902
Legal and consulting expenses		325	265	387
Te Rere Hau wind farm operational expenses		491	955	1,758
Other operating expenses		100	94	201
Total operating expenses		**2,229**	**3,109**	**5,798**
Profit before interest, impairment, amortisation, depreciation, and tax		**1,963**	**(240)**	**280**
Interest income		69	155	296
Interest expense		(440)	(474)	(944)
Profit before impairment, amortisation, depreciation, and tax		**1,592**	**(559)**	**(368)**
Impairment of Te Rere Hau wind farm	**14**	-	-	(3,781)
Depreciation	**2**	1,152	1,003	2,016
Loss on disposal of property, plant and equipment	**2**	23	112	219
Amortisation	**3**	136	134	268
Change in fair value of financial instruments	**7**	227	-	-
Loss on derecognition of finance lease	**10**	36	-	-
Profit before tax		**18**	**(1,808)**	**910**
Income tax expense (benefit)	**1**	5	(506)	261
Profit after tax for the period		**13**	**(1,302)**	**649**
Basic and diluted earnings/(loss) per share	**17**	**$ 0.00005**	**$ (0.00452)**	**$ 0.00225**

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

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 17.

	Notes	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Assets				
Current assets				
Cash and cash equivalents		1,524	1,143	1,291
Term Deposit		-	8,000	6,500
Trade and other receivables		1,163	554	1,005
Inventories		972	1,331	1,244
Total current assets		**3,659**	**11,028**	**10,040**
Non-current assets				
Property, plant and equipment	**2**	45,733	34,817	38,117
Intangible assets	**3**	3,399	3,611	3,535
Convertible notes	**16**	11	11	11
Deferred and provision for tax		19,184	19,956	19,188
Total non-current assets		**68,327**	**58,395**	**60,851**
Total assets		**71,986**	**69,423**	**70,891**
Liabilities				
Current liabilities				
Trade and other payables		702	1,054	813
Current portion of finance lease	**10**	-	494	514
Current portion of BNZ term loan	**11**	946	-	514
Derivative liability	**7**	227	-	
Total current liabilities		**1,875**	**1,548**	**1,841**
Non-current liabilities				
Finance lease	**10**	-	8,634	8,372
BNZ Term Loan	**11**	11,354	-	-
Total non-current liabilities		**11,354**	**8,634**	**8,372**
Equity				
Share capital		107,005	107,005	107,005
Retained (loss)/earnings		(48,248)	(47,764)	(45,813)
Total Equity	**4**	**58,757**	**59,241**	**61,192**
Total equity and liabilities		**71,986**	**69,423**	**71,405**
Net tangible assets per share		**$ 0.13**	**$ 0.12**	**$ 0.13**

Signed for and on behalf of the Board as at 28 February 2018

Rodger Kerr-Newell
Chairman

Stuart Bauld
Deputy Chairman

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 17.

	Notes	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Equity at beginning of period		61,192	60,543	60,543
Profit (Loss) after tax for the period		13	(1,302)	649
		61,205	**59,241**	**61,192**
Dividend Paid		2,448	-	-
Equity at end of period		**58,757**	**59,241**	**61,192**
Represented by:				
Share capital		107,005	107,005	107,005
Retained earnings (loss)		(48,248)	(47,764)	(45,813)
Total equity	**4**	**58,757**	**59,241**	**61,192**

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 17.

	Notes	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Operating activities				
Cash was received from:				
Trading revenue		3,999	2,936	5,738
Derivatives		(75)	-	-
Interest received		200	245	282
Other income		99	-	53
		4,223	**3,181**	**6,073**
Cash was applied to:				
Interest paid		518	475	945
Payments to suppliers and employees		2,105	3,353	5,953
		2,623	**3,828**	**6,898**
Net cash inflow/(outflow) from operating activities	**5**	**1,600**	**(647)**	**(825)**
Investing activities				
Cash was provided from:				
Withdrawal of Term Deposit		6,500	-	1,500
Sale of property, plant & equipment		-	-	11
		6,500	**-**	**1,511**
Cash was applied to:				
Investment in Term Deposit		-	549	-
Purchase of property, plant and equipment		8,792	36	1,530
		8,792	**585**	**1,530**
Net cash (outflow) from investing activities		**(2,292)**	**(585)**	**(19)**
Financing activities				
Cash was provided from:				
BNZ Term Loan		12,300	-	-
		12,300	**-**	**-**
Cash was applied to:				
Finance lease		8,927	231	471
Dividend Paid		2,448	-	-
		11,375	**231**	**471**
Net cash (outflow) from financing activities		**925**	**(231)**	**(471)**
Net (decrease) in cash and cash equivalents		233	(1,463)	(1,315)
Cash and cash equivalents, beginning of period		1,291	2,606	2,606
Cash and cash equivalents, end of period		**1,524**	**1,143**	**1,291**
Cash and cash equivalents				
Bank account and on call deposits		1,524	1,143	1,291
Cash and cash equivalents, end of period		**1,524**	**1,143**	**1,291**

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 17.

REPORTING ENTITY AND STATUTORY BASE

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

NZ Windfarms Limited is a company registered under the Companies Act 1993 of New Zealand and listed on the New Zealand Exchange (NZX).

The condensed consolidated interim financial statements of NZ Windfarms Limited as at 31 December 2017 comprise the Company and its 100% owned subsidiaries NZWL–TRH Limited and TRH Services Limited. Consolidated interim financial statements are presented in accordance with the Financial Reporting Act 2013.

BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 and IAS 34 Interim Financial Reporting as applicable to a for-profit entity.

The Company is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013. The December 2017 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.

SEASONALITY

The electicity produced by the windfarm varies with seasonal wind conditions. While production volatility remains, at a revenue level this is offset by the use of derivative financial instruments.

MEASUREMENT BASE

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the condensed group interim financial statements are unchanged from the audited 30 June 2017 financial statements.

The condensed group interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these condensed consolidated group interim financial statements are to be read in conjunction with the 30 June 2017 financial statements.

The group’s assessment of new or revised accounting standards was reported in the 30 June 2017 financial statements.

1. INCOME TAX EXPENSE (BENEFIT)

	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Profit (Loss) for the period before tax	18	(1,808)	910
Expected tax expense (benefit) at 28%	5	(506)	255
Adjustment recognised in the current year in relation to the current tax of prior years	-	-	-
Adjustment for non-deductible expenses and non-assessable income			
Settlement payment from Windflow Technology Limited	-	-	-
Convertible Notes in Windflow Technology Limited	-	-	6
	5	(506)	261
Represented by:			
Deferred	5	(506)	261
Income tax (benefit)	**5**	**(506)**	**261**

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

2. PROPERTY, PLANT AND EQUIPMENT

	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Opening carrying amount	38,117	35,247	35,247
Additions	8,888	785	1,613
Transfer from Inventories	(97)	(99)	-
Reversal of impairment of Te Rere Hau wind farm	-	-	3,723
Disposals	(23)	(113)	(450)
	46,885	35,820	40,133
Depreciation	(1,152)	(1,003)	(2,016)
Closing carrying amount	**45,733**	**34,817**	**38,117**

Refer to Notes 10, 11 and 12 for details on the additions during interim period to 31 December 2017.

3. INTANGIBLE ASSETS

	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Opening carrying amount	3,535	3,745	3,745
Additions	-	-	-
Reversal of impairment of Te Rere Hau wind farm	-	-	58
Disposals	-	-	-
	3,535	3,745	3,803
Amortisation	(136)	(134)	(268)
Closing carrying amount	**3,399**	**3,611**	**3,535**

4. EQUITY

	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Opening issued share capital	107,005	107,005	107,005
Closing issued share capital	**107,005**	**107,005**	**107,005**
Retained earnings			
Opening balance	(45,813)	(46,462)	(46,462)
Dividend paid	(2,448)	-	-
Net profit (loss)	13	(1,302)	649
Closing retained earnings	**(48,248)**	**(47,764)**	**(45,813)**
Closing balance	**58,757**	**59,241**	**61,192**

5. RECONCILIATION OF PROFIT (LOSS) FOR THE PERIOD TO NET CASH FLOWS FROM OPERATIONS

	31/12/2017 6 months ended $000 (unaudited)	31/12/2016 6 months ended $000 (unaudited)	30/06/2017 Year ended $000 (audited)
Net profit (loss)attributable to equity holders of the Company	13	(1,302)	649
Non Cash Items:			
Depreciation	1,152	1,003	2,016
Amortisation of intangible assets	136	134	268
Change in fair value of financial instruments	227	-	-
Impairment of Te Rere Hau wind farm	-	-	(3,781)
Loss from derecognition of finance lease	36	-	-
Deferred taxation	5	(506)	261
Loss on disposal of assets	23	113	218
	1,592	(559)	(369)
Changes in working capital:			
Trade and other payables	(107)	(38)	(262)
Inventories	272	(195)	113
Trade and other receivables	(157)	145	(307)
Net cash flow from operating activities	**1,600**	**(647)**	**(825)**

6. DERIVATIVE FINANCIAL INSTRUMENTS

a) Classification of Derivative financial instruments

Derivatives are classified as held for trading and accounted for at fair value through profit or loss. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period. For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 7.

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

b) Interest rate swaps

During the interim period, the Company entered into a floating-to-fixed interest rate swap to manage its cash flow interest rate risk associated with its new term loan (see Note 11). The swap instrument covers 100% of the variable loan principal outstanding.

The swap contract requires settlement of the net interest receivable or payable every 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The swap has similar critical terms as the term facility, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms matched during the period, the economic relationship was 100% effective/functions as a natural hedge.

c) Energy futures and contracts for differences

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 31 December the Company held 179 quarterly sale contracts from Q1 to Q4 2018 ranging in price from $63.20/MWh to $96.70/MWh.

On 15 December 2017 the Company converted 99 of its quarterly contracts into contracts for difference ('CFD') with a gentailer. The terms and conditions for settlement with the gentailer are similar to the original futures contracts.

The results of the transactions with derivative financial instruments to 31 December 2017 were as follows:

	31/12/2017 6 months ended $000 (unaudited)	31/12/2016 6 months ended $000 (unaudited)	30/06/2017 Year ended $000 (audited)
Energy futures			
ASX Q3 – September 2017	125		-
ASX Q4 – December 2017	145		
Contracts for Difference			
ASX Q1 – March 2018 (converted to CFD with a gentailer)	(259)	-	-
ASX Q2 – June 2018 (converted to CFD with a gentailer)	(86)	-	-
Net derivative income/(loss)	**(75)**	**-**	**-**

7. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments since the date of the last annual financial report.

a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2017 on a recurring basis. The Group had no instruments measured at fair value through profit or loss as at 31 December 2016.

At 31 December 2017	Level 1 ('000)	Level 2 ('000)	Level 3 ('000)	Total ('000)
Liabilities				
ASX NZ Electricity Futures	(209)	-	-	**(209)**
Contracts for difference	-	(13)	-	**(13)**
Interest rate swaps	-	(5)	-	**(5)**
Total	**(209)**	**(18)**	**-**	**(227)**

The financial instruments are measured at fair value and are classified into one of three levels.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the group is the current bid price. ASX futures contracts are considered as Level 1 financial instruments.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over–the–counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Direct contracts for difference with market participants are considered as Level 2 financial instruments.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. As at 31 December 2017 all were classified as level 1 or level 2 and there have been no transfers between the levels of hierarchy.

b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- In case of energy futures: The use of quoted market prices for identical or similar instruments.
- The fair value of interest rate swaps is calculated as the product of the difference between the contracted swap rate and the floating rate (BKBM) and the loan balance as at 31 December 2017.
- The fair value of contracts for difference is determined using market prices for similar instruments.

c) The group also has a number of financial instruments, which are not measured at fair value in the balance sheet. For the majority of these instruments the fair values are not materially different to their carrying amounts.

8. CAPITAL COMMITMENTS

At 31 December 2017 the Group's capital commitments were $0 (30 June 2017 – $186,698), (31 December 2016 - $400,000).

9. CONTINGENT ASSETS AND LIABILITIES

9.1. Bank Guarantee and General Security Deed

The Bank of New Zealand (BNZ) provided a bank guarantee of $9,220,000 to lines company Powerco on behalf of the Company, as security for a finance lease. The company purchased the assets on 29 September 2017, and at that date the bank guarantee was extinguished.

9.2. Litigation

The Company was engaged in a dialogue with the Palmerston North City Council around compliance with noise limits in the company's resource consents. This was resolved by way of an RMA:1991 s128 process, which concluded with the issue by commissioners of a revised set of conditions in November. No valid appeals to the Environment Court were lodged by the December 2017 closing date, making the conditions law. This brings to a close a long period of noise debate.

10. FINANCE LEASE

On 29 September 2017, the company (NZ Windfarms and its subsidiaries) completed the transaction with Powerco Transmission Services Ltd (Powerco) to buy the internal electricity gathering system that connects turbines to the onsite sub-station for NZD 17.3 million. This transaction caused the termination of the finance lease which had commenced in September 2008 and increased during the 2011 financial year to include the internal electricity gathering system to connect the Stage 4 turbines to the onsite sub-station.

As at the date of the purchase, being 29 September 2017, the financial statements of NZ Windfarms had a liability for the finance lease component of NZD 8.8 million. Finance lease liabilities are subject to the derecognition provisions of NZ IAS 39 *Financial instruments: Recognition and measurement* (NZ IAS 39). In accordance with NZ IAS 39, upon derecognition any difference between the allocated cash consideration paid towards the settlement of the liability should be recognised as a component of finance income or expense. The loss on derecognition of the finance lease liability was calculated at $35,562.

	31/12/2017 6 months ended $000 (unaudited)	31/12/2016 6 months ended $000 (unaudited)	30/06/2017 Year ended $000 (audited)
Non-cancellable lease payments:			
Within 1 year	-	1,428	1,438
1 to 5 years	-	5,888	5,919
More than 5 years	-	10,278	9,526
Minimum lease payments	**-**	**17,594**	**16,883**
Less future finance charges	-	(8,467)	(7,997)
Present value of minimum lease payments	**-**	**9,127**	**8,886**
Present value of minimum future lease payments			
Within 1 year	-	493	514
1 to 5 years	-	2,419	2,517
More than 5 years	-	6,215	5,855
Present value of minimum lease payments	**-**	**9,127**	**8,886**

This transaction was funded through the drawdown of a term facility which the Company entered into during the interim period (see Note 11). The remainder of the purchase price was paid using the Company's own funds accumulated on the term deposit.

11. BORROWINGS

In September 2017, the Company entered into a term loan facility to partially fund the purchase of the PowerCo transmission assets. The entire available amount, $12,300,000 under the facility has been drawn down.

The loan is subject to normal competitive commercial interest terms and a swap agreement and a range of normal covenants. As at 31 December 2017, the Company's assessment was that it is compliant with all covenants.

	31/12/2017 6 months ended $000 (unaudited)	31/12/2016 6 months ended $000 (unaudited)	30/06/2017 Year ended $000 (audited)
Current portion	946	-	-
Non-current portion	11,354	-	-
Total loan	**12,300**	**-**	**-**

12. OPERATING LEASES

The Group has entered into lease agreements with the four landowners of the land known as the Eastern Extension of the Te Rere Hau wind farm, whereby royalties are paid based on electricity output and electricity revenue generated from the 32 turbines located on the land. Turbine royalties are approximately $27k for the period.

The transaction with Powerco on 29 September ended the 20-year agreement to lease an internal electricity gathering system that connects the onsite sub-station to the Trust Power sub-station, which in turn connects to the national grid. When the operating lease was extinguished at the date of asset purchase, the component of the purchase price related to the operating lease ($8.5m) was added to the property, plant and equipment asset schedule, within the electrical assets category (within Note 2, Additions)

	31/12/2017 6 months ended $000 (unaudited)	31/12/2016 6 months ended $000 (unaudited)	30/06/2017 Year ended $000 (audited)
Lease payments expensed during the year	245	450	902
Non-cancellable lease commitments:			
Within 1 year	-	865	913
1 to 5 years	-	3,585	3,772
More than 5 years	-	6,392	6,299
Total non-cancellable lease commitments	**-**	**10,842**	**10,984**

13. FINANCIAL RISK MANAGEMENT

The interim consolidated financial statements do not include all financial risk management information and disclosures and should be read in conjunction with the group's annual financial statements for the year ended 30 June 2017.

Further information on risk management is also contained in the corporate governance section of the 2017 Annual Report.

As disclosed in note 11 during the interim period to 31 December 2017 the Group obtained a floating interest rate loan from BNZ. To manage its interest rate risk, the Group decided to use floating-to-fixed interest rate swap.

Under this swap, the group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Swaps currently in place cover 100% of the variable loan principal outstanding and therefore the net impact from floating interest rate changes on the profit and loss for the period is minimised. Details on the fair value measurement and mark-to-market revaluation are included in notes 6 and 7.

There have been no other significant changes in the financial risk management objectives and policies since 30 June 2017.

14. 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 four 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 $3,781,000 is required (2016: $-4,900,000). The impairment has been allocated to property plant and equipment and intangible assets (refer notes 2 and 3).

The key assumptions underpinning the model are electricity prices, output, operational costs, the cost of mid-life refurbishment, inflation and the discount rate.

Management has not updated any of the impairment calculations to 31 December 2017. The company carries out a full value in use test annually at year end.

15. RELATED PARTY TRANSACTIONS

15.1. Vector Limited

Vector Limited held 22.11% of the shares in NZ Windfarms Limited as at 31 December 2017.

NZ Windfarms Limited has negotiated an arms-length agreement with Vector Limited whereby Vector Limited provides general electricity services. In the six months ended 31 December 2017 $60,000 fees have been paid to Vector Limited (30 June 2017 - $120,000; 31 December 2016 - $60,000).

15.2. Key management

Key management personnel short term employee benefits, including remuneration to Directors, were $218,750 during the six months ended 31 December 2017 (30 June 2017 - $734,000; 31 December 2016 - $427,000).

15.3. Directors' remuneration

Directors' remuneration of $89,750 was paid and expensed during the six months ended 31 December 2017 (30 June 2017 - $145,625; 31 December 2016 - $63,875).

There were no key related party shareholdings as at 31 December 2017.

15.4. SHARE OPTIONS

At the Annual General Meeting on 29 November 2016 a share option plan was adopted by shareholders.

The Board issued share options to staff in the period ending 31 December 2017. A total of 3,300,000 options were issued to staff on the same terms as options issued to directors and the chief executive officer disclosed in the annual report to 30 June 2017. These will be valued at 30 June 2018.

16. CONVERTIBLE NOTES

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. EARNINGS PER SHARE

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

	6 months ended 31/12/2017 $000 (unaudited)	6 months ended 31/12/2016 $000 (unaudited)	Year ended 30/06/2017 $000 (audited)
Net profit (loss) for the year	13	(1,302)	649
Number of shares on issue over year (000's)	288,064	288,064	288,064
Basic and diluted earnings (loss) per share	**$ 0.00005**	**$ (0.00452)**	**$ 0.00225**

18. EVENTS SUBSEQUENT TO 31 DECEMBER 2017

On 23 February 2018 Vector Limited sold its 22.11% shareholding in the company. As a result of this sale it is estimated that the group's available tax losses have reduced from $76.5m to $17.4m. The ability to utilise these remaining losses is also dependent on meeting certain Inland Revenue rules, including those in respect of shareholder continuity.

19. 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.

DIRECTORS

Rodger Kerr- Newell (Chairman)
Stuart Bauld (Deputy Chair)
John Southworth

EXECUTIVE STAFF

John Worth – Chief Executive Officer

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