

NZ WINDFARMS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

Contents

CHAIRMAN'S REVIEW.....	2
CHIEF EXECUTIVE OFFICER'S REVIEW	5
KEY STATISTICS	8
DIRECTOR PROFILES	9
CORPORATE GOVERNANCE STATEMENT	10
STATUTORY INFORMATION	14
SHAREHOLDER INFORMATION	16
FINANCIAL STATEMENTS:	18
STATEMENT OF COMPREHENSIVE INCOME	19
BALANCE SHEET	20
STATEMENT OF CHANGES IN EQUITY	21
CASH FLOW STATEMENT	22
STATEMENT OF ACCOUNTING POLICIES	23
NOTES TO THE FINANCIAL STATEMENTS	28
INDEPENDENT AUDITOR'S REPORT	43
DIRECTORY	44

INTRODUCTION

NZ Windfarms made positive progress in key areas in the 2016 financial year, but a significant fall in electricity prices in the second half and the requirement for a further impairment of the Company's assets resulted in a loss being recorded for the year.

The Company recorded a profit before depreciation, impairment, amortisation and tax and there was an increase in cash and deposits.

Generation output for the wind farm, rounded to gigawatt hours (GWh), reached the projected 130 GWh for the first time. This follows two years in which output, similarly rounded, was 123 GWh. Further improvement has been achieved since the end of the year, with output for the 12 months to 31 July rising to a record 136 GWh.

An agreement settling all outstanding issues with Windflow Technology Limited became unconditional in December. This enabled the write off of all outstanding warranty claims and retentions owing between the companies, and the termination of two arbitration actions initiated by NZ Windfarms. The agreement included a \$1,000,000 payment and the issue of convertible notes in Windflow Technology to NZ Windfarms. The notes are convertible into ordinary shares within three years of the date of issue. If NZ Windfarms elects to convert all the notes it will hold a total of 9.9 percent of the ordinary shares in Windflow Technology.

There had been no change in the projected fair, or impaired, value of the Company in the 2015 year, but results for the latest year include an impairment of \$4,900,000. This was caused by an expected reduction in the long-term wholesale price indicator index, published periodically by the Ministry of Business, Innovation and Employment, which is used to establish the projected medium-to-long-term prices used to estimate revenue for impairment testing.

The process for review of our Consents by the Palmerston North City Council (PNCC), under Section 128 of the Resource Management Act, has commenced.

ELECTRICITY REVENUE

Electricity generation was 129.6 GWh, a 5.4 percent increase over the 123.0 GWh recorded in the previous year. This was achieved with an average monthly wind speed of 4.0 metres per second as measured at the Palmerston North Automated Weather Station, which is less than both the average for the previous year (4.2 metres per second) and the expected long term average of 4.25. The implied improvement in efficiency can be explained partly by a 1 percent increase in the amount of wind from the west, which is the optimum direction for the wind farm to operate at maximum efficiency. For the rolling 12 months to 31 July 2016, the average increased further to 136.1 GWh.

The increase in output was more than offset by an 11 percent decrease in wholesale electricity prices received, resulting in a 6.3 per cent fall in revenue. Lower spot electricity prices resulted from continued surplus capacity, above average hydrology (lake storage levels) particularly later in the year and sluggish demand in the autumn and winter months of 2016.

OPERATIONAL PERFORMANCE

Maintenance expenditure continued to fall, reflecting the Company's ongoing program to install enduring solutions to the technical failures suffered and operational improvements as our knowledge of the WF500 turbine fleet grows. Average availability for the year was 96.2 percent, consistent with the 96.5 percent recorded for the previous year.

This represents an excellent operating performance reflecting the increase in wind resource and the ongoing program to refurbish gearboxes, among other components. This result is a credit to the professionalism of our operational staff. The improvement in reliability has been achieved through technical innovation and the continued development of a robust planned maintenance program to protect the turbines.

FINANCIAL PERFORMANCE

The key drivers of revenue from the wind farm are the wind resource received at the site and the wholesale electricity price, which are both subject to natural variability and beyond NZ Windfarms' control. Electricity sales for the year totalled \$7,174,000, a 6.3 percent decrease over the \$7,657,000 recorded in 2015. This reflected a decline in the average wholesale electricity price received from \$62.26 per megawatt hour (MWh) in 2015 to \$55.37 per MWh in the 2016 year, which more than offset the increase in output.

As a result of the settlement with Windflow Technology all warranty income payments ceased from the beginning of the year. This reduction in income was offset by a one-off non-taxable revenue receipt of \$1,000,000 and the inclusion of \$11,000 in other revenue, representing the valuation of the convertible notes issued by Windflow Technology as at 30 June 2016.

Direct maintenance, operating costs and indirect overhead costs all reduced in comparison with 2015 as a result of our ongoing performance improvement program.

We have investigated the potential to refinance the two leases that finance the on-site reticulation lines and the pair of transmission lines that transport the electricity generated from Te Rere Hau to the nearby grid injection point. At this time, Powerco Limited has declined to allow early termination of the leases.

Profit before depreciation, impairment, amortisation and tax was \$1,755,000 for the year, which is 21.7 percent lower than the \$2,241,000 recorded for the 2015 year. An increase in cash and deposits of \$582,000 was recorded, as opposed to a \$399,000 reduction in the 2015 year.

No impairment adjustment was required to the fair value of the Company in 2015; however an impairment of \$4,900,000 has been included in the accounts for the 2016 year. The impairment is caused by an expected \$9,500,000 reduction in modelled revenue resulting from a lowering of the long-term wholesale price indicator index, published periodically by the Ministry of Business, Innovation and Employment. This index is used to establish the projected medium-to-long-term prices in the impairment model. The reduction in discounted projected revenue was partially offset by net increases in value in the other assumptions underpinning the model. Further details of the reasons for the adjustment are included in the notes to the accounts.

The overall result for the year is a loss after tax of \$3,979,000 compared with a loss of \$159,000 in 2015.

RESOURCE CONSENTS

Engagement with the Palmerston North City Council (PNCC) to resolve the Consent issue is ongoing. We have been advised by PNCC that it will conduct a review of the noise and other general conditions of the Consent under Section 128 of the Resource Management Act during the 2017 fiscal year. We remain committed to achieving an enduring solution to the issues, to the satisfaction of all parties including the PNCC, affected residents and NZ Windfarms. PNCC and the Company have entered into a Memorandum of Understanding that provides for the appointment of an independent acoustic expert to advise PNCC on which sections of the consent should be reviewed.

FINANCIAL AND ORGANISATIONAL REVIEW

Financial and organisational reviews were in progress in August and final reports are expected in early September. The objective of the reviews is to improve the Company's current cost structure and future cash requirements.

CAPITAL MANAGEMENT

NZ Windfarms' intended dividend policy as articulated in the April 2010 Investment Statement and Prospectus has not changed. The Company is presently required to maintain \$6,500,000 on deposit with the Bank of New Zealand as security for the guarantee the bank provides in favour of Powerco in respect of the lease on electrical infrastructure on the wind farm. The remaining cash held by the Company is required for working capital and for contingencies such as a period of low wholesale prices, future costs associated with consenting issues or unexpected equipment failures. The Directors believe, therefore, that it remains prudent to hold the present cash funds on the balance sheet and the Board has resolved that no dividend will be declared for the 2016 year. However based on the results from the financial and organisational reviews and through exploring alternative options for providing the Powerco guarantee the Directors are considering the possibility of declaring an interim dividend in the 2017 fiscal year.

REVIEW OF BOARD COMPOSITION

At the last Annual General Meeting in November 2015, the number of Directors was reduced to three following the retirements of Vicki Buck and Michael Stiassny. The remaining Directors implemented a review of the composition of the Board and determined that additional appointments were required to provide a Board with wide shareholder support and an appropriate mix of skills and experience.

Subsequently, Stuart Bauld was appointed a Director effective from 15 February 2016 and Rodger Kerr-Newell from 1 March 2016. In accordance with the Company's constitution, these appointments run until the 2016 AGM, when both must retire and be elected by the shareholders.

Derek Walker retired from the Board from 1 March 2016 and the Board elected Dr Julian Elder to replace him as Chairman from that date; however Dr Elder resigned with effect from 15 June 2016 and Rodger Kerr-Newell was elected Chairman from 28 June 2016, with Stuart Bauld as Chairman of the subsidiary committees.

A request for nominations for a fourth Board member with engineering and corporate governance experience was sent to shareholders in June 2016. With the AGM to be held in three months, an appointment has been deferred and any nominations will be included in the Notice of Meeting and considered at the meeting.

OUTLOOK

Long term financial performance will always be dependent on wind flow at the site, the electricity market price and the costs associated with keeping the turbines running. With the decreases in predicted future pricing now factored into the impairment model, if the predicted improvement in inputs occurs in the medium term the Company's performance should move towards the long-run projections underpinning the net asset value in the balance sheet, revenue should improve steadily and the likelihood of regular net surpluses and positive cash inflows in the future will be enhanced.

The Company's engineering and maintenance team will continue to focus on continuous improvement of the operation and the repair and maintenance of the fleet of WF500 turbines. Further design and operational changes will be implemented to improve the turbine fleet's performance and more process efficiencies will be sought to reduce the time and cost of key maintenance and refurbishment tasks, whilst the focus on operating the farm as economically and prudently as possible will be retained. We will also continue to critically evaluate overhead costs for potential savings.



Rodger Kerr-Newell
Chairman
29 August 2016

OVERVIEW

NZ Windfarms has made steady progress this year in addressing the issues affecting the company's operations and the resulting financial performance.

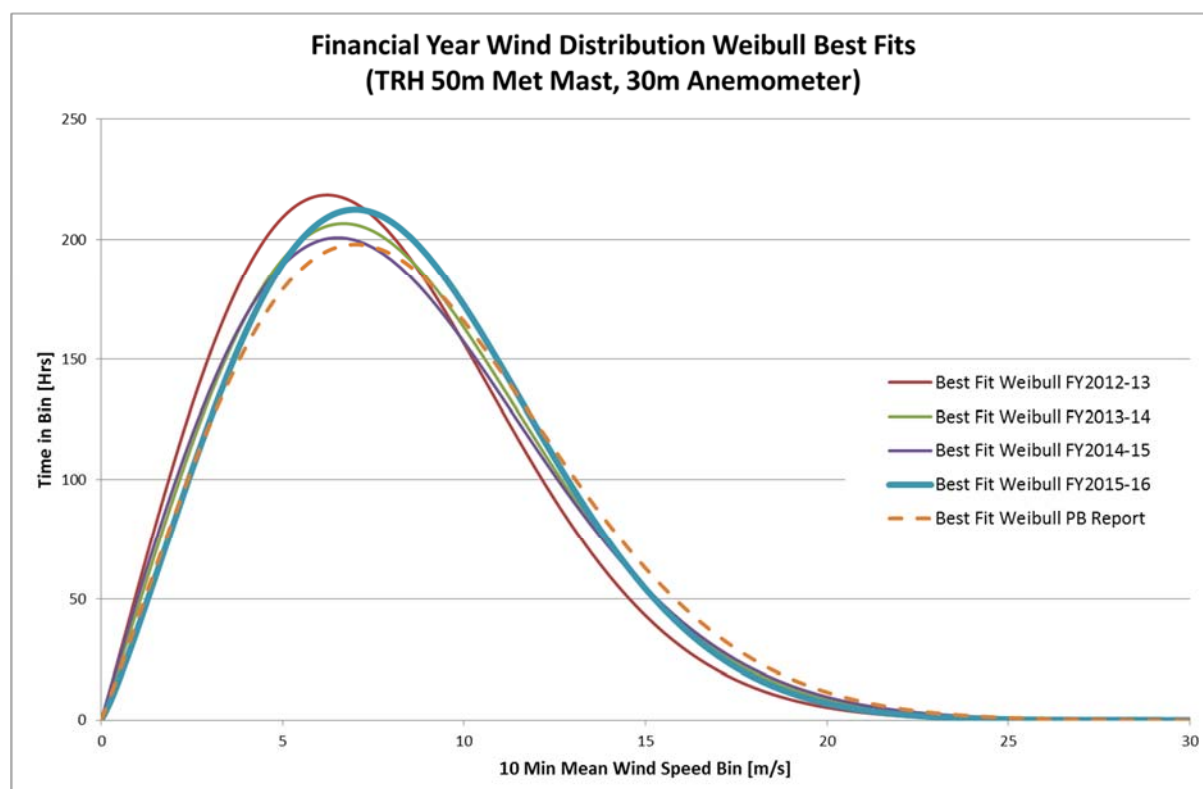
In October 2015 NZ Windfarms negotiated and executed a final settlement of all outstanding commercial issues with Windflow Technology. This agreement concluded all of the contractual disputes between the parties to the 2005 Turbine Sale and Purchase Agreement. Under the settlement, among other things, NZ Windfarms acquired a licence to the designs and intellectual property required to enable the ongoing operation of the fleet of WF500 turbines installed at Te Rere Hau. This means that NZ Windfarms is now solely responsible for all aspects of the improvement, repair, and maintenance of its assets and will bear the full costs inherent in pursuing long term solutions to the technical issues that have affected the turbine performance. NZ Windfarms also waived all future rights to recover costs incurred from Windflow Technology.

In August 2016 NZ Windfarms entered into a Memorandum of Understanding with the Palmerston North City Council to assist the Council's review of the consents for Te Rere Hau under Section 128 of the Resource Management Act. This arrangement includes the engagement of an independent acoustic expert to review the noise issues and assist the Palmerston North City Council in developing amended review conditions. Once the review commences it is expected to take approximately four months to complete.

OPERATING PERFORMANCE

NZ Windfarms uses a dedicated in-house operations team to operate the 97 WF500 turbines. Our operations team achieved availability of 96.2 per cent for the financial year while reducing the costs to repair, maintain and operate the turbines. The operations team also perform after hours monitoring of the turbine fleet in order to maximise output while the farm is unattended. The Te Rere Hau site is remote therefore we utilise the communications technology developed to interrogate the operating system, categorise faults and restart turbines as appropriate after working hours. The availability achieved represents an excellent operating performance given the ongoing premature failure of key components. Our operations team is supported by the on-site finance and administration functions and have access to all of the requisite spares and replacement components located at the workshop adjoining the Te Rere Hau site office.

The strong operating performance enabled the Te Rere Hau wind farm to achieve the expected 130GWh output for the first time. The wind resource received during the financial year was close to the long term assumption used by Parsons Brinkerhoff to model the wind farm's output. The plots by financial year are displayed in the following chart.



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:

- 15 gearboxes removed and 13 gearboxes (2015:9) replaced with refurbished first stage gears to improved design.
- 36 (2015:24) pitch bearings replaced.
- 61 (2015:52) torque limiting (Poclain) pumps replaced.

TE RERE HAU TURBINES

Gearboxes

We have continued to refurbish the first stage of the turbine fleet's gearboxes with improved pins and bearings. Recently two further unrelated gearbox failure modes have manifest as follows:

- We have found missing teeth in three stage three gearboxes. Earlier in the project six gearboxes suffered similar damage which was determined as being caused by poor heat treatment of one batch of cast gears during manufacture. These latest failures suggest there is a fleet wide issue which is believed to be due to misalignment of the stage three gears under load. The original third stage gears can be reground to reduce the tip load and we have installed redesigned third stage gears in some gearboxes to reduce sound output levels. These redesigned gears are significantly stronger and are also expected to cure this weakness. The repairs are not possible uptower therefore they are being installed when gearboxes are refurbished.
- We have found cracks in the cast gearbox housing on five "thin feet" gearboxes. This failure affects a subset of gearboxes totalling 35 gearboxes (batches one and two). During their work on IEC Certification Garrad Hassan identified this weakness and subsequent gearboxes were redesigned and manufactured with more metal in this area. Repair of the component is not feasible therefore replacement gearbox housings are being installed on failure.

We currently have three turbines off-line awaiting refurbished gearboxes. The effect of these unavailable turbines on Te Rere Hau's output and revenue has been mitigated by moving the available refurbished gearboxes to the highest producing sites.

Pitch Bearings

We have extended the field trial of alternative pitch bearings to two additional turbines following encouraging reductions in wear on disassembly and inspection of the trial bearings. In addition we have fitted blade root tensioners to 72 turbines and fitted the latest design bearings with improved plastic guides to 36 turbines. All turbines are running with the improved lubricant identified earlier.

Torque Limiting Pumps

The torque limiting pumps have continued to fail prematurely despite a number of remedial actions as follows:

- Increased back pressure on all pumps to hold the pistons on the cam.
- Speed algorithm revised by Windflow Technology over a two year period.
- Trialled smaller displacement pumps installed in 80 turbines on failure to reduce the piston speed.

We have not achieved the improvement in durability expected from these changes and are working with the pump manufacturer to develop a robust solution. The torque and pump speed excursions which are leading to the damage are fundamental to the design of the WF500 turbine and its response to the harsh conditions experienced at the Te Rere Hau site.

Generators

We had no generator failures this financial year which supports our view that the earlier failures resulted from damage caused before the retrofitting of additional cooling air pumps. We had a generator fail in August 2016 with damage to a different area of the windings. The analysis of this failure will include the examination of the area where previous failures occurred to see if anything can be learned about the previous failure mode.

HEALTH SAFETY AND ENVIRONMENTAL

We have continued to improve our health and safety policies and procedures in order to provide a safe working environment for our employees, contractors, and visitors to the farm. We have conducted random drug tests of all employees on site as required by our Drug and Alcohol Policy and now include pre-employment drug tests as standard. We had no serious incidents this year although one lost time injury was recorded when manually hauling components up-tower. We are trialling redesigned hauling equipment in response to this injury. Our health and safety performance reflects the excellent culture developed by our operations team and their diligence in following the procedures in place to keep them safe in the challenging conditions they work in on a daily basis.

FINANCIAL PERFORMANCE

The output of 130GWh for the financial year matched our long term forecast, an improvement of 5 per cent over the previous financial year. The average wind speed recorded at the Palmerston North Automatic Weather Station reduced from 4.2 meters per second to 4.0 meters per second, however the wind farm enjoyed levels of favourable wind speed and direction approaching the long term assumptions that underpin the output assumption of 130 GWh per annum (refer to the chart of wind distribution by financial year).

Revenue for the year came in on budget as the average electricity price received from the spot market was equal to the prices prevailing on the ASX at the start of the financial year. As previously advised NZ Windfarms remains exposed to the spot electricity market for all of its future output.

Total operating costs were reduced from \$6.1 million to \$5.9 million this financial year. Savings were made in legal and consulting costs and in stock and spares utilisation. With the reduction in outstanding commercial and consenting issues legal costs are expected to be further reduced over time. The total costs of repairing, maintaining and operating the wind farm was maintained despite the ongoing premature technical failures suffered. NZ Windfarms has borne the full cost of rectifying these failures since the final commercial settlement with Windflow Technology in November 2015.

The administration costs of the organisation have been held at previous levels and are expected to be further reduced as the effect of a smaller board manifests, and the remaining commercial and consenting issues are concluded.

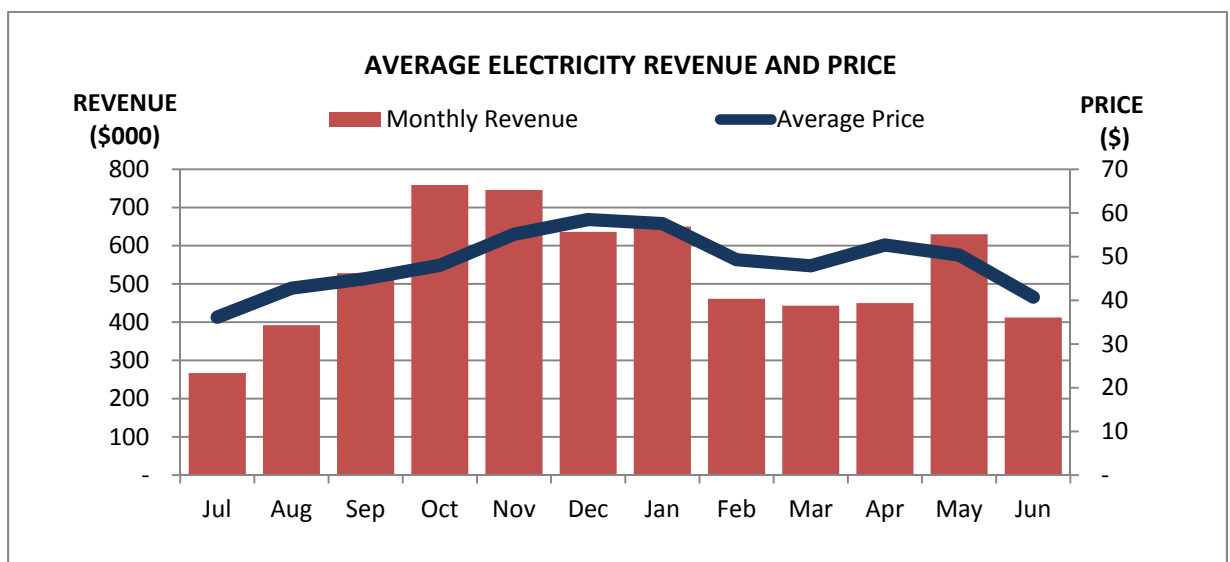
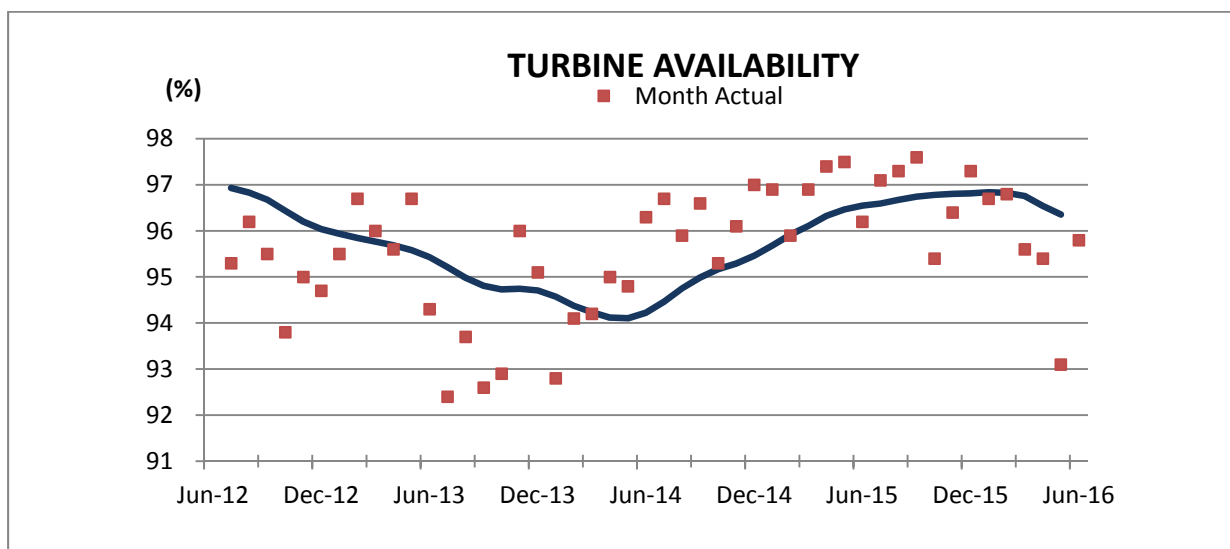
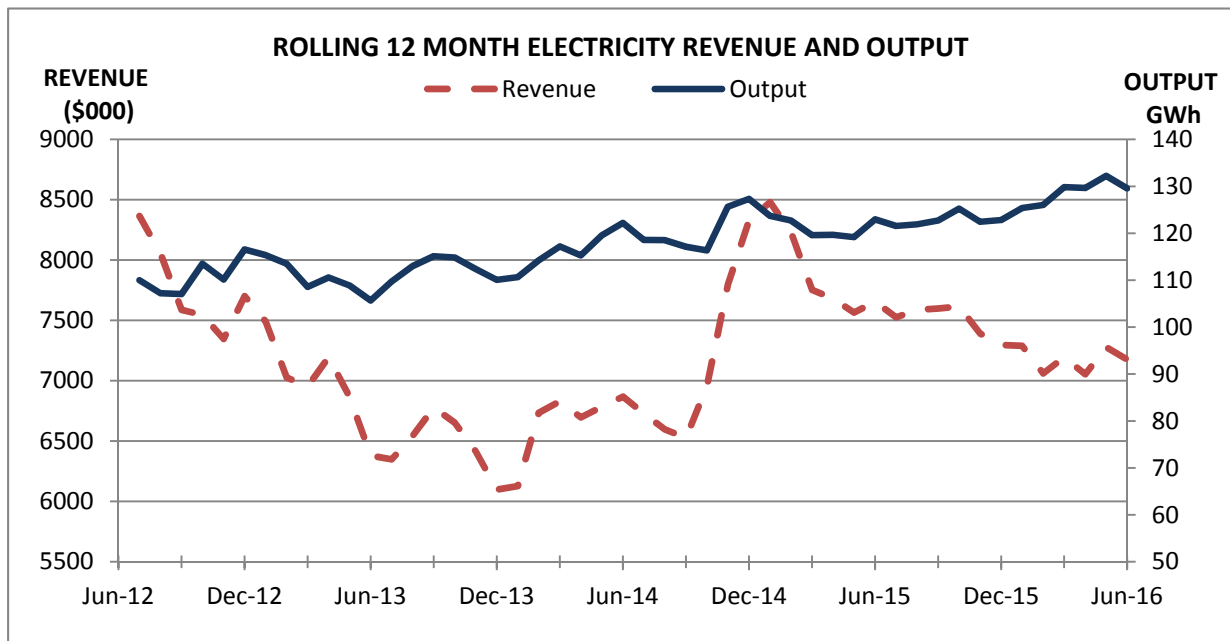
FUTURE PROSPECTS

The recent reduction in electricity price expectations in the medium to long term is of concern. We have continued to explore the ability to hedge a portion of our electricity output, however our analysis suggests the financial instruments currently available would be revenue negative at current prices. As a result, all of our output is currently unhedged and will be sold at the prevailing spot price in the wholesale electricity market.

We have made further progress in developing permanent cures for the technical problems that have led to premature failure of various components. We therefore expect to further reduce our operating costs as the failure rate is reduced in future years. We are also pursuing additional reductions in the cost to administer NZ Windfarm's activities.



Chris Sadler
Chief Executive Officer
29 August 2016



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 and is presently a self-employed consultant providing services to private clients, 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.

Simon Mackenzie, Director

Simon Mackenzie is Group Chief Executive Officer of Vector Limited. He has extensive experience in the energy and telecommunications sectors, including strategy, regulation, network management, information technology and the energy market. During his time at Vector, Simon has been heavily involved in many of the industry reforms, both at a policy and a business level.

Simon also has construction and consultancy experience both in New Zealand and overseas. He has tertiary qualifications in engineering, finance and business studies, and has completed the Advanced Management Program at the Wharton School, University of Pennsylvania.

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 Financial Officer to any trading by insiders, including all employees of NZ Windfarms. The Chief Financial Officer must obtain the written consent of the Chairman of the Board of Directors prior to any trading in securities by the Chief Financial Officer. On receipt of an application for consent from a Director, the Chief Financial Officer must obtain approval from two Directors (neither of whom is the Director applying) prior to any consent being granted. On receipt of an application for consent from the Chief Executive Officer, the Chief Financial Officer must obtain approval from the Chairman of the Board of Directors prior to any consent being granted.

Treasury Policy

NZ Windfarms has a Treasury Policy to manage interest rate 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 2016 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 Simon Mackenzie, being Chief Executive Officer of Vector Limited, the Company's 22.11% cornerstone shareholder.

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 2016 there were five (2015: seven) Directors and Officers. The gender composition is shown in the table below.

	2016	2015
Directors - female	-	1
Directors - male	3	4
Officers - female	-	-
Officers - male	2	2
Total	5	7

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 Stuart Bauld (Chair), Rodger Kerr-Newell and Simon Mackenzie.

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 Chief Financial Officer 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 Simon Mackenzie. 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 Simon Mackenzie. 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 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 2016

Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the NZX Listing Rules at 30 June 2016 are listed below:

Name of Related Party	Relationship	Shares 30 June 2015	Movement	Shares 30 June 2016
Stuart Bauld	Director	-	-	-
Rodger Kerr-Newell	Director	-	-	-
Simon Mackenzie	Director	-	-	-

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	Counterparty	Nature of Interest
Julian Elder	Enterprise Angels Vector Limited	Director Consultancy – six month part-time contract
Simon Mackenzie	Electricity Networks Association	Director*
Stuart Bauld	Whitholden Holdings Limited Addictive Design Limited OneSteel NZ Holdings Limited OneSteel NZ Limited OneSteel NZ Recycling Palmer Tubemills (NZ) Limited Daffodil Enterprises Limited Cancer Society of NZ Ellis King Clark	Director/Shareholder Director/Shareholder Director Director Director Director Director Director Principal
Rodger Kerr-Newell	Shire of Halls Creek Western Australia EYE93	CEO Director/Shareholder

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.

DIRECTORS REMUNERATION

Directors' fees total \$171,250 (2015: \$199,500) 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 2016:

Name	Directors Fees	Other Fees
Vicki Buck	\$13,750	-
Stuart Bauld	\$14,750	-
Dr Julian Elder	\$40,250	-
Rodger Kerr-Newell	\$10,000	-
Simon Mackenzie	\$37,500	-
Michael Stiassny	\$15,000	-
Derek Walker	\$40,000	-

Simon Mackenzie's Director's fees are paid to Vector Limited.

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 (2015: \$15,000,000) in the aggregate.

SUBSIDIARIES

The following persons held the office of Director of NZ Windfarms Limited's subsidiaries at 30 June 2016. 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 Simon Mackenzie.

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

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 2016 were as follows:

Remuneration range	Number of employees
\$310,000 - \$320,000	1
\$170,000 - \$180,000	1
\$150,000 - \$160,000	1
\$130,000 - \$140,000	2

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 2016.

Twenty largest ordinary shareholders

Shareholder	Address	Shares	% Issued Capital
Vector Limited	Auckland	63,684,362	22.11
Robert Alexander Stone	Singapore	38,250,000	13.28
LET Securities Limited	Wellington	21,824,799	7.58
Philip George Lennon	Christchurch	14,758,000	5.12
New Zealand Central Securities Depository Limited	Auckland	14,011,009	4.86
Kericrest Properties Limited	Kerikeri	10,754,658	3.73
Hsu Cheng Yang	Auckland	9,300,000	3.23
Bruce Howden Blake	Auckland	5,614,010	1.95
Talleys Group Limited	Motueka	4,187,461	1.45
Po Hui Chi	Auckland	3,100,000	1.08
Rotorua Trust Perpetual Capital	Rotorua	2,656,062	0.92
Anthony Anselmi, Deidre Anselmi and Ross Alleman	Auckland	2,566,667	0.89
Custodial Services Limited <3 A/C>	Tauranga	2,438,554	0.85
David Cormack, Peter Cormack and Renu Cormack	Auckland	2,070,000	0.72
Ian Graham Douglas and Basil James Cook	Katikati	1,604,759	0.56
Westward Management Limited	Auckland	1,560,914	0.54
Yao Tsung Yang	Auckland	1,550,000	0.54
Custodial Services Limited <18 A/C>	Tauranga	1,353,940	0.47
Sheng Fei Wang	Auckland	1,340,000	0.47
Kuo Yen Wang	Auckland	1,300,000	0.45
Totals		203,925,195	70.80

Spread of shareholders

Holdings Ranges	Number of Holders	Shares	% Issued Capital
1 to 1,000	110	79,013	0.03
1,001 to 5,000	535	1,778,983	0.62
5,001 to 10,000	301	2,360,984	0.82
10,001 to 50,000	761	18,424,512	6.40
50,001 to 100,000	194	14,417,764	5.01
100,001 to 500,000	151	31,910,103	11.08
500,001 and 1,000,000	32	55,809,397	19.37
1,000,001 and Over	6	163,282,828	56.67
Totals	2090	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 2016 were as follows:

Shareholder	Number of shares directly held	%
Vector Limited	63,684,362	22.11
Robert Alexander Stone	38,250,000	13.28
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 2016 was 288,063,584 (30 June 2015: 288,063,584).

Directors statement

The Annual Report is dated 29 August 2016 and is signed on behalf of the Board by:



Rodger Kerr-Newell
Chairman



Stuart Bauld
Director / Chair of Audit and Risk Committee

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$000's	2015 \$000's
Income			
Electricity sales		7,174	7,657
Warranty income		-	1,151
Other income	16	1,011	-
Total income (excluding interest income)		8,185	8,808
Administration		421	421
Audit fees	3	75	53
Directors' fees	15	171	200
Employment expenses		1,776	1,692
Insurance		120	130
Lease and rental expenses	20	895	889
Legal and consulting expenses		433	598
Te Rere Hau wind farm operational expenses		1,750	1,902
Provision for doubtful debts	2	-	(47)
Other operating expenses		219	215
Total operating expenses		5,860	6,053
Profit (Loss) before interest, impairment, amortisation, depreciation and tax		2,325	2,755
Interest income		388	453
Interest expense		(958)	(967)
Profit (Loss) before impairment, amortisation, depreciation and tax		1,755	2,241
Impairment of Te Rere Hau wind farm	13	4,900	-
Depreciation	4	2,343	2,207
Loss on disposal of property, plant and equipment		153	299
Amortisation	5	273	250
Profit (Loss) before tax		(5,914)	(515)
Income tax expense (benefit)	1	(1,935)	(356)
Profit (Loss) after tax for the year	10	(3,979)	(159)
Basic and diluted earnings (loss) per share	10	\$(0.01)	\$(0.00)

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 28 to 42.

NZ WINDFARMS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2016

	Notes	2016 \$000's	2015 \$000's
Assets			
Current assets			
Cash and cash equivalents	12	2,606	3,524
Term Deposit		8,000	6,500
Trade and other receivables	2	698	1,034
Inventories		1,247	1,173
Total current assets		12,551	12,231
Non-current assets			
Property, plant and equipment	4	35,247	42,299
Intangible assets	5	3,746	4,095
Convertible notes	16	11	-
Deferred tax	7	19,449	17,514
Total non-current assets		58,453	63,908
Total assets		71,004	76,139
Liabilities			
Current liabilities			
Trade and other payables	8	1,102	1,819
Current portion of finance lease	19	474	438
Total current liabilities		1,576	2,257
Non-current liabilities			
Finance lease	19	8,885	9,360
Total non-current liabilities		8,885	9,360
Equity			
Share capital	9	107,005	107,005
Retained (loss)/earnings	9	(46,462)	(42,483)
Total equity		60,543	64,522
Total equity and liabilities		71,004	76,139
Net tangible assets per share	10	\$0.14	\$0.16

Signed for and on behalf of the Board as at 29 August 2016.



Rodger Kerr-Newell
Chairman



Stuart Bauld
Director / Chair Audit and Risk Committee

These financial statements should be read in conjunction with the notes to the financial statements on pages 28 to 42.

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$000's	2015 \$000's
Equity at beginning of year		64,522	64,681
Profit (Loss) after tax for the year		(3,979)	(159)
Equity at end of year		60,543	64,522
Represented by:			
Share capital	9	107,005	107,005
Retained earnings (loss)	9	(46,462)	(42,483)
Total equity		60,543	64,522

These financial statements should be read in conjunction with the notes to the financial statements on pages 28 to 42.

NZ WINDFARMS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$000's	2015 \$000's
Operating activities			
Cash was received from:			
Trading revenue		7,276	7,566
Warranty Income		-	1,025
Other income		1,000	-
Interest received		507	427
		8,783	9,018
Cash was applied to:			
Interest paid		959	967
Payments to suppliers and employees		5,759	6,790
		6,718	7,757
Net cash inflow (outflow) from operating activities	11	2,065	1,261
Investing activities			
Cash was provided from:			
Sale of property, plant and equipment		-	3
		-	3
Cash was applied to:			
Investment in Term Deposit		1,500	-
Purchase of property, plant and equipment		1,048	1,261
		2,548	1,261
Net cash inflow (outflow) from investing activities		(2,548)	(1,258)
Financing activities			
Finance lease		435	402
		435	402
Net cash inflow (outflow) from financing activities		(435)	(402)
Net increase/(decrease) in cash and cash equivalents		(918)	(399)
Cash and cash equivalents, beginning of year		3,524	3,923
Cash and cash equivalents, end of year		2,606	3,524
Cash and cash equivalents			
Short term deposits		1,800	3,150
Bank account and on call deposits		806	374
Ending cash and cash equivalents carried forward		2,606	3,524

These financial statements should be read in conjunction with the notes to the financial statements on pages 28 to 42.

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 2016 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 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 investors; 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. Warranty income is recognised in accordance with the contractual arrangements with the turbine manufacturer, which provide for the recovery of costs incurred in replacing damaged parts and components covered under the warranty.

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 charged to earnings represents the sum of the current 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	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 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, 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 derivative (option to convert) is part of the convertible notes is recognised at fair value via profit and loss.

The Group's financial liabilities include trade and other payables. 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 principle 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.

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.

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.

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 now be recognised on balance sheet in respect of all leases, with the exception of certain short term leases and leases of low value assets.

The Group is yet to assess the impact of adopting NZ IFRS 16.

1. INCOME TAX EXPENSE (BENEFIT)

For the year to 30 June	2016 \$000's	2015 \$000's
(Loss) for the year before tax	(5,914)	(515)
Expected tax (benefit) at 28%	(1,656)	(144)
Adjustment recognised in the current year in relation to the current tax of prior years	3	(212)
Adjustment for non-deductible expenses and non-assessable income		
Other income from Windflow Technology Limited Settlement	(283)	-
Other non-deductible expenses	1	0
	(1,935)	(356)
Represented by:		
Deferred	(1,935)	(356)
Total tax (benefit)	(1,935)	(356)
Tax loss from previous years	62,594	57,401
Tax loss for year	6,593	5,193
Tax loss carried forward	69,187	62,594

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

2. TRADE AND OTHER RECEIVABLES

As at 30 June	2016 \$000's	2015 \$000's
Trade debtors	474	1,524
less: provision for doubtful debts	-	(931)
Accrued income	118	238
Prepayments	75	203
Goods and services tax	31	-
Closing balance	698	1,034

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

Opening balance	(931)	(857)
Provided in the current year	-	(495)
Utilised	931	448
Other	-	(27)
Closing balance	-	(931)

Of the trade debtors none (2015: \$911,000) relate to balances not received by their due date.

As at 30 June 2016, the Group has not provided for any trade debtors not being recovered (2015: \$931,000). The 2015 provision relates to warranty receipts due from Windflow Technology Limited, which were written off in 2016 (refer note 16).

3. FEES PAID TO AUDITOR

For the year to 30 June	2016 \$000's	2015 \$000's
Audit of financial statements	47	45
Other assurance services	28	8
Total	75	53

Other assurance services relate to services performed by Deloitte 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 30 June	2016 \$000's	2015 \$000's
Land		
Opening carrying amount	3,300	3,300
Closing carrying amount	3,300	3,300
Office equipment		
Opening carrying amount	32	50
Additions	62	13
Reclassification between classes	-	(4)
Depreciation	(40)	(27)
Closing carrying amount	54	32
Buildings		
Opening carrying amount	849	457
Additions	81	448
Reclassification between classes	-	(4)
Depreciation	(64)	(52)
Closing carrying amount	866	849
Motor Vehicles		
Opening carrying amount	139	194
Reclassification between classes	-	(3)
Depreciation	(51)	(52)
Closing carrying amount	88	139
Foundations		
Opening carrying amount	2,121	2,168
Reclassification between classes	-	1
Impairment	13	-
Depreciation	(48)	(48)
Closing carrying amount	1,851	2,121
Electrical		
Opening carrying amount	4,878	4,997
Reclassification between classes	-	(3)
Impairment	13	-
Depreciation	(115)	(116)
Closing carrying amount	4,222	4,878

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 30 June		2016 \$000's	2015 \$000's
Roading			
Opening carrying amount		2,247	2,364
Reclassification between classes		-	(46)
Impairment	13	(219)	-
Depreciation		(71)	(71)
Closing carrying amount		1,957	2,247
Wind Turbines			
Opening carrying amount		28,733	29,486
Additions		929	805
Reclassification between classes		-	59
Transfer from Inventories		-	526
Disposals		(177)	(302)
Write off of retentions	16	(780)	-
Impairment	13	(3,842)	-
Depreciation		(1,954)	(1,841)
Closing carrying amount		22,909	28,733
Total property plant and equipment			
Opening carrying amount		42,299	43,016
Additions		1,072	1,266
Transfer from Inventories		-	526
Disposals		(177)	(302)
Write off of retentions	16	(780)	-
Impairment	13	(4,824)	-
Depreciation		(2,343)	(2,207)
Closing carrying amount		35,247	42,299

During the year ended 30 June 2016, 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 an impairment was required (2015: nil). Note 13 provides further information.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Represented by:

As at 30 June	2016 \$000's	2015 \$000's
Land		
Gross and Net carrying amount	3,300	3,300
Office equipment		
Gross Carrying amount	402	367
Accumulated depreciation	(348)	(335)
Net carrying amount	54	32
Buildings		
Gross carrying amount	1,433	1,352
Accumulated depreciation	(567)	(503)
Net carrying amount	866	849
Motor Vehicles		
Gross carrying amount	244	244
Accumulated depreciation	(156)	(105)
Net carrying amount	88	139
Foundations		
Gross carrying amount	4,651	4,651
Accumulated impairment	(2,321)	(2,099)
Accumulated depreciation	(479)	(431)
Net carrying amount	1,851	2,121
Electrical		
Gross carrying amount	12,593	12,593
Accumulated impairment	(5,643)	(5,102)
Accumulated depreciation	(2,728)	(2,613)
Net carrying amount	4,222	4,878
Roading		
Gross carrying amount	4,953	4,953
Accumulated impairment	(2,286)	(2,067)
Accumulated depreciation	(710)	(639)
Net carrying amount	1,957	2,247
Wind Turbines		
Gross carrying amount	80,254	81,316
Accumulated impairment	(40,106)	(36,264)
Accumulated depreciation	(17,239)	(16,319)
Net carrying amount	22,909	28,733
Total property plant and equipment		
Gross carrying amount	107,830	108,776
Accumulated impairment	(50,356)	(45,532)
Accumulated depreciation	(22,227)	(20,945)
Net carrying amount	35,247	42,299

5. INTANGIBLE ASSETS

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

The costs directly associated with obtaining land use consents for the Te Rere Hau wind farm were recognised as an indefinite life intangible asset to 30 June 2015. From 1 July 2015 this assumption was changed and has been accounted for prospectively as a change in estimate and these intangible assets are amortised over the remaining useful life (36 years) of the wind farm 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	2016 \$000's	2015 \$000's
Land use consent and wind rights		
Opening carrying amount	832	832
Impairment	(21)	-
Amortisation	(23)	-
Closing carrying amount	788	832
Grid connection		
Opening carrying amount	3,263	3,513
Impairment	(55)	-
Amortisation	(250)	(250)
Closing carrying amount	2,958	3,263
Total closing carrying amount	3,746	4,095

During the year ended 30 June 2016, 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 an impairment was required (2015: nil). Note 13 provides further information.

6. INVESTMENTS IN SUBSIDIARIES

As at 30 June	2016	2015
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	2016 \$000's	2015 \$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	68	287
- To be recovered after more than 12 months	20,051	17,775
	20,119	18,062

Deferred tax liabilities:

- To be recovered within 12 months	-	-
- To be recovered after more than 12 months	(670)	(548)
	(670)	(548)
Deferred tax assets (net)	19,449	17,514

Movement in temporary differences during the year

Opening balance

Property, plant and equipment	238	1,392
Provisions	(260)	(316)
Losses	17,526	16,072
Other	10	10
Tax assets/(liabilities)	17,514	17,158

Recognised in profit (loss)

Property, plant and equipment	430	(1,154)
Provisions	(341)	56
Losses	1,846	1,454
Other	-	-

Movement in temporary differences

	1,935	356
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Closing balance

Property, plant and equipment	668	238
Provisions	(601)	(260)
Losses	19,372	17,526
Other	10	10
Tax assets/(liabilities)	19,449	17,514

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 2019 (2015: 2017) and be fully utilised from that point on 2034 (2015: 2030).

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

8. TRADE AND OTHER PAYABLES

As at 30 June	2016 \$000's	2015 \$000's
Trade payables	676	668
Retentions	-	780
Accrued expenses	250	204
Employee entitlements	176	157
Goods and services tax	-	10
Closing balance	1,102	1,819

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	2016 \$000's	2015 \$000's
Opening issued share capital	107,005	107,005
Closing issued share capital	107,005	107,005
Retained (loss) earnings		
Opening balance	(42,483)	(42,324)
Net (loss)	(3,979)	(159)
Closing retained (loss) earnings	(46,462)	(42,483)
Closing balance	60,543	64,522

Share capital

As at 30 June 2016 share capital comprised 288,063,584 ordinary shares (30 June 2015: 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 2016.

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	2016 \$000's	2015 \$000's
Net profit (loss) for the year	(3,979)	(159)
Number of shares on issue over year (000's)	288,064	288,064
Basic and diluted earnings (loss) per share	\$(0.01)	\$(0.00)

Net tangible assets per share As at 30 June	2016 \$000's	2015 \$000's
Net assets	60,543	64,522
Less:		
Intangible assets	3,746	4,095
Deferred tax	19,449	17,514
Net tangible Assets	37,348	42,913
Number of shares on issue over year (000's)	288,064	288,064
Net tangible assets per share	\$0.13	\$0.15

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	2016 \$000's	2015 \$000's
Net profit (loss) attributable to equity holders of the company		(3,979)	(159)
Non Cash Items:			
Depreciation	4	2,343	2,207
Amortisation of intangible assets	5	273	250
Deferred taxation		(1,935)	(356)
Convertible notes	16	(11)	-
Provision for doubtful debts		-	(47)
Loss on sale of fixed assets		153	299
Impairment of non-current assets	13	4,900	-
		1,744	2,194
Changes in working capital			
Retentions write-off to wind turbines	4	780	-
Trade and other payables		(743)	(398)
Inventories		(51)	(282)
Trade and other receivables		335	(253)
Net cash flow from operating activities		2,065	1,261

12. CASH AND CASH EQUIVALENTS

As at 30 June	2016 \$000's	2015 \$000's
Operating accounts	18	97
On call accounts	788	277
Term deposits	1,800	3,150
Closing balance	2,606	3,524

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 2016 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 2016, 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 an charge of \$4,900,000 is required (2015: nil). 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 2015 are set out below.

Electricity price

The wholesale electricity price path used is based on the prices quoted on the 30 June 2016 ASX futures market projections through to 2019 and thereafter the latest Ministry of Business, Innovation and Employment (MBIE) Energy Outlook - Mixed Renewables (MR) scenario. The future price estimates in the MR scenario are expected to fall in the next release of the MBIE Energy Outlook due to be published shortly. The net impact of the expected change is a decrease in the net assets value in the impairment model of \$9,500,000 all other things being equal.

The prices are reduced to allow for location (4.5%) and for the weighted average price received for generation by the wind farm as compared with the average spot price (11%). The reductions are based on historical actual results and current trends and remain unchanged from 30 June 2015.

Output

Output for the 2016 financial year reached 130 GWh (2015:123 GWh) which is the output volume assumed in the model. The output was achieved despite the 4 meters per second wind speed recorded during the year, as measured at the Palmerston North Automated Weather Station, being below the long term average of 4.25 meters per second. The assumed volume remains unchanged.

Operating costs

The valuation includes the future exposure to the maintenance and overhead and costs of operating the wind farm's turbines which are no longer covered under the initial five year warranty. The costs have been reviewed based on expected future changes in major component failure rates and experience to date and the costs have been reduced. However in previous years the model has assumed that a second tier of maintenance savings will accrue in the medium to long term as operating experience and design changes allow the achievement of industry standards for maintenance costs for similar equipment. Based on five years of full operation of the wind farm the robustness of this assumption has been reassessed and it has been withdrawn from the model. The net impact of the changes is a decrease in the net assets value in the impairment model of \$2,000,000 all other things being equal.

Mid-life Refurbishment

The model assumes a mid-life refurbishment of the turbines is performed in 2031 thereby allowing the existing turbines to operate for forty years. 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 will be replaced progressively over time. An in depth review of the expected cost has resulted in the estimate being reduced by a third. The impact of the change is an increase in the net assets value in the impairment model of \$2,600,000 all other things being equal.

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

Inflation

Inflation is based on the predicted long term Consumer Price Index. The current rate is 2% and remains unchanged from 30 June 2015.

Discount rate

The discount rate matches the 10% real and after tax discount rate factored into the Ministry of Business, Innovation and Employment's long run marginal cost modelling on which the adopted future electricity price path is based. This rate also reflects the Ministry's estimate of the hurdle rate applied by a typical investor evaluating an electricity generation project. The existing rate remains unchanged from the previous year.

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, intangibles 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 loss. However due to the thirty six 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	4,788	(4,814)
Operating costs	(2,141)	2,138
Mid-life refurbishment	(259)	260
Inflation rate	631	(618)
Discount rate	(2,236)	2,455

Comparing the Market Capitalisation and Net Assets value

There is a continuing difference between the market capitalisation of the Group and the net assets value of the assets on the balance sheet. The Directors believe the reason for the gap is that market capitalisation is being driven by historic performance, and a lack of dividend payments, whereas the asset carrying value in the impairment calculation is based on expected performance over the long term.

Past performance has not met expectations due to lower than predicted wind resources and electricity prices and higher than expected maintenance costs incurred in bedding down the turbines. However the Directors believe these unfavourable conditions are not expected to continue in the long term hence the value in use impairment model includes assumptions more reflective of expected future performance. The independent long term price forecasts that underpin the enterprise valuation reflect increasing prices, in real terms, in the medium to long term. As time progresses the design and operating changes already made to the turbines, and future improvements, will reduce maintenance costs. A mid-life refurbishment of the turbines, involving a moderate amount of capital expenditure, will enable the existing turbines to operate cost effectively for forty years which is double the turbines design life.

As the Group's performance moves towards the long run projections underpinning the impairment assessment and net assets value the market capitalization is expected to increase correspondingly.

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

Intangible Assets

Under NZ IAS 36 Intangible assets with indefinite useful lives are required to be assessed for impairment at each reporting date. The fair value has been reassessed resulting in a decrease in the net assets value in the impairment model of \$76,000 (2015:nil) all other things being equal.

Note 4 provide further details of the intangible asset.

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 2016 (2015: nil).

15. RELATED PARTY TRANSACTIONS

Vector Limited is a related party due to Simon Mackenzie being a Director of NZ Windfarms Limited and the Chief Executive Officer of Vector. Vector holds a cornerstone shareholding of 22.11% in NZ Windfarms Limited.

NZ Windfarms Limited has negotiated an arms-length agreement with Vector Limited whereby Vector provides general electricity services. In the year ended 30 June 2016, \$120,000 of fees was paid to Vector Limited (2015: \$120,000).

Key management

Key management personnel short term employee benefits, including remuneration to Directors, was \$627,000 during the year ended 30 June 2016 (2015: \$626,000).

Directors' remuneration

Directors' remuneration of \$171,250 was paid and expensed during the year (30 June 2015: \$199,500).

Shareholdings

The only key related party shareholding in the Company, was Vector Limited (noted above), as at 30 June 2016.

16. WINDFLOW TECHNOLOGY LIMITED

On 30 October 2015 the Company reached a settlement with Windflow Technology Limited (the turbine supplier) over the outstanding issues that existed between the companies. The financial components of the settlement are comprised of:

- A lump sum payment of \$1,000,000 excluding GST to the Company;
- The write off of \$780,288, excluding GST, in retentions owing by the Company to Windflow Technology Limited;
- The write off of \$895,658, excluding GST, in unpaid warranty claims owing by Windflow Technology Limited to the Company which had been previously provided for; and,
- The issue to the Company of 4,250,000 fully paid convertible notes in Windflow Technology Limited that are convertible into ordinary shares at any time within three years of issue. The conversion rate will be adjusted so that, should the Company elect to convert all the convertible notes, the ordinary shares held in Windflow Technology Limited will be equal to 9.9 % of the total ordinary shares issued at the date of conversion. The convertible notes are subject to interest of \$0.01 per convertible note per annum.

The convertible notes were valued as at 31 December 2015 at \$63,000 which comprised the value of the future interest payments and the value of the option to convert the shares into ordinary shares in Windflow Technology Limited. The future interest payments value is the total interest payments to be received under the settlement after being discounted for risk and time value of money and subsequently measured at amortised cost using the effective interest method. The option value is calculated using the Black Scholes option pricing model. 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 insolvency, 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 a supplier on behalf of the Company. The obligation of BNZ under the current guarantee terminates on 30 November 2016 when it is anticipated it will be replaced by a similar twelve month guarantee. 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.

Resource Consent

We have been advised that the Palmerston North City Council (PNCC) will initiate a review of our existing consent under section 128 of the Resource Management Act 1991 due to the inaccuracies identified in the original Application for Environmental Effect for the Te Rere Hau wind farm. This action will likely result in a number of the noise and other general conditions of consent being amended. Alternatives to the section 128 review include NZ Windfarms applying to amend the conditions of consent itself under section 127 or lodging a new resource consent application for the existing wind farm.

As PNCC has elected to undertake a review NZ Windfarms is working collaboratively with PNCC to ensure that the review process is informed by independent expert advice and is robust and efficient. To this end NZ Windfarms and PNCC are in the process of negotiating a Memorandum of Understanding that provides for the appointment of an independent acoustic expert to advise the Council on which sections of the consent should be reviewed. The review process is likely to take up to 10 months and will likely take the form of a public hearing in Palmerston North before independent commissioners.

18. CAPITAL COMMITMENTS

The Group had \$422,000 of capital commitments as at 30 June 2016 (2015: nil).

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, 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.

The lease liability is as follows:

As at 30 June	2016 \$000's	2015 \$000's
Non-cancellable lease commitments:		
Within 1 year	1,418	1,396
1 to 5 years	5,855	5,785
More than 5 years	11,027	12,515
Minimum lease payments	18,300	19,696
less future finance charges	(8,941)	(9,898)
Present value of minimum lease payments	9,359	9,798

19. FINANCE LEASE (CONTINUED)

Present value of minimum future lease payments

As at 30 June	2016 \$000's	2015 \$000's
Non-cancellable lease commitments:		
Within 1 year	474	438
1 to 5 years	2,324	2,146
More than 5 years	6,561	7,214
Present value of minimum lease payments	9,359	9,798

Included in the Financial Statements as:

Finance lease - current	474	438
Finance lease - non-current	8,885	9,360

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	2016 \$000's	2015 \$000's
Lease payments expensed during the year	895	889
Non-cancellable lease commitments:		
Within 1 year	906	885
1 to 5 years	3,749	3,675
More than 5 years	7,303	8,204
Total operating lease commitments	11,958	12,764

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.

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.

A decrease in the average electricity spot price of \$10/MWh would have decreased electricity revenue by approximately \$1,300,000 (2015: \$1,230,000). Equity would have decreased by \$936,000 (2015: \$885,000).

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

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 \$10,000 (2015: \$10,000), and equity by \$7,000 (2015: \$7,000). 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	2016 \$000's	2015 \$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

There were no significant events subsequent to balance date.



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NZ WINDFARMS LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of NZ Windfarms Limited and its subsidiaries ('the Group') on pages 19 to 42, which comprise the consolidated balance sheet as at 30 June 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the 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.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors are responsible on behalf of the company for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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

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

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

Other than in our capacity as auditor and the provision of other assurance services, we have no relationship with or interests in NZ Windfarms Limited or any of its subsidiaries.

Opinion

In our opinion, the consolidated financial statements on pages 19 to 42 present fairly, in all material respects, the financial position of NZ Windfarms Limited and its subsidiaries as at 30 June 2016, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Chartered Accountants

29 August 2016

Auckland, New Zealand

DIRECTORS

Rodger Kerr-Newell of Western Australia (Chair)
Stuart Bauld of Auckland
Simon Mackenzie of Auckland (Deputy Chair)

EXECUTIVE STAFF

Chris Sadler - Chief Executive Officer
Derek Eades - Chief Financial Officer

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