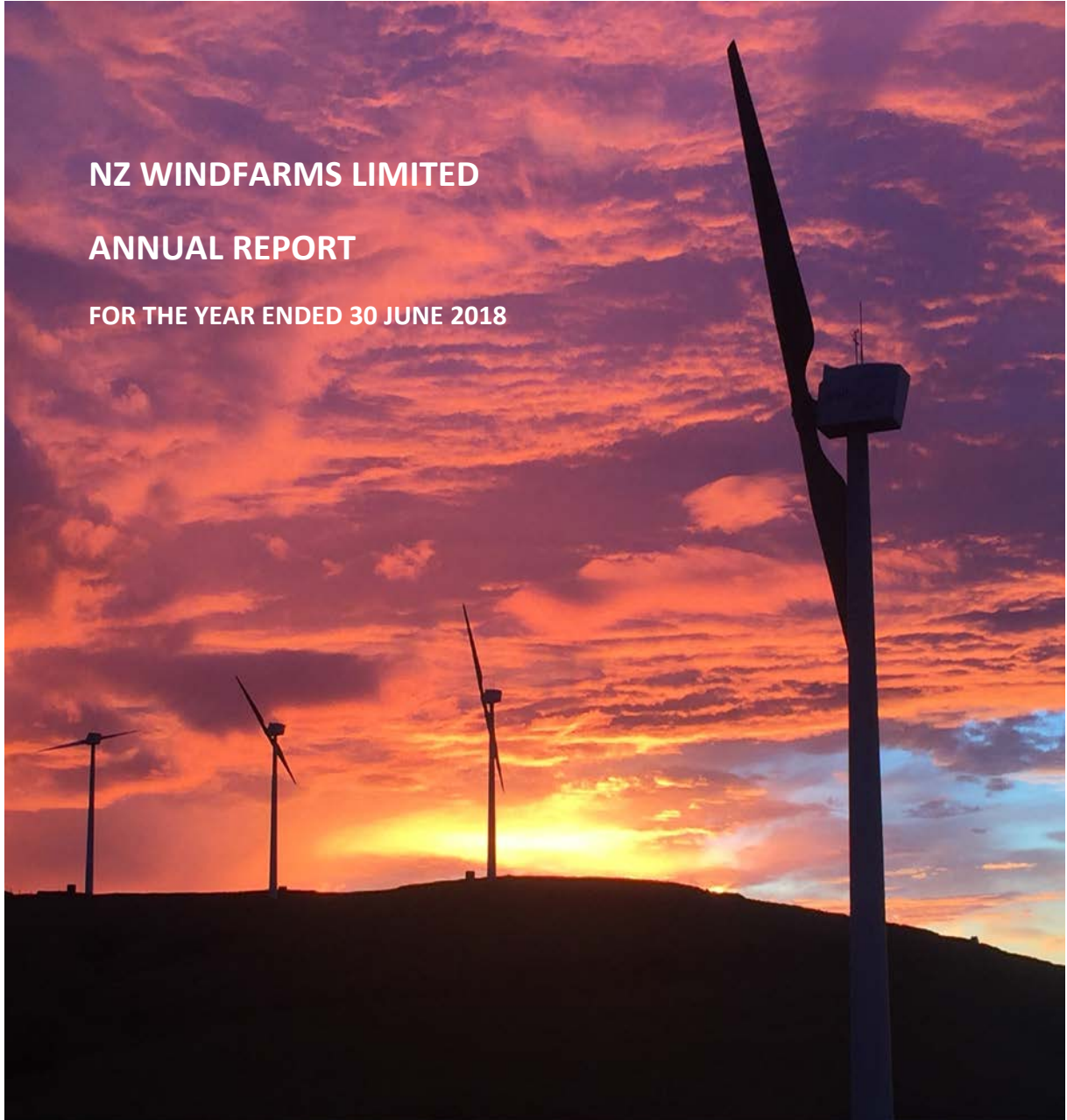


NZ WINDFARMS LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018



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INTRODUCTION

I wish to thank our shareholders for their patience as we have made this company operationally profitable. It has been a very significant year for NZ Windfarms as we have got on top of the many challenges that have dogged the company since it was established. It has been my pleasure to contribute to the transformation of the company, alongside previous Chairman Rodger Kerr-Newell and fellow director John Southworth. We recently welcomed new director Rob Foster to the board, where he brings valued industry experience. We thank previous Chairman Rodger Kerr-Newell for his service and leadership over the last two quite intense turn-around years. Our CEO John Worth and his team are now well bedded in, and this has enabled them to focus on company performance this year. Significantly, health and safety performance has been very strong which remains critically important to our people, management and the board.

Rodger was due to stand for re-election at this AGM, but has chosen not to seek re-appointment. We thank him again for the significant contribution he has made to transforming the company.

The company has made significant progress in key areas this year. Early in the financial year we successfully purchased the Powerco-owned on-site electrical reticulation assets. We have brought noise litigation with Palmerston North City Council to a close through collaboratively working with our neighbours and through the rollout of smart turbine control strategies, such that we now have much improved and enduring resource consents. We contributed to recent rule changes governing the way wind generation is offered into the wholesale market, and while waiting for these new settings to take effect, we have received interim dispensation from the regulator to curtail our output based on price. This has permitted us to fundamentally change how we operate the wind farm, and has had a significant impact on operational profitability. We now invest in key turbine components based on payback, which has significantly reduced our capital spend. The combined effect of these initiatives made a maiden dividend possible in late 2017.

We promised significant change in FY18. Key achievements include:

- The \$17.3m purchase of the electrical reticulation assets and the establishment of the company's first debt facility
- An enduring end to noise litigation through amendments to our consents
- Market rules changed to allow wind to be price/volume offered
- Interim dispensation achieved to allow curtailment on price
- Three-axis curtailment regime designed and implemented
- Short run marginal cost down significantly
- First hedging gains realised
- Rational parts investment logic put in place

We have spent much of the year developing and rolling out three-axis (ie curtailment on market price, windspeed and turbulence intensity) and other curtailment strategies aimed at finding the optimal balance between generation volume, wholesale price realised and mechanical cost to run. We have moved away from the company's original policy of maximising generation volume accompanied by high mechanical costs, such that while it sounds counterintuitive, reducing turbine running hours in times of adverse wind conditions and periods of low price is more than offset by reduced mechanical run cost.

This financial year is significant in that while we were busy investing in and progressing a range of key initiatives, we were able to realise benefits from these initiatives as significant contributors to the year end outcome. In taking control of the electrical reticulation assets following the positive shareholder resolutions at the 2017 AGM, we have saved over \$0.5m this year. For many of our key strategic moves, such as the rollout of three axis curtailment, we received benefits for part of the year only. While the financial impacts of a number of recent initiatives are modest, they are essential moves in making our business profitable. Our three axis curtailment regime has been in place only in the last quarter, such that we anticipate greater impacts from these initiatives in FY19.

The purchase of the electrical reticulation assets saw the company enter into it's first debt facility (\$12.3m with BNZ). As forecast, we met our first two covenants tests and we continue to build capital management disciplines into the organisation.

The second half of the year has also seen our staffing rationalisation come to a close. When combined with all of our new operating strategies, we now have our cost base refined and stable, and this positions us well for FY19 and beyond.

We have completed our first year of operations with our electricity hedging strategy in place. The strategy is designed to baseline revenues and protect against a downward wholesale price move. The average wholesale price curve for the year was much improved on FY17, and even with a stronger curve we were able to benefit from the risk premium priced into futures contracts captured by our hedge book which provided \$0.45m of additional revenue.

The combined impact of everything we have put in place over the last year is a year end profit before tax of \$0.78m, largely consistent with FY17 (\$0.91m). The FY18 year-end profit before interest, impairment, amortisation, depreciation and tax¹ was a result of just under \$4.0m.

During the year the Company's largest shareholder, Vector, sold its entire shareholding. This sale caused a significant loss of shareholder continuity and required the reversal of previous tax losses. The financial impact is significant with a tax charge of \$16.248m resulting in a tax expense of \$15.527m, despite our pre-tax profit of \$0.78m. This change has no cashflow impact. We note this also causes the loss of \$0.2m in imputation credits. We are pleased to note the entry of new shareholders Salt Funds Management Limited and AMP Capital Investors (New Zealand) Limited.

There is much to be proud of in these achievements. We remain very realistic about the future however. We remain at the mercy of the elements. If there is high rainfall, water storage depresses price. If winds don't blow, our production is reduced. The reverse is also true, and we prosper when there is wind and no rain. We have however produced a strong operating profit.

We continue to remain focussed on the external initiatives essential to transform our business. The change of government has brought about some key policy change in the sector, creating significant uncertainty for all market participants. While the government has set ambitious carbon targets, it is less clear how policy and the market will see these achieved. Nova's announcement that it will build the Junction Road gas peaking plant suggests that there remains a significant gap between political ambitions and market reality. For NZ Windfarms, acquiring additional generation capacity has become both more difficult and more risky, as we contemplate potential further policy change. Retail also looks challenging with significant rationalisation, regulatory intervention and margin pressure apparent in the sector.

A further outcome of the engagement we undertook as part of the overhaul of the company's resource consents through FY18 was a much improved relationship with our neighbours. Since we put in place new noise management measures we have received only a handful of noise complaints, and alongside our active support of local businesses, schools and groups is an emerging social license to operate.

We are very pleased with the way CEO John Worth and his team have managed the business through FY18. We have put to bed many of the significant issues that have dogged the company, thereby largely completing the internal tidy-up of our operations. This allows us to shift our focus to the external factors that will drive future profitability.

ELECTRICITY AND HEDGE REVENUE

Electricity revenue for the year was \$7.165m, derived from 103GWh of generation and an average wholesale price received of \$69.55/MWh. Hedging revenues of \$0.450m enhanced total revenue by 6.3%, lifting average wholesale price received to \$73.98/MWh and total electricity revenue to \$7.615m. While hedge revenue was modest, this was a function of relatively strong pricing.

The 103GWh annual production figure has been influenced by the range of curtailment measures in place. As an organisation we have moved away from an annual production target, seeking instead to balance generation volume against cost to run. Price curtailment in place since April 2018 has resulted in an average 10% reduction in turbine running hours, with the run/not run decision made at each turbine based on a relationship between turbulence intensity, wind speed and market price. The algorithm that drives this decision is complex but is designed to improve the separation between revenue and run cost. Clearly curtailing in adverse conditions (when turbines are loss-making) enhances our profitability, and underlines the significance of the rules relief we have obtained.

Curtailment reduces fault incidence, mechanical wear and ultimately turbine component failure. What we are seeking is to balance generation against mechanical cost to run. The ultimate measure of the success of our curtailment initiatives is profit before interest, impairment, amortisation, depreciation and tax and use of capital parts. This year's financial result indicates that we have made significant progress in optimising this balance. Whilst we have much more work to do, it is likely we will settle on an annual production figure (subject to seasonal and annual variability) of around 120GWh. Again, the actual number, given that it is directly related to production cost, is one of many inputs; we are in pursuit of profit, not simply production.

¹ Profit before interest, impairment, amortisation, depreciation and tax is non-GAAP financial information. The non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. A reconciliation of profit before interest, impairment, amortisation, depreciation to profit before tax is provided in the consolidated statement of comprehensive income. The non-GAAP financial information has been subject to audit.

We note demand in the sector continues to be relatively soft. Total national electricity demand declined by 0.8% in the year to June 2018, and as such the forward electricity price curve remains largely consistent with last year. We are very focussed on profitability in the current market settings; an essential approach given industry uncertainty and modest forecast future electricity pricing.

OPERATIONAL PERFORMANCE

Turbine operating performance continues to improve. It is clear that this is a direct function of the operational strategies we have put in place. While the latest version of our three-axis curtailment regime was rolled out in April 2018, it followed earlier beta versions including turbulence intensity curtailment in place since the beginning of the financial year. As such, we have an evolving body of evidence that supports our view that the way we are operating the fleet is more optimal than prior strategies.

One of the best indicators of turbine performance is fault incidence; when a wind turbine is sub-optimally loaded, such as in times of high turbulence, faults arise. Our operations team has been successful in steadily reducing fault incidence; since three-axis curtailment has been rolled out, fault incidence has dropped significantly, validating this operations approach.

During the year we completed complex computational fluid dynamic (CFD) modelling of our site, which informs our operational strategies. This work assesses each turbine site, and is an essential building block as we refine our curtailment regimes. We also decommissioned three turbines during the year where net revenue was negative. This was a function of the poor original siting of these turbines, such that the wind resource that the turbines were exposed to caused high levels of wear and damage. This presented the opportunity to utilise high value components in these turbines (particularly gearboxes) in other more productive turbines. In making these decisions we utilise forecast forward wholesale prices; if the price is poor component replacement is illogical and when price is high we invest in parts to return the turbine(s) to production.

During the year we carried out the preparatory work to move our control room provider. This change occurred as scheduled post financial year in August 2018. Our new provider enables us to better utilise opportunities in the changed price/volume regime and also offers cost savings.

Our operational strategies continue to see our normalised full-fleet turbine average short run marginal cost decrease. Our ability to curtail turbine operations during periods of low price is effective at reducing turbine running hours when cost to run exceeds market price. While this approach makes calculating the whole-fleet short run marginal cost more challenging (given that curtailment can occur at a range of prices depending on conditions) than under the prior must-run market rules, there is no doubt that this approach is improving the separation between price received and cost to run. Making these changes provides further validation both around the underlying quality of the turbine platform, and in our ability to operate the turbine fleet intelligently for profit. As we continue to make positive change we improve our alignment with our peer wind farm operators.

Health and safety performance continues to be exceptional, with no recordable incidents for the financial year. We have worked closely with our industry colleagues and during the year adopted the Electrical Engineers Association Generation/Transmission/Distribution safety performance benchmarks. This helps to ensure that our performance is up to best industry standards.

FINANCIAL PERFORMANCE

We remain focussed on maximising the company's profitability and returns to shareholders. Strong operational performance contributes directly to financial profitability. While our progress in improving profitability reflects our initiatives both on the cost side of the ledger and on the revenue side, it is the complex relationships between turbine running decisions and costs to run where we see the greatest potential. This is precisely what three-axis curtailment seeks to optimise. Our financial result is a function of the interplay between:

- Minimising fixed costs,
- Optimising the turbine cost to run/revenue balance and
- Ensuring regulatory settings permit flexibility in achieving this balance

Our success in bringing noise litigation to a close through the s128 process largely ends noise compliance costs faced by the business, and permitted the capitalisation of some of these costs as the amended consent is considered as an asset. Acquisition of the Powerco-owned electrical reticulation assets also creates significant savings, adding approximately \$0.5m to our bottom line this year. Hedging revenues for the year were positive at \$0.45m, albeit featuring modestly given relatively strong wholesale electricity market pricing.

The combined effect of the initiatives put in place in FY18 is a full-year profit before interest, impairment amortisation, depreciation and tax² of almost \$4.0m, wholly different from FY17 (\$0.28m) and almost double that achieved in FY16 (\$2.3m). FY18 electricity revenue was well ahead of that achieved in FY17 but was consistent with electricity revenue received in FY16. Total operating costs were also consistent between FY17 and FY16 at \$5.8m and have reduced to \$3.7m in FY18. Moving the cost base by over \$2m year on year is a significant achievement for the company.

While we have realised hedging gains and our hedging strategy is working to baseline revenues, we retain some exposure both to a wholesale price curve move and to production variability. We will continue to seek ways to further reduce this exposure in FY19.

RESOURCE CONSENTS AND SOCIAL LICENSE TO OPERATE

Enduring resource consents that enable effective utilisation of assets are central to all infrastructure businesses. The noise emissions compliance litigation that has dogged us since the wind farm was established has been value destructive, both because it has been expensive and because it threatened sustainable operations. The final chapter in this litigation, led by Palmerston North City Council, was a council-instigated consent conditions amendment process under s128 of the Resource Management Act 1991. We received formal notice of this process in early 2017.

The process provided the company with the opportunity to achieve an enduring end to the litigation, and more importantly to find a sustainable resolution to noise issues for local near-neighbours. The company had to make a choice; it could continue to argue compliance with the original consent, or it could focus on working with neighbours to manage effects against the most relevant standards. This marked a significant change in approach by the company. Through 2017 we engaged closely with neighbours, many of whom had been involved in years of litigation against the company. We were heartened that our neighbours engaged with us so positively against this backdrop, and this allowed us to develop customised solutions to very specific noise issues. What we agreed through the s128 process and hearing was a new set of consent conditions targeted at three turbines located close to residences, where we put in place summer evening and weekend curtailment in non-prevailing low velocity south-easterly winds.

The s128 process was completed without recourse to the Environment Court, and we have implemented all of the recommended changes. Since rollout we have received only a handful of noise complaints, providing feedback that we have made a meaningful difference. At our first community liaison group meeting in early 2018 there was general agreement that the measures put in place have meaningfully improved noise emissions, and we have committed to continuing to work with our neighbours to refine an appropriate balance between effects and renewable energy generation.

Since the successful conclusion to the s128 process, we have been working hard to build on our social license to operate. Our commercial activities support dozens of Manawatu businesses, we host sporting events on our site and we are developing a community engagement programme to further improve the positive impact we can have within our community.

CAPITAL MANAGEMENT

The business continues to mature its approach to the use of shareholders capital. The purchase of the Powerco assets was part-funded by a new \$12.3m loan facility, and the transaction allowed us to pay a maiden dividend. The loan is for a three year term and amortises over 13 years, and our first two banking covenant tests required by the debt facility have been met.

Capital allocation in the business is rigorous; investment in turbine components is only undertaken when there is a clear economic case for that investment. This has resulted in a smaller operating fleet. Low-net-revenue turbines that have been decommissioned short-term due to major component failure will be recommissioned when electricity pricing provides a return on the capital required. The same approach will feature strongly in the future.

² Profit before interest, impairment, amortisation, depreciation and tax is non-GAAP financial information. The non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. A reconciliation of profit before interest, impairment, amortisation, depreciation to profit before tax is provided in the consolidated statement of comprehensive income. The non-GAAP financial information has been subject to audit.

Shareholders will note the payment of a maiden fully imputed dividend of \$2.449m (0.85 cents per share) during the financial year, in November 2017. The Company is undertaking some work on capital management at present, which is anticipated to be completed shortly.

OUTLOOK

With the initiatives we have successfully put in place in FY18, we believe we have made the business sustainably profitable on an operational basis. We really have achieved a great deal in the last 12 months. Our management team under John Worth's leadership is well bedded in and has a firm grasp on the operational levers that will continue to drive profitability.

At the 2017 AGM we noted our plans to move beyond being a simple price-taking merchant generator. We have assessed a range of initiatives as part of this strategy, a number of which show promise. The new government and recent policy announcements have added complexity and risk for all market participants, and this means that the opportunity set is more defined and that we must proceed with caution.

We note too the changing nature and role of renewable energy in deregulated markets. The Australian market in particular features many merchant generators, and we are seeing more elaborate electricity output contracting to support these businesses. We expect these support mechanisms to become available in New Zealand and add to our hedging options in the future. You can be assured that we are very focussed on being at the forefront of this market evolution where we can extract value.



Stuart Bauld
Chairman
24 August 2018



OVERVIEW

I am pleased to report on strong progress with key initiatives throughout the FY18 year which has both contributed strongly to the FY18 result, and positions the company well for the future. We have put behind us many of the challenges that have dogged the company since its creation, making for a satisfying year.

First and foremost, we have delivered well on our health and safety goals. We can report no recordable incidents for the year, and alongside our adoption of new whole-of industry benchmarks and a strong on-site safe working culture we are ensuring that we take every opportunity to enhance safe work outcomes for our people.

It is particularly pleasing to have brought challenges with the company's resource consents around noise emissions to a close this year. We chose to work closely and collaboratively with our near-neighbours in designing and adopting a range of noise control measures. We put the first of these in place voluntarily in July 2017, well ahead of the s128 hearing later last year, where we formalised summer weekend and evening operating controls on three turbines located close to residences. With only a handful of noise complaints since, we have put significant noise issues firmly behind us.

We completed the purchase of the Powerco-owned wind farm electrical reticulation assets in September. This has allowed us to take full control of all wind farm assets for the first time since the farm was established, and also realising significant annual savings of approximately \$0.5m this year. We have successfully taken on board these assets and put in place the necessary inspection and maintenance regimes and they continue to perform to expectations. Having full asset control will be of value as we contemplate the optionality on our site.

We worked closely with the industry regulator, the Electricity Authority, through the year. We contributed alongside other industry members to successfully changing the wind offer rules, which were announced in April 2018. This permits us (and other wind generators) to curtail, or turn off the wind farm or parts of the wind farm in response to wholesale market price, preventing running at times when the market price is below the wind farm short run marginal cost of production. While we await essential dispatch changes by the system operator (Transpower), in late 2017 we received interim dispensation to curtail on price. This is an essential component in our three-axis curtailment strategy. Working closely with the regulator and system operator so that they understand the imperatives for our business is essential and has yielded important changes for the company. We remain optimistic that in time price/volume wind offers for wind generation can reduce the intermittency discount our sector suffers.

We spent much of the year developing and rolling out what we call three-axis curtailment, supported by the completion of computational fluid dynamics modelling of the site. This is a regime where the wind farm is designed to respond to wind speed, turbulence intensity and price signals. Each turbine effectively solves to a complex algorithm that assesses the relative contribution of each of the three inputs (or axes), creating a three-axis graphical run/not run surface. For example, at a certain combination of wind speed, turbulence intensity and price, a turbine "decides" that it is not viable to run. Viable in this context means that the revenue gained by running does not exceed the wear (and thus cost) those conditions is causing to the turbine. We rolled out a test version in January with a refined version rolled out in April. This algorithm is making automated real-time decisions constantly, 24 hours a day, seven days a week on our entire turbine fleet.

Three axis curtailment is significant in that it aims to find the optimal balance between generation volume and mechanical cost to run the fleet. For this reason, we have moved our focus away from a hard annual production target, in effect choosing to "give up" generation because we can achieve a consequently greater reduction in operating cost. The point here is that the only relevant metric is profit – the separation between earnings and costs. Our analysis is that we are likely to settle at a production average of around 120GWh per annum which in turn supports the lower cost base we are managing in the business.

Our cost-out programme has matured significantly through the year. In late 2016 the business had 16 full time employees; we are at 11 today. Staffing rationalisation came to a close at the end of 2017 and we have in place a tight-knit, hard working and very capable team. The year-end result is due in large part to their efforts in contributing to the turn-around of the company. Counter to logic, this much smaller team has achieved full year turbine availability of 98.4%, a significant improvement against the prior year performance of 96.1% and well ahead of the industry standard of 97%. A range of other costs have been eliminated or reduced in our business through the year. We now have our cost base at a level we believe we can sustain.

Our approach to capital management continues to develop. Through the year we applied new rigour to major turbine component repair decisions. A small number of turbines on the farm are poorly sited and as such have suffered high failure rates. When contemplating replacing components in all turbines, we assess the contribution each turbine makes to profitability on the basis of forecast electricity pricing. This determines whether a component warrants rebuild or replacement, or replacement with a part from a poor contribution turbine. Through 2018 this analysis determined that it was optimal to move parts from three low producing turbines, thereby reducing the fleet size temporarily by three turbines.

When wholesale pricing is stronger these turbines may be recommissioned and returned to service. This saw our turbine capital expenditure drop to \$0.19m for the year.

We are currently working on further refinements to our operating strategy. We now have sufficient flow data to assess the impact of key resource parameters including wind shear (the change in wind speed with height above ground), inflow angle (the angle to the horizontal at which wind impacts the turbine rotor arc – influenced by topography) and wake effects (the impact of upwind turbines creating wash for downwind turbines). Assessing the contribution of these parameters to turbine loading and consequent wear and component failure and developing and assessing mitigation strategies where relevant forms a major part of our FY19 work programme.

Component failure rates continue to fall as the product of reduced running hours, less running in undesirable (high wear) conditions and recent improvement projects. Improving the turbine service interval is essential to running the wind farm with a smaller team, and we have evidence that we have this more in balance. We actively track a number of fault metrics, and the rollout of three axis curtailment has seen a steep decline in faults through the last quarter of the year.

Wholesale pricing earned for the year was much improved on FY17, averaging \$69.55/MWh (2017: \$47.98/MWh). Hedging gains from our first year with hedges in place were modest at \$0.45m, however this reflects the relatively high average pricing received. Our principal objective in hedging is to baseline revenues by protecting against a collapse in the wholesale price; this ensures we achieve reasonable separation between income and our cost to operate. Hedging certainly fulfilled this role and added a modest net upside at year end.

Financial performance for the year was in line with our targets yielding a profit before tax of \$0.78m (2017: \$0.91m). Our profit before interest, impairment, amortisation, depreciation and tax³ was \$4.0m (2017: \$0.28m). The result was a function of all the initiatives put in place through the year, and the comparison to FY17 was a pleasing endorsement of our initiatives. What is most important about our FY18 achievements is that they are largely durable, in that we anticipate their benefits being both stable and likely to continue to manifest over coming years. Wind resource and wholesale market price will continue to be volatile and, outside of hedging, beyond our control. What we can control is our cost base and the way in which we make capital investment decisions.

Our team has done an exceptional job throughout the year, moving towards an environment of real rigour in operations, capital management and lean-working, all whilst achieving excellent turbine availability. We are very fortunate to have such a strong skill base in-house, and we have a new engineer in the team who is already adding significant value.

We continue to refine our hedging strategy. We are continuing to build hedge cover 12 to 18 months out, endeavouring to capture some of the dry year risk premium priced into futures contracts. Our results to date suggest that we are appropriately balancing risk and potential upside, remembering that our principal objective is the baselining of revenues to ensure sustained profitability. Exchanging ASX energy futures for over the counter contracts for difference with a gentailer earlier in the year was an important leg in our strategy of managing cashflow when the market is volatile.

HEALTH AND SAFETY

We continue to make progress in our health and safety performance. We are proud to report no work-related lost-time incidents or recordable incidents for FY18. Health and safety remains a core part of our business. We have worked hard to ensure that our systems promote and ensure safe working whilst remaining concise, workable and appropriate to the nature of our business, ultimately ensuring all our people are safe whilst at work. This strong culture in turn drives improved outside work behaviours, which is good for our people and wider society.

FY18 saw the addition of “positive safety observations” to our reporting regime to help add further strength to our proactive reporting culture and to align our reporting statistics with other industry leaders. In FY18 we joined the Electrical Engineers Association (EEA) to give us access to more relevant health and safety benchmarks appropriate to our work scope. We believe the EEA's benchmarks, which cover generation, transmission and distribution, are more relevant to us than the New Zealand Wind Energy Association's Wind Energy Safety Committee benchmarks which we had previously used. While we remain engaged with this group, their metrics include significant office-based activities relevant to the wider turbine supply industry and don't map well to our business. Use of relevant statistics helps us to ensure we are well aligned with industry standards. We have bettered the relevant EEA industry benchmarks for FY18.

³ Profit before interest, impairment, amortisation, depreciation and tax is non-GAAP financial information. The non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. A reconciliation of profit before interest, impairment, amortisation, depreciation to profit before tax is provided in the consolidated statement of comprehensive income. The non-GAAP financial information has been subject to audit.

CHIEF EXECUTIVE OFFICER'S REVIEW (CONTINUED)

As mentioned, we developed some new systems and techniques of work through the year. A new man-platform improves our maintenance scope and flexibility, and we led the process of appropriate design, certification and use of the platform. It is important that we are always seeking new ways to work safely, as this example attests. Internal and external annual safety audits were completed successfully, and we are proud of the strong safe work systems we have developed in the company.

With a small operations team I can report a very strong and tight-knit culture. There is real trust amongst team members that comes with time served together in pursuit of a common goal. We work hard to celebrate milestones and successes such as major component replacements, and this helps to develop and retain high levels of engagement and commitment.

OPERATING PERFORMANCE

Turbine performance has improved markedly for the year, with the organisation achieving 98.4% turbine availability.

As our operational approach matures we are continually seeking new metrics to evaluate performance. As the full fleet short run marginal cost approaches industry norms, we need new ways of assessing the impacts of our range of curtailment strategies. This year we are particularly focussed on fault incidence and the proactive/reactive maintenance balance we achieve.

Turbine fault numbers provide a useful proxy of turbine health; running in aggressive (for example, turbulent) conditions increases fault incidence. We have tracked a significant drop in fault incidence following the rollout of three-axis curtailment. This provides a strong signal that this regime is successful in protecting the turbine from stress events. Reducing fault incidence provides a short term benefit of lower turbine down-time (some faults require a technician to visit site, climb the turbine and address the event) thus higher turbine availability and revenue generation. Longer term, lower fault incidence prolongs the life of the turbine and key wear components.

Another metric that provides a useful snapshot of a company's effectiveness at managing mechanical plant is the ratio of planned to unplanned maintenance. For mechanical plant operators, achieving 90% planned maintenance (and thus 10% unplanned) is considered the gold standard of operational achievement. For the company, planned maintenance has risen from 85% in FY15, to between 89% and 90% over the last 24 months, which in maintenance planning terms is significant.

Our in-house team continues to develop its capability and scope. We issued share options to all staff through the year, and this has brought about real cultural change in terms of staff being strongly focussed on market price and managing the fleet to maximise revenue capture.

Wind conditions continued the FY17 trend of high variability, contributing to a relatively low wind year of 103.0GWh, noting that this number was influenced by elective curtailment. As a company we are moving away from undue worrying about resource volatility; it is a natural function of our business and we need to be able to manage this. The same is true of price volatility; hedging is a mechanism to deal with this and we will continue to seek ways to further manage both resource and price volatility. Wholesale pricing and wind resource will wax and wane; what is durable is a lower cost base, and this positions us well in the face of this volatility.

FY18 was also characterised by high price volatility. Wholesale pricing followed significant changes in South Island hydrology through the year, with a significant reversal of position from December 2017 to January 2018. Again, managing price volatility alongside resource volatility is a core skillset for a merchant generator and our focus on this continues.

TE RERE HAU TURBINES

Operations

Significant repairs and refurbishments

We are continuing to see rates of component replacement generally decline, underlining the effectiveness of the range of curtailment strategies and improvement projects undertaken over the last two years. The operations team performed the following significant repairs and refurbishments over the year, with the prior two comparative years shown in brackets:

- Gearboxes replaced, 4 (2017 – 10, 2016 – 15)
- Pitch bearings replaced, 28 (2017 – 20, 2016 – 36)
- Torque Limiting Pumps replaced, 24 (2017 – 56, 2016 – 61)
- Generators replaced, 0 (2017 – 6, 2016 – Nil)

The company continues to make progress on extending the life and performance of key components as evidenced above. We are now in a place where we are confident that our curtailment regimes are proving effective at extending component lives. Our low spend on capital components this year is evidence that we can well-manage our exposure to major parts failure.

Improvement projects

A range of improvement projects developed through FY17 and FY18 are now bearing fruit, including improvements to torque limiting pumps, pitch bearing lubrication, pitch actuator improvements and gearbox refinements on high productivity turbines. A range of minor projects remain in play as part of our normal business.

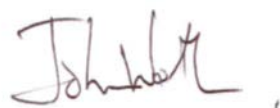
We remain quietly confident that ongoing intervention driven by solid engineering judgement will continue to improve operational outcomes for the company. We have made huge strides in this space in FY18, but we're not done yet.

CONCLUSION

The 2018 financial year has been a critical one for the company. We promised that we would act on the many challenges facing the organisation, and that is largely what we have done. This work has been both challenging and rewarding. Purchasing the electrical reticulation assets was a major piece of work, and transacting on time and to budget following the support of shareholders at the AGM was a major win. Bringing noise issues to an enduring end through collaborative work with our neighbours was another significant achievement for the year. Obtaining regulatory relief to permit the rollout of our three-axis curtailment regime is another major shift for the company. We continue to improve the performance of the wind farm, and aligned with this we have achieved significant cost savings.

We are fortunate to have a very committed and capable team in place; what we have achieved in FY18 across health and safety, operating and financial metrics is testament to this. Standing back a distance, the way we run the wind farm is aligning with global best practice, and we will continue to seek out opportunities for further improvement. Merchant generation is not an easy place to be, but we're determined to be as successful as we possibly can be in the sector. We have certainly come an enormous distance in a short period of time.

We're fortunate to enjoy the support of a committed board and shareholder base. As always, thank you for your support as we continue the journey.



JOHN WORTH
Chief Executive Officer
24 August 2018



DIRECTOR PROFILES

The Directors of NZ Windfarms Limited are:

Stuart Bauld, Chairman

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

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

John Southworth, Deputy Chairman

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

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

Rodger Kerr-Newell, Director

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.

Rob Foster, Director

Rob is a self-employed business consultant and has 25 years senior leadership experience in the energy and finance sectors. Rob was the former Chief Executive of King Country Energy Limited, and has held senior corporate advisory roles with investment banks Macquarie Bank and ABN AMRO. Rob is a member of the Institute of Directors in New Zealand.



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

COMPLIANCE WITH NZX BEST PRACTICE CODE AND OTHER GUIDELINES

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

Code of Conduct

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

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

Role of the Board of Directors

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

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

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

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

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

Delegation of authority

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

Continuous disclosure obligations

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

Share trading by Directors and management

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

Treasury Policy

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

Board composition and membership

In accordance with the Company's Constitution, the Board will comprise not less than three Directors. At 30 June 2018 the Board comprised four Directors: an independent non-executive Chairman, and three non-executive Directors, of which two are independent Directors.

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.

Table 1 records director attendances at meetings during the FY2018 financial year.

Table 1; Director Attendances at Board Meetings in FY2018

	Board Meeting	Risk and Audit Committee Meeting
Number Held	8	3
Stuart Bauld	8	3
John Southworth	8	3
Rodger Kerr-Newell	8	2
Rob Foster ¹	-	-

Note 1; Rob Foster was appointed 21 June 2018

Chief Executive Officer

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

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

Independence of Directors

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

It has been determined by the Board that all Directors are independent except for John Southworth, being a Director of LET Capital No 1 Ltd, the Company's third highest shareholder holding 7.58%.

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

Rotation of Directors

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

Directors and Officers gender composition

At 30 June 2018 there were five (2017: four) Directors and Officers. The gender composition is shown in the table below.

	2018	2017
Directors - female	-	-
Directors - male	4	3
Officers - female	-	-
Officers - male	1	1
Total	5	4

BOARD COMMITTEES

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

Audit and Risk Committee

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

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

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

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

Remuneration Committee

The Remuneration Committee at the end of the financial year comprised Rob Foster (Chair), Stuart Bauld, John Southworth and Rodger Kerr-Newell. 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 John Southworth (Chair), Stuart Bauld, Rodger Kerr-Newell and Rob Foster. 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 Board meeting.

Audit governance and independence

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

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

Reporting and disclosure

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

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

Shareholder relations

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

DIRECTORS' SHAREHOLDINGS AS AT 30 JUNE 2018

Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the NZX Listing Rules at 30 June 2018 are listed below:

Name of Related Party	Relationship	Shares 30 June 2017	Movement	Shares 30 June 2018	Share options at 12.5c/share	Share options at 15c/share
Stuart Bauld	Director	-	-	-	2,875,000	2,875,000
Rodger Kerr-Newell	Director	-	-	-	2,875,000	2,875,000
Rob Foster	Director	-	-	-	-	-
John Southworth	Director	21,911,799*	(821,918)	21,089,881**		

No options have been exercised at 30 June 2018

* LET Securities Ltd held 21,824,799 shares

** LET Capital No 1 Ltd holds 21,002,881 shares

Shares were transferred from LET Securities Ltd and LET Capital No 1 Ltd

STATUTORY INFORMATION

INTERESTS REGISTER

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

Director	Period	Counterparty	Nature of Interest
Stuart Bauld	Full year	Whitholden Holdings Limited	Director/Shareholder
		Addictive Design Limited	Director/Shareholder
		OneSteel NZ Limited	Director
		Daffodil Enterprises Limited	Director
		NZWL-TRH Limited	Director
		TRH Services Limited	Director
		Ellis King Clark	Principal
		OneSteel NZ Holdings Limited*	Director*
		OneSteel NZ Recycling*	Director*
		Palmer Tubemills (NZ) Limited*	Principal*
Rodger Kerr-Newell	Full year	Cancer Society of NZ*	Director*
		EYE93	Director/Shareholder
		NZWL-TRH Ltd	Director
		TRH Services Ltd	Director
John Southworth	Full year	Shire of Halls Creek Western Australia*	CEO*
		LET Securities Limited	Director/Shareholder
		LET Capital Limited	Director/Shareholder
		LET Capital No 1 Ltd	Director/Shareholder
		NZWL-TRH Limited	Director
Rob Foster	Commenced 21 June 2018	TRH Services Limited	Director
		Praxis Capital Ltd	Director/Shareholder
		NZWL-TRH Limited	Director

NZX WAIVERS

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

DIRECTORS REMUNERATION

Directors' fees total \$179,500 (2017: \$145,625) per annum. The Board Chairman receives \$70,000, the Deputy Chair \$52,500 and the remaining Directors \$45,000. 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 2018:

Name	Directors Fees	Other Fees
Stuart Bauld	\$56,958	-
Rodger Kerr-Newell	\$70,917	-
John Southworth	\$51,625	-

* Rob Foster was appointed 21 June 2018 and fees for FY2018 were aggregated with FY2019 fees.

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 (2017: \$20,000,000) in the aggregate.

SUBSIDIARIES

The following persons held the office of Director of NZ Windfarms Limited's subsidiaries at 30 June 2018. 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): Stuart Bauld (Chairman), John Southworth, Rodger Kerr-Newell and Rob Foster.

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

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 2018 were as follows:

Remuneration range	Number of employees
\$250,000 - \$300,000	1
\$100,000 - \$150,000	5

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 2018.

Twenty largest ordinary shareholders

Shareholder	Address	Shares	% Issued Capital
New Zealand Central Securities	Auckland	47,246,974	16.40%
Robert Alexander Stone	Singapore	40,250,000	13.97%
Let Capital No 1 Limited	Wellington	21,002,881	7.29%
Philip George Lennon	Christchurch	16,758,000	5.82%
Kericrest Properties Limited	Kerikeri	10,844,988	3.76%
Hsu Cheng Yang	Auckland	10,600,000	3.68%
Michael Stirling Hall	Auckland	7,596,661	2.64%
Bruce Howden Blake	Auckland	6,024,010	2.09%
Talleys Group Limited	Motueka	4,087,461	1.42%
Tony Whyman	Wellington	3,400,000	1.18%
Po Hui Chi	Auckland	3,100,000	1.08%
Rotoruatrust Perpetual Capital	Auckland	2,656,062	0.92%
Anthony Anselmi & Ross Alleman	Auckland	2,566,667	0.89%
Heard Park Trustee Limited	Auckland	2,555,339	0.89%
Leveraged Equities Finance	Wellington	2,300,000	0.80%
Nigel Hugh Beck	Auckland	2,048,000	0.71%
Ian Douglas & Basil Cook	Katikati	1,962,657	0.68%
David Cormack, Peter Cormack & Renu Cormack	Auckland	1,750,000	0.61%
Craig Earl Gregory Bowler	Waiuku	1,711,007	0.59%
Custodial Services Limited	Tauranga	1,656,930	0.58%
Totals		190,117,637	66.00%
Holdings Ranges	Number of Holders	Shares	% Issued Capital
1 to 1,000	110	80,487	0.03%
1,001 to 5,000	591	1,930,701	0.67%
5,001 to 10,000	353	2,774,303	0.96%
10,001 to 50,000	785	19,482,901	6.76%
50,001 to 100,000	214	16,216,298	5.63%
100,001 to 500,000	160	34,275,834	11.90%
500,001 and 1,000,000	18	13,132,020	4.56%
1,000,001 and Over	28	200,171,040	69.49%
Totals	2259	288,063,584	100.00%

SHAREHOLDER INFORMATION (CONTINUED)

Substantial security holder notices

This information is given in accordance with the Financial Markets Conduct Act 2013. The company holds substantial security notices from the following parties as at 30 June 2018:

Shareholder	Number of shares directly held	%
Robert Alexander Stone	40,250,000	13.97
Salt Funds Management Limited	31,589,762	10.97
AMP Capital Investors (New Zealand) Limited	28,029,762	9.73
LET Capital No 1 Limited	21,002,881	7.29
Philip George Lennon	16,758,000	5.82

The total number of issued voting securities as at 30 June 2018 was 288,063,584 (30 June 2017: 288,063,584).

Directors statement

The Annual Report is dated 24 August 2018 and is signed on behalf of the Board by:

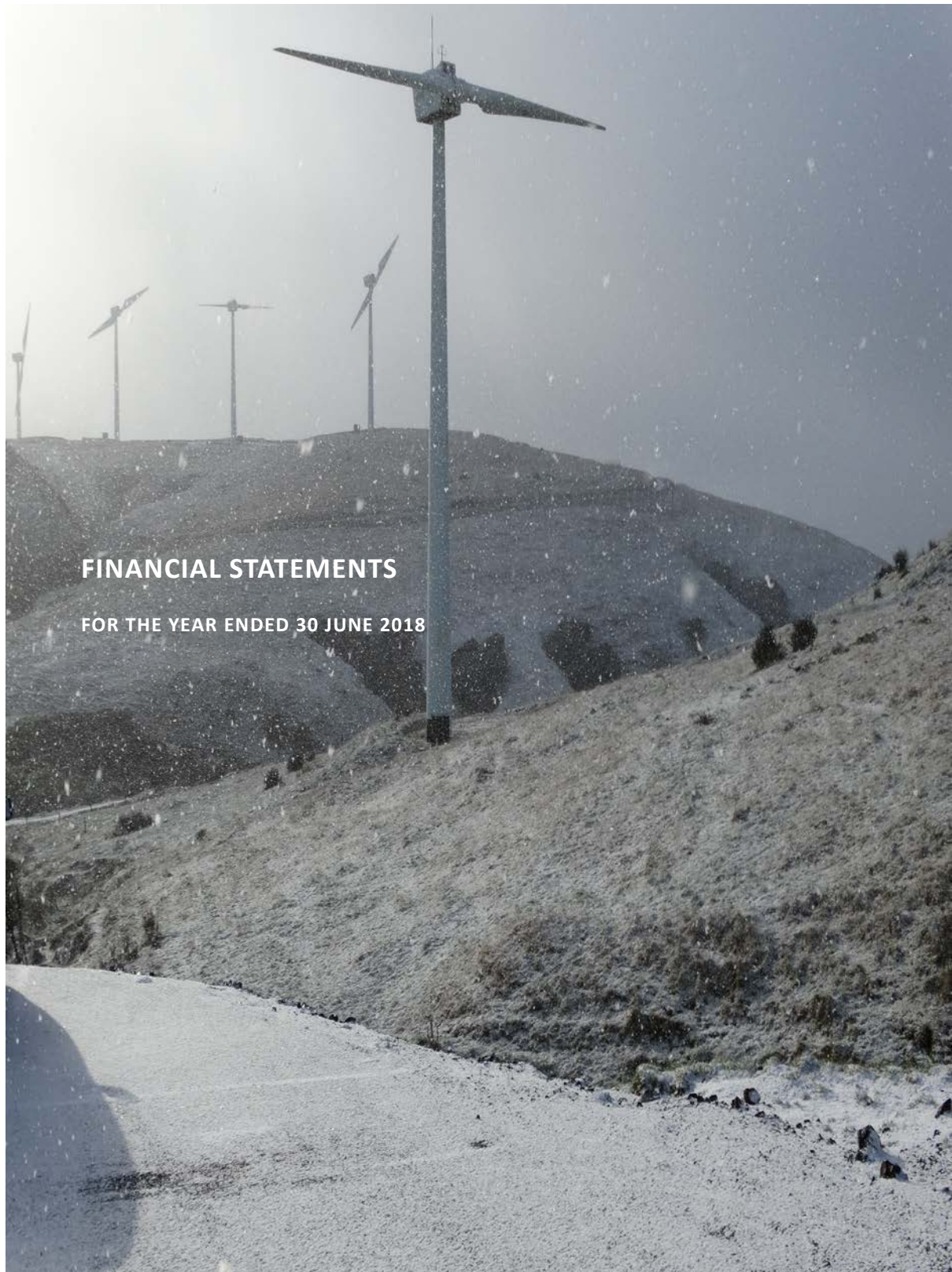


Stuart Bauld
Chairman



Rob Foster
Director





FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$000's	2017 \$000's
Income			
Electricity sales		7,165	5,981
Gain on realised energy futures derivatives	12	346	-
Gain on unrealised energy futures derivatives	12	104	-
Land lease		27	-
Other income		40	97
Total income (excluding interest income)		7,682	6,078
Administration		282	359
Audit fees	3	50	50
Directors' fees	16	179	146
Employment expenses		1,155	1,888
Payments to defined contribution plan		29	-
Share option expenses	9	139	-
Insurance		126	107
Lease and rental expenses	20	267	902
Legal and consulting expenses		228	387
Te Rere Hau wind farm operational expenses		1,088	1,758
Other operating expenses		186	201
Total operating expenses		3,729	5,798
Profit before interest, impairment, amortisation, depreciation and tax		3,953	280
Interest income		200	296
Interest expense		(795)	(944)
Profit (Loss) before impairment, amortisation, depreciation and tax		3,358	(368)
Impairment reversal of Te Rere Hau wind farm	15	-	(3,781)
Depreciation	4	2,226	2,016
Loss on disposal of property, plant and equipment		42	219
Amortisation	5	274	268
(Gain)/Loss on derecognition of finance lease		36	-
Profit (Loss) before tax		780	910
Income tax expense (benefit)	1	15,527	261
Total comprehensive (loss)/income		(14,747)	649
Basic and diluted earnings (loss) per share	10	(\$0.051)	\$0.002

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 31 to 49.

NZ WINDFARMS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2018

	Notes	2018 \$000's	2017 \$000's
Assets			
Current assets			
Cash and cash equivalents	14	2,337	1,291
Term deposit		-	6,500
Trade and other receivables	2	854	1,005
Derivative asset		104	-
Inventories		1,174	1,244
Total current assets		4,469	10,040
Non-current assets			
Property, plant and equipment	4	44,615	38,117
Intangible assets	5	3,966	3,535
Convertible notes	17	11	11
Deferred tax	7	3,661	19,188
Total non-current assets		52,253	60,851
Total assets		56,722	70,891
Liabilities			
Current liabilities			
Trade and other payables	8	872	813
Current portion of finance lease	19	-	514
Current portion of term loan	21	946	-
Total current liabilities		1,818	1,327
Non-current liabilities			
Finance lease	19	-	8,372
Term Loan	21	10,769	-
Total non-current liabilities		10,769	8,372
Equity			
Share capital	9	107,005	107,005
Share option reserve	9	139	-
Retained (loss)/earnings		(63,009)	(45,813)
Total equity		44,135	61,192
Total equity and liabilities		56,722	70,891
Net tangible assets per share	10	\$0.13	\$0.13

Signed for and on behalf of the Board as at 24 August 2018.



Stuart Bauld
Chairman



Rob Foster
Director

These financial statements should be read in conjunction with the notes to the financial statements on pages 31 to 49.

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Share capital \$000's	Share option reserve \$000's	Retained earnings \$000's	Total \$000's
Balance at 1 July 2016		107,005	-	(46,462)	60,543
Total Comprehensive income (loss) for the year		-	-	649	649
Balance at 30 June 2017		107,005	-	(45,813)	61,192
Balance at 1 July 2017		107,005	-	(45,813)	61,192
Total comprehensive (loss)/income for the year		-	-	(14,747)	(14,747)
Share options issued in the year	9	-	139	-	139
Transactions with owners of the Company in their capacity as owners					
Dividends paid		-	-	(2,449)	(2,449)
Balance at 30 June 2018		107,005	139	(63,009)	44,135

These financial statements should be read in conjunction with the notes to the financial statements on pages 31 to 49.

NZ WINDFARMS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$000's	2017 \$000's
Operating activities			
Cash was received from:			
Trading revenue		7,293	5,738
Derivative income		250	-
Other income		112	53
Interest received		307	282
		7,962	6,073
Cash was applied to:			
Interest paid		763	945
Payments to suppliers and employees		3,530	5,953
		4,293	6,898
Net cash inflow (outflow) from operating activities	11	3,669	(825)
Investing activities			
Cash was provided from:			
Sale of property, plant and equipment		-	11
Release of restricted short term deposit		6,500	-
Cash was applied to:			
Investment in Term Deposit		-	(1,500)
Purchase of intangible assets		705	-
Purchase of property, plant and equipment		8,758	1,530
		9,463	30
Net cash inflow (outflow) from investing activities		(2,963)	(19)
Financing activities			
Cash was provided from:			
Drawdown of BNZ borrowings		12,300	-
		12,300	-
Cash was applied to:			
Dividend paid		2,449	-
Repayment of finance lease		8,926	471
Repayment of BNZ borrowings		585	-
		11,960	471
Net cash inflow (outflow) from financing activities		340	(471)
Net increase/(decrease) in cash and cash equivalents		1,046	(1,315)
Cash and cash equivalents, beginning of year		1,291	2,606
Cash and cash equivalents, end of year		2,337	1,291
Cash and cash equivalents			
Bank account and on call deposits	14	2,337	1,291
Ending cash and cash equivalents		2,337	1,291

These financial statements should be read in conjunction with the notes to the financial statements on pages 31 to 49.

REPORTING ENTITY AND STATUTORY BASE

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

NZ Windfarms Limited is a company registered under the Companies Act 1993 and Financial Market Conduct Act 2013 of New Zealand and listed on the New Zealand Exchange (NZX).

The Group consolidated financial statements of NZ Windfarms Limited as at 30 June 2018 comprise the Company and its 100% owned subsidiaries NZWL–TRH Limited and TRH Services Limited (the Group). For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Group is a for-profit entity.

BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with the 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 presented in New Zealand dollars which is the Company's functional currency and the Group's presentation currency, rounded to the nearest thousand.

These financial statements comply with NZ GAAP, New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), International Financial Reporting Standards and the requirements of the Financial Markets Conduct Act 2013.

MEASUREMENT BASE

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

CRITICAL ACCOUNTING ESTIMATES AND 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 15.
- Carrying value, impairment and useful life of intangible assets - accounting policy, notes 5 and 15.
- Recognition of Deferred Tax Asset – note 7.
- Fair value of share options – accounting policy, note 9.
- Fair value of derivative financial instruments – accounting policy, note 13.

ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Revenue recognition

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

Energy futures derivative

Energy futures derivative income is recognised on the unrealised/realised gain/(loss) of 'contracts for difference' New Zealand Electricity Market ASX Futures with the counterparty.

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 a qualifying asset the cost has been capitalised to the cost of construction of the asset.

Taxation

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

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

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

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

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

Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectible are written off. Receivables are written down to their impaired amount when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment.

The amount of impairment recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment is recognised in profit or loss.

Trade and other receivables (continued)

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed and the reversal is recognised in profit or loss.

Subsequent recoveries of amounts written off are recognised in profit or loss.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is 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 is available for use.

The economic lives have been estimated as follows:

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

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

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.

Intangible assets are carried at cost less impairment and accumulated amortisation (recognised over the estimated useful lives of the assets).

The useful lives have been estimated as follows:

Land use consents and wind rights	35 years
Wind farm grid connection rights	20 years

The Group applies the straight line amortisation method.

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

Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. At the reporting date, the Group did not have any held to maturity financial assets.

Financial assets (continued)

Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

The Group's financial assets at fair value through profit or loss comprise energy futures derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

The Group's loans and receivables comprise cash and cash equivalents, the term deposit, trade and other receivables, and convertible notes receivable.

Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available for sale are recognised in other comprehensive income, except for foreign exchange movements on monetary assets, which are recognised in profit or loss. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Derivative financial instruments

The Group uses derivative financial instruments to hedge risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. All fair value changes are recognised in profit or loss. In-the money derivatives are classified as financial assets at fair value through profit or loss and out-of-the money derivatives are classified as financial liabilities at fair value through profit or loss.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Employee benefits

Short term employee entitlements

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.

The provisions are presented as current employee entitlement liabilities in the balance sheet and the expense is recognised as employees perform services that entitle them to remuneration.

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.

Payments to defined contribution plans

A defined contribution plan is a post-employment benefit plan (Kiwisaver) under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan those are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value. The Company's only exposure in this case is employer Kiwisaver contributions.

Leases

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 straight-line basis.

Impairment of assets

At each balance sheet date, the carrying amounts of property, plant and equipment assets 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 to the maximum extent had the asset not been previously impaired. A reversal of impairment is recognised as a gain immediately in the statement of comprehensive income.

Statement of cash flows

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

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

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

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

Goods and services tax (GST)

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

Share-based payment arrangements

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

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

Changes in accounting policies

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

New accounting standards

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

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

NZ IFRS 9 includes a framework for classification and measurement of financial instruments and a single forward looking impairment model. The Group has undertaken a initial assessment of the impact of the standard and has determined that it is unlikely to have a material impact on the financial statements. A full assessment will be completed before 31 December 2018.

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 Group has undertaken a initial assessment of the impact of the standard and has determined that it is unlikely to have a material impact on the financial statements. A full assessment will be completed before 31 December 2018.

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

NZ IFRS 16 supersedes NZ IAS 17, with the main changes affecting lessee accounting only. The new leases standard eliminates the distinction between operating and finance leases for lessees. Assets and liabilities will from 1 July 2019 be recognised on balance sheet in respect of all leases, with the exception of certain short term leases and leases of low value assets. The Group has \$0.6m of operating lease commitments as at 30 June 2018 which are not currently shown in the balance sheet.

1. INCOME TAX EXPENSE (BENEFIT)

For the year to	2018 \$000's	2017 \$000's
(Loss)/profit for the year before tax	780	910
Expected tax expense (benefit) at 28%	218	255
Adjustment recognised in the current year in relation to the current tax of prior years	-	-
Adjustment for non deductible expenses and non-assessable income		
Derecognition of deferred tax (asset)/liability	(836)	-
Prior period adjustment	(104)	-
Forfeiture of tax losses	16,248	-
Other non deductible expenses	1	6
	15,527	261
Represented by:		
Current tax	-	-
Deferred tax	15,527	261
Total tax expense (benefit)	15,527	261
Tax loss from previous years	75,374	69,187
Forfeiture of tax losses	(58,030)	-
Tax loss for year	3,096	6,187
Tax loss carried forward	20,440	75,374

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

2. TRADE AND OTHER RECEIVABLES

As at	2018 \$000's	2017 \$000's
Trade debtors	745	803
Accrued income	24	131
Prepayments	85	71
Goods and services tax	-	-
Closing balance	854	1,005

Of the trade debtors nil (2017: \$52,189) relate to balances not received by their due date, and all remain current within 30 days (2017: \$751,000 current within 30 days, \$52,189 overdue by 0-30 days).

As at 30 June 2018, there is no impairment of the Group's trade debtors (2017: nil).

3. FEES PAID TO AUDITOR

	2018 \$000's	2017 \$000's
Audit of financial statements	50	50
Total	50	50

4. PROPERTY, PLANT AND EQUIPMENT

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

As at	2018 \$000's	2017 \$000's
Land		
Opening carrying amount	3,300	3,300
Closing carrying amount	3,300	3,300
Office equipment		
Opening carrying amount	18	54
Additions	3	5
Depreciation	(16)	(41)
Closing carrying amount	5	18
Buildings, plant and equipment		
Opening carrying amount	806	866
Additions	62	4
Depreciation	(62)	(64)
Closing carrying amount	806	806
Motor Vehicles		
Opening carrying amount	57	88
Additions	-	30
Disposals	-	(5)
Depreciation	(39)	(56)
Closing carrying amount	18	57
Foundations		
Opening carrying amount	1,980	1,851
Impairment	15	172
Depreciation	(47)	(43)
Closing carrying amount	1,933	1,980
Electrical		
Opening carrying amount	4,538	4,222
Additions	8,504	-
Impairment	15	417
Depreciation	(91)	(101)
Closing carrying amount	12,951	4,538

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at		2018 \$000's	2017 \$000's
Roadings			
Opening carrying amount		2,060	1,957
Impairment	15	-	169
Depreciation		(70)	(66)
Closing carrying amount		1,990	2,060
Wind Turbines			
Opening carrying amount		25,358	22,909
Additions		197	1,574
Disposals		(42)	(445)
Reversal of impairment	15	-	2,965
Depreciation		(1,902)	(1,645)
Closing carrying amount		23,611	25,358
Total property plant and equipment			
Opening carrying amount		38,117	35,247
Additions		8,766	1,613
Disposals		(42)	(450)
Reversal of impairment	15	-	3,723
Depreciation		(2,226)	(2,016)
Closing carrying amount		44,615	38,117

During the year ended 30 June 2018, the Group carried out a review of the carrying values of its assets in accordance with NZ IAS 36 - Impairment of Assets. Note 15 provides further information.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Represented by:

As at 30 June	2018 \$000's	2017 \$000's
Land		
Gross and Net carrying amount	3,300	3,300
Office equipment		
Gross Carrying amount	410	407
Accumulated depreciation	(405)	(389)
Net carrying amount	5	18
Buildings, Plant and equipment		
Gross carrying amount	1,498	1,437
Accumulated depreciation	(692)	(631)
Net carrying amount	806	806
Motor Vehicles		
Gross carrying amount	269	269
Accumulated depreciation	(251)	(212)
Net carrying amount	18	57
Foundations		
Gross carrying amount	4,651	4,651
Accumulated impairment	(2,149)	(2,149)
Accumulated depreciation	(569)	(522)
Net carrying amount	1,933	1,980
Electrical		
Gross carrying amount	21,097	12,593
Accumulated impairment	(5,226)	(5,226)
Accumulated depreciation	(2,920)	(2,829)
Net carrying amount	12,951	4,538
Roading		
Gross carrying amount	4,953	4,953
Accumulated impairment	(2,117)	(2,117)
Accumulated depreciation	(846)	(776)
Net carrying amount	1,990	2,060
Wind Turbines		
Gross carrying amount	81,538	81,383
Accumulated impairment	(37,141)	(37,141)
Accumulated depreciation	(20,786)	(18,884)
Net carrying amount	23,611	25,358
Total property plant and equipment		
Gross carrying amount	117,717	108,993
Accumulated impairment	(46,633)	(46,633)
Accumulated depreciation	(26,469)	(24,243)
Net carrying amount	44,615	38,117

5. INTANGIBLE ASSETS

Changes in the net carrying amount of intangible assets follow:

As at 30 June	2018 \$000's	2017 \$000's
Land use consent and wind rights		
Opening carrying amount	782	788
Additions	705	-
Impairment	-	16
Amortisation	(25)	(22)
Closing carrying amount	1,462	782
Grid connection		
Opening carrying amount	2,753	2,957
Impairment	-	42
Amortisation	(249)	(246)
Closing carrying amount	2,504	2,753
Total intangible assets		
Opening carrying amount	3,535	3,745
Additions	705	-
Impairment	-	58
Amortisation	(274)	(268)
Total closing carrying amount	3,966	3,535

During the year ended 30 June 2018, the Group carried out a review of the carrying values of its assets in accordance with NZ IAS 36 - Impairment of Assets. Note 15 provides further information.

Represented by:

As at 30 June	2018 \$000's	2017 \$000's
Land use consent and wind rights		
Gross carrying amount	1,737	1,032
Accumulated impairment	(205)	(205)
Accumulated amortisation	(70)	(45)
Net carrying amount	1,462	782
Grid connection		
Opening carrying amount	5,522	5,522
Accumulated impairment	(2,238)	(2,238)
Accumulated amortisation	(780)	(531)
Net carrying amount	2,504	2,753
Total intangible assets		
Gross carrying amount	7,259	6,554
Accumulated impairment	(2,443)	(2,443)
Accumulated amortisation	(850)	(576)
Total closing carrying amount	3,966	3,535

6. INVESTMENTS IN SUBSIDIARIES

As at 30 June	Percent Held	
	2018	2017
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.

The Company's subsidiaries are incorporated in New Zealand and have a 30 June balance date.

7. DEFERRED TAX

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

As at 30 June	2018 \$000's	2017 \$000's
The analysis of deferred tax assets and liabilities is as follows:		
Deferred tax assets:		
- To be recovered within 12 months	75	44
- To be recovered after more than 12 months	5,608	19,947
	5,683	19,991
Deferred tax liabilities:		
- To be recovered within 12 months	-	-
- To be recovered after more than 12 months	(2,022)	(803)
	(2,022)	(803)
Deferred tax assets (net)	3,661	19,188

Movement in temporary differences during the year

Opening balance		
Property, plant and equipment	(1,168)	669
Provisions	(759)	(602)
Losses	21,105	19,372
Other	10	10
Tax assets/(liabilities)	19,188	19,449
Recognised in profit (loss)		
Property, plant and equipment	(979)	(1,837)
Provisions	834	(157)
Losses	(15,382)	1,732
Other	-	-
Movement in temporary differences	(15,527)	(261)
Closing balance		
Property, plant and equipment	(2,147)	(1,168)
Provisions	75	(759)
Losses	5,723	21,105
Other	10	10
Tax assets/(liabilities)	3,661	19,188

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.

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

8. TRADE AND OTHER PAYABLES

As at 30 June	2018 \$000's	2017 \$000's
Trade payables	350	520
Accrued expenses	362	196
Employee entitlements	61	91
Goods and services tax	29	6
Insurance	70	-
Closing balance	872	813

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

9. SHARE CAPITAL

Share capital

As at 30 June 2018 share capital comprised 288,063,584 ordinary shares (30 June 2017: 288,063,584). There have been no shares issued or repurchased in the current or comparative year.

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.

The number of authorised shares is 288,063,584 (2017: 288,063,584)

Dividends

The Directors declared and paid dividends of \$2.449m during the year ended 30 June 2018, and dividend per share was \$0.0085.

9. SHARE CAPITAL (CONTINUED)

Share Options

Details of the share option plan

During the previous year, the Company entered into a share option plan to staff. In accordance with the terms of the said plan, certain staff are granted options to purchase ordinary shares in the company subject to vesting conditions under the plan. During the year to 30 June 2018, the Company issued 2,560,000 share options.

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

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

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

Number of options	Grant date	Expiry date	Exercise price	Fair value at grant date
5,750,000	14-Dec-16	14-Dec-19	12.5c	0.72c
5,750,000	14-Dec-16	14-Dec-19	15.0c	0.42c
1,500,000	15-Mar-17	15-Mar-20	12.5c	0.72c
1,500,000	15-Mar-17	15-Mar-20	15.0c	0.42c
1,280,000	1-Jul-17	1-Jul-20	12.5c	0.84c
1,280,000	1-Jul-17	1-Jul-20	15.0c	0.65c

Of the total number of options granted in the previous year, 11,500,000 share options vested immediately. Of the remaining 3,000,000 options, which vest in three equal tranches, the first tranche vested on 15 March 2017 and then subsequently on 15 March 2018, with the third tranche vesting 15 March 2019. 2,560,000 share options were issued during the FY18 year, which vest in two equal tranches, on 1 July 2018 and 1 July 2019.

Fair value of share options granted in the year

The share options were priced using the Black-Scholes share options valuation model.

The valuation of the share options assumes that the options can be sold prior to maturity. Significant inputs to the valuation model are disclosed below:

Inputs into the model	2018	2017
Grant date share price	9.8c	8c -8.4c
Exercise price	12.5c – 15.0c	12.5c – 15.0c
Annualised standard deviation	0.40	0.36
Option life	3 years	3 years
Risk-free interest rate	2.2%	2.3%

Share based payments expenses for the year ended 30 June 2018 was \$157,000 (2017: nil) and \$18,000 of options were forfeited in the year.

No share options have been exercised as at 30 June 2018.

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	2018	2017
Net profit (loss) for the year ('\$000s)	(14,747)	649
Number of shares on issue over year (000's)	288,064	288,064
Basic and diluted earnings (loss) per share	(\$0.051)	\$0.002
Net tangible assets per share		
As at 30 June	2018	2017
	\$000's	\$000's
Net assets	44,135	61,192
Less:		
Intangible assets	3,966	3,535
Deferred tax	3,661	19,188
Net tangible Assets	36,508	38,469
Number of shares on issue over year (000's)	288,064	288,064
Net tangible assets per share	\$0.13	\$0.13

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

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

For the year to 30 June	Notes	2018 \$000's	2017 \$000's
Net profit (loss) attributable to equity holders of the company		(14,747)	649
Non Cash Items:			
Depreciation	4	2,226	2,016
Amortisation of intangible assets	5	274	268
Deferred taxation		15,527	261
Share option expenses	16	(139)	-
Loss on sale of fixed assets		42	218
Loss/(gain) on derivatives		(104)	-
Reversal of impairment of non-current assets	15	-	(3,781)
		3,079	(369)
Changes in working capital			
Trade and other payables		230	(262)
Inventories		70	113
Trade and other receivables		290	(307)
Net cash flow from operating activities		3,669	(825)

12. DERIVATIVE FINANCIAL INSTRUMENTS

a) Classification of Derivative financial instruments

Derivatives, being interest rate swaps and energy futures, are classified as held for trading and accounted for at fair value through profit or loss. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period. For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 13.

The Group has not applied hedge accounting.

b) Interest rate swaps

During the current year, the Company entered into a floating-to-fixed interest rate swap to manage its cash flow interest rate risk associated with its new term loan (see Note 22). The swap instrument covers 100% of the variable loan principal outstanding.

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

The swap has similar critical terms as the term facility, such as reference rate, reset dates, payment dates, maturities and notional amount.

c) Energy futures and contracts for differences

The Company began trading electricity futures on 20 June 2017. Each contract is a standardised 'contract for difference' for the sale of 0.1MW of electricity into the NZ wholesale market at the Otahuhu or Benmore pricing node at a specified future date. They are openly traded on the Australian Securities Exchange (ASX). The company also trades in contracts for difference with gentailers, and these are typically traded as over the counter instruments.

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

The company closed out 55 ASX Q3 contracts in June, with the \$153k gain included in the \$346k total gain on realised derivative financial instruments.

At 30 June 2018 the Company held 149 quarterly sale contracts from Q4 2018 to Q3 2019 ranging in price from \$63.20/MWh to \$87.00/MWh, recognised as unrealised energy futures derivatives. These futures contracts had a mark to market value at year end of \$107k. Interest rate swaps had a mark to market value of -\$3k for a mark to market net position of \$104k at year end.

The results of the transactions with derivative financial instruments were as follows:

For the year to 30 June	2018 \$000's	2017 \$000's
Energy futures		
Net gain on realised energy futures derivatives	77	-
Contracts for difference		
Net gain on realised contracts for difference	269	-
Total gain on realised derivative financial instruments	346	-
Fair value gain on unrealised energy futures derivatives and fair value derivative asset	104	-
Total gain on energy futures derivatives	450	-

13. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

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

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 on a recurring basis. The Group had no instruments measured at fair value through profit or loss as at 30 June 2017.

At 30 June 2018	Level 1 ('000)	Level 2 ('000)	Level 3 ('000)	Total ('000)
Liabilities				
ASX NZ Electricity Futures	107	-	-	107
Contracts for differences	-	-	-	-
Interest rate swaps	-	(3)	-	(3)
Total	107	(3)	-	104

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

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

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

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group does not have any Level 3 financial instruments.

The policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. As at 30 June 2018 all were classified as level 1 or level 2 and there have been no transfers between the levels of hierarchy.

b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- In case of energy futures: The use of quoted market prices for identical or similar instruments.
- The fair value of contracts for difference is determined using market prices for similar instruments.
- The fair value of interest rate swaps is calculated as the product of the difference between the contracted swap rate and the floating rate (BKBM) and the loan balance as at 30 June 2018.

- c) The group also has a number of financial instruments, which are not measured at fair value in the balance sheet. For the majority of these instruments the fair values are not materially different to their carrying amounts. Refer to Note 24 for more information.

14. CASH AND CASH EQUIVALENTS

As at	2018 \$000's	2017 \$000's
Operating accounts	630	133
On call accounts	1,707	1,158
Closing balance	2,337	1,291

15. 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 recoverable value of the assets of the wind farm using a remaining life of thirty two years from 30 June 2018 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 2018, 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 there was no impairment of the assets (2017: reversal of impairment of \$3,871,000). The group carried out a review of the carrying values of the assets in accordance with IAS 36 at the end of the reporting period. As the value in use calculation indicated an uplift of less than 1% of the carrying value of the assets the board determined no reversal of the impairment losses previously recognised was appropriate.

The details of the key assumptions to the value in use method are set out below.

Electricity price

The wholesale electricity price path used is based on the prices quoted on the 30 June 2018 ASX futures market prices through to December 2020 (the extent of the ASX futures market at 30 June 2018) and thereafter the latest PricewaterhouseCoopers (PWC) Price Path, released in June 2018. Both ASX futures market prices and PWC prices are Otahuhu node (OTA) prices.

The Otahuhu node prices are reduced to allow for location (4.5%) and for the weighted average price received for generation by the wind farm at the connection node Tararua Wind Centre (TWC) as compared with the average spot price (11%). These assumptions have remained consistent for some time but new control interventions such as three-axis curtailment may in time change these values. Analysis will be undertaken as control regimes mature.

The PWC price path is based on the ASX futures curve and is updated by the company annually at year end.

This is consistent with the prior year.

Output

Output for the 2018 financial year reached 103.0 GWh (2017: 124.6 GWh). All other things being equal, the 2018 financial year was a relatively low wind year but within the range of variability anticipated.

The business has now adjusted the long term target from 130GWh to 120GWh, which reflects both operating history and the changed operational strategy.

Operating costs

Significant progress continues to be made in maturing wind farm operations. Three-axis curtailment was implemented initially in beta (test) form January 2018 and in an advanced form in April 2018, replacing earlier and less dynamic turbulence intensity curtailment in place for the balance of the year. Initial indications are that the three-axis regime will be much more effective at increasing the separation between farm yield and thus revenue and operating costs. A number of other initiatives positively impacted operating costs through the year, including the disestablishment of one general manager role and the adoption of run-hours based servicing, and our expectation is that all of these changes are durable and have accordingly been used in the value in use calculation.

Total undiscounted operating costs in the model over the life of the windfarm are \$183.3m (2017: \$211.2m).

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

Mid-life refurbishment

The model assumes a mid-life refurbishment of the turbines is performed when the fleet age is around 25 years, in 2031, thereby allowing the existing turbines to operate for a further fifteen years up to age forty. A substantial part of the cost of the turbine is contained in the structural components such as the tower and blades. These components have an operational life of well in excess of fifty years. Conversely experience has shown that other major components have operational lives that are less than the twenty year design life of the turbines and these components are being replaced progressively over time. The mid-life refurbishment has been costed out to renew the non-wear turbine components at around \$200k per turbine in 2018 dollars, escalated to 2031 costs. This is consistent with the prior year.

Inflation

Inflation is based on the predicted long term Consumer Price Index. The current rate is 2% (2017: 2%).

Discount rate

The pre-tax discount rate used in the impairment model is a weighted average cost of capital (WACC) of 8.72% (2017: 9.25%)

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). However due to the thirty two 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 1% change in each of the key assumptions.

Assumption	Additional value (impairment)	
	+1% movement \$000's	-1% movement \$000's
Electricity price or output	1,104	(502)
Operating costs	(467)	1,069
Discount rate	(417)	1,025

16. RELATED PARTY TRANSACTIONS

Key management

Key management personnel includes the Board of Directors and CEO. Key management personnel short term employee benefits, including remuneration to Directors, was \$451,500 during the year ended 30 June 2018 (2017: \$734,000).

Directors remuneration

Directors' remuneration of \$179,500 was paid and expensed during the year (30 June 2017: \$145,625).

17. WINDFLOW TECHNOLOGY LIMITED

Convertible notes held in Windflow Technology Ltd were valued as at 30 June 2018 at \$11,000 (2017: \$11,000).

18. CAPITAL COMMITMENTS

The Group had \$428,968 of capital commitments as at 30 June 2018 (2017: \$186,698) for inventories and property, plant and equipment.

19. FINANCE LEASE

On 29 September 2017, the company (NZ Windfarms and its subsidiaries) completed the transaction with Powerco Transmission Services Ltd (Powerco) to buy the internal electricity gathering system that connects turbines to the onsite sub-station for NZD 17.3 million.

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

Minimum future lease payments	2018	2017
As at 30 June	\$000's	\$000's
Non-cancellable lease commitments:		
Within 1 year	-	1,438
1 to 5 years	-	5,919
More than 5 years	-	9,526
Minimum lease payments	-	16,883
less future finance charges	-	(7,997)
Present value of minimum lease payments	-	8,886

Present value of minimum future lease payments	2018	2017
As at 30 June	\$000's	\$000's
Non-cancellable lease commitments:		
Within 1 year	-	514
1 to 5 years	-	2,517
More than 5 years	-	5,855
Present value of minimum lease payments	-	8,886

This transaction was funded through the drawdown of a term facility which the Company entered into during the current year (see Note 23). The remainder of the purchase price was paid using the Company's own funds accumulated on the term deposit.

20. OPERATING LEASES

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 lease payments based on electricity output and electricity revenue generated from the 32 turbines located on the land. The periods of the agreements, including renewals, are for between 40 and 50 years.

A transaction with Powerco on 29 September 2017 ended the 20-year agreement to lease an internal electricity gathering system that connects the onsite sub-station to the Trust Power sub-station, which in turn connects to the national grid. When the operating lease was extinguished at the date of asset purchase, the component of the purchase price related to the operating lease (\$8.5m) was added to the property, plant and equipment asset schedule, within the electrical assets category (within Note 4, Additions).

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

As at 30 June	2018 \$000's	2017 \$000's
Lease payments expensed during the year	267	902
Non-cancellable lease commitments:		
Within 1 year	47	913
1 to 5 years	186	3,772
More than 5 years	414	6,299
Total operating lease commitments	647	10,984

21. TERM LOAN

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

The loan is subject to normal competitive commercial interest terms and a range of covenants, including interest cover and leverage ratios. The total cost of finance of the loan was 5.74% per annum. The company has elected to take out a swap agreement to avoid exposure to interest rate rises and will review this approach as relevant.

As at 30 June 2018, the Company's assessment was that it is compliant with all covenants.

There is a general security interest on all the Group's property, and registered first mortgage over property situated at North Range Road, Mangahao, held by BNZ Bank

	2018 \$000's	2017 \$000's
Current portion	946	-
Non-current portion	10,769	-
Total loan	11,715	-

22. 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:

Market electricity price risk

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

For any change in average electricity spot price there would be an equal and opposite impact on profit and equity. The sensitivity of changes in average electricity spot prices has an impact on the value in use calculation of the windfarm assets (refer to Note 15).

The Company began trading electricity futures on 20 June 2017. Each contract is a standardised 'contract for difference' for the sale of 0.1MW of electricity into the NZ wholesale market at the Otahuhu or Benmore pricing node at a specified future date. They are openly traded on the Australian Securities Exchange (ASX) (refer to Note 13).

The principal objective in hedging is to baseline revenues by protecting against a collapse in the wholesale price; this ensures the group achieves reasonable separation between income and cost to operate.

The group continues to refine the hedging strategy. The group are continuing to build hedge cover 12 to 18 months out, endeavouring to capture some of the dry year risk premium priced into futures contracts. The results to date suggest that we are appropriately balancing risk and potential upside, remembering that our principal objective is the baselining of revenues to ensure sustained profitability. Exchanging ASX energy futures for over the counter contracts for difference with a gentailer earlier in the year was an important leg in our strategy of managing cashflow when the market is volatile.

A change in the average electricity spot price of \$1 per MWh would lead to a \$37,000 change in the unrealised energy futures derivative held at 30 June 2018.

Concentration of credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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 cash and cash equivalents and trade debtors recorded in the financial statements represents the Group's maximum exposure to credit risk.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments of its debt instruments. It is the risk that the Group will encounter difficulty meeting its financial obligation as they fall due.

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

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months \$000's	Between 3 and 12 months \$000's	Between 1 and 2 years \$000's	Between 2 and 5 years \$000's
Financial liabilities - 2018				
Trade and other payables	872	-	-	-
Finance lease	-	-	-	-
Term loan	237	710	946	9,822
Total	1,109	710	946	9,822
	Up to 3 months \$000's	Between 3 and 12 months \$000's	Between 1 and 2 years \$000's	Between 2 and 5 years \$000's
Financial liabilities - 2017				
Trade and other payables	813	-	-	-
Finance lease	125	389	556	7,858
Total	938	389	556	7,858

Interest rate risk

The Group's finance costs 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 external borrowings.

An increase in the interest rates by 10 basis points would have increased finance costs by approximately \$11,800 (2017: nil). For an decrease in interests 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, trade and other payables and borrowings 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 business continue's to mature its approach to the use of shareholders capital. The purchase of the Powerco assets was part-funded by a new \$12.3m loan facility, and the transaction allowed us to pay a maiden dividend. The loan amortises over 4 years, and our first two banking covenant tests required by the debt facility have been met. The loan is subject to normal competitive commercial interest terms and a range of covenants, including interest cover and leverage ratios.

Capital allocation in the business is rigorous; investment in turbine components is only undertaken when there is a clear economic case for that investment. This has resulted in a smaller operating fleet in the financial year 2018; low-net-revenue turbines that have been decommissioned short-term due to major component failure will be recommissioned when electricity pricing provides a return on the capital required. The same approach will feature strongly in the financial year 2019.

Financial instrument classification

	Loans and receivables \$000's	Fair value through profit or loss \$000's	Total \$000's
Financial assets - 2018			
Cash and cash equivalents	2,337	-	2,337
Trade debtors	745	-	745
Derivative asset	-	104	104
Convertible notes	11	-	11
Total	3,093	104	3,197
		Liabilities at amortised cost \$000's	Total \$000's
Financial liabilities - 2018			
Trade and other payables		761	761
Finance lease		-	-
Term loan		11,827	11,827
Total		12,588	12,588
	Loans and receivables \$000's	Fair value through profit or loss \$000's	Total \$000's
Financial assets - 2017			
Cash and cash equivalents	1,291	-	1,291
Term deposit	6,500	-	6,500
Trade debtors	803	-	803
Convertible notes	11	-	11
Total	8,605	-	8,605
		Liabilities at amortised cost \$000's	Total \$000's
Financial liabilities - 2017			
Trade and other payables		813	813
Finance lease		8,886	8,886
Total		9,699	9,699

23. 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 and CEO, 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.

24. 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	2018 \$000's	2017 \$000's
Credit at beginning of the year	1,159	1,159
Attached to dividend	(952)	
Lost on shareholder continuity change	(207)	-
Credit balance at end of the year	-	1,159

25. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

There were no other significant events subsequent to balance date.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NZ WINDFARMS LIMITED**

Opinion

We have audited the consolidated financial statements of NZ Windfarms Limited ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated balance sheet as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Key Audit Matters

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

Key Audit Matter

How The Matter Was Addressed in Our Audit

Te Rere Hau wind farm asset impairment

The Group is required to assess at the end of each reporting period whether there is any indication that the wind farm assets may be impaired. If any such indications exists, the Group will estimate the recoverable amount of the assets.

Management derives the recoverable amount from a value in use calculation.

We have identified the calculation of the recoverable amount as a significant risk to our audit as the key inputs and assumptions are subject to significant Management judgement and estimation uncertainty.

Refer to Note 15 of the financial statements.

- We have obtained Management's value in use calculation and have evaluated the key inputs and assumptions to consider if Management's calculation is within an appropriate range. The key inputs included future electricity prices, generation volumes, operating costs, inflation rate, discount rate, and useful life of the wind farm assets.
- We have engaged our internal valuation experts to review the mechanics of the value in use calculation against valuation industry techniques, and the discount rate used.
- We have compared the carrying value of the assets to the recoverable amount determined by the impairment test to identify any impairment losses or reversals of previous impairment losses.
- We have reviewed disclosures in the financial statements, including sensitivity analysis, to the requirements of the accounting standard.

Key Audit Matter

How The Matter Was Addressed in Our Audit

Capitalisation of land use consents and wind rights intangible assets

The Group has capitalised land use consents and wind rights additions of \$705,000 in the financial year.

The recognition and measurement of the land use consents and wind rights intangible assets requires significant management judgement, as costs can only be recognised if it is probable that future economic benefits will arise from the intangible asset, and if costs can be reliably measured.

Refer to Note 5 of the financial statements.

- We agreed a sample of external direct costs to supporting documentation to ensure cost can be reliably measured and that these costs are directly attributable to the intangible asset.
- We agreed a sample of direct payroll-related costs for employees and contractors to supporting documentation to ensure cost can be reliably measured and that these costs are directly attributable to the intangible asset.
- We reviewed the Group's assessment against the recognition criteria of the accounting standards to ensure that it is probable that future economic benefits will arise from the intangible asset.

Key Audit Matter**How The Matter Was Addressed in Our Audit**

Recoverability of deferred tax asset

The Group continues to recognise a deferred tax asset predominantly on tax losses carried forward.

The recoverability of the deferred tax asset involves judgement by Management about the probability of future taxable profits being sufficient to offset the tax losses and the tax losses meeting the shareholder continuity rules.

The Group prepares detailed forecasts for the taxable profits expected to be generated from the wind farm over its life. The key inputs and assumptions to the forecast are subject to significant Management judgement and estimation uncertainty, and the extent to which a deferred tax asset should be recognised on the losses is subject to Management judgement.

Refer to Note 1 (income tax expense) and Note 7 (deferred tax) of the financial statements.

- We have reviewed Management's deferred tax calculation and agreed the inputs to supporting documentation, including the loss of shareholder continuity calculation.
- We have obtained Management's forecasts for taxable profits and critically evaluated the key inputs and assumptions. These included future electricity prices, generation volumes, operating costs, inflation rate, discount rate, and useful life of the wind farm assets.
- We have evaluated Management's assessment that there is a reasonable basis that the Group will be able to generate sufficient taxable profits to utilise the deferred tax asset recognised, and that the tax losses will continue to be available under the shareholder continuity rules.

Other Matter

The consolidated financial statements of the Group for the year ended 30 June 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 27 August 2017.

Other Information

The directors are responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>.

This description forms part of our auditor's report.

Who we Report to

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

The engagement partner on the audit resulting in this independent auditor's report is Chris Neves.

BDO Auckland

BDO Auckland
Auckland
New Zealand
24 August 2018

DIRECTORY

DIRECTORS

Stuart Bauld of Auckland (Chair)
John Southworth of Auckland (Deputy Chair)
Rodger Kerr-Newell of Auckland
Robert Foster of Auckland

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