

NZ WINDFARMS LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

Contents

CHAIRMAN’S REVIEW	2
GROUP INTERIM STATEMENT OF COMPREHENSIVE INCOME	6
GROUP INTERIM BALANCE SHEET	7
GROUP INTERIM STATEMENT OF CHANGES IN EQUITY	8
GROUP INTERIM STATEMENT OF CASH FLOWS	9
STATEMENT OF ACCOUNTING POLICIES.....	10
NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS.....	11
DIRECTORY.....	17

For the six months ended 31 December 2016

OVERVIEW

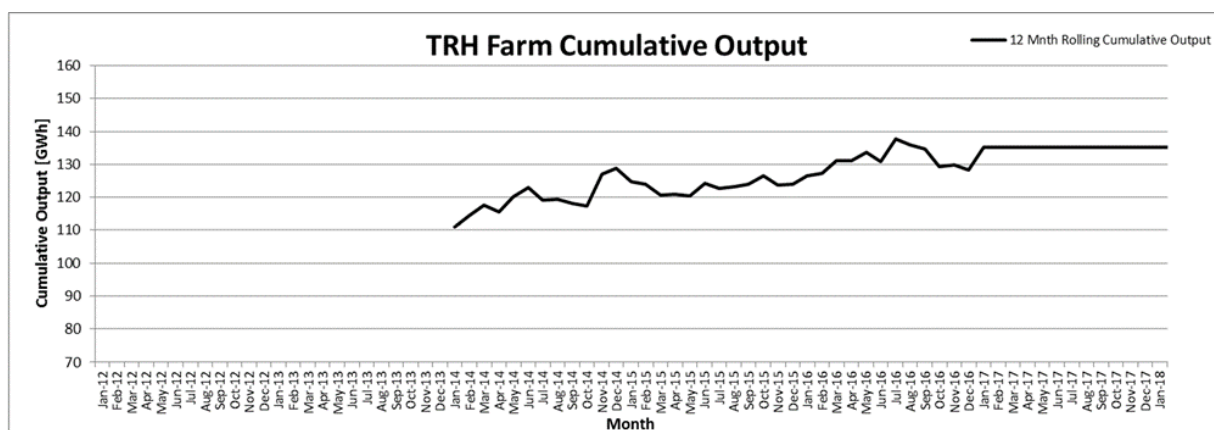
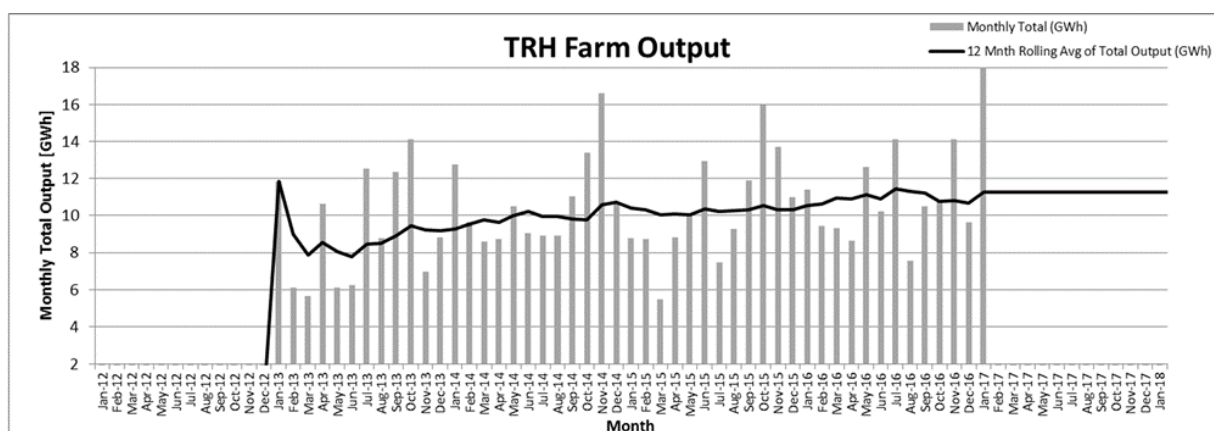
During the six months under review there has been complete refreshment of the board of directors. Both the previous CEO and CFO resigned during the period and have been temporarily replaced by a director, Stuart Bauld, whilst a search is conducted for a new commercial director who will be tasked with continuing the integration of the two previous positions and continuing to implement changes planned by the directors. The search for a replacement has attracted a number of high calibre candidates who are undergoing an extensive vetting process. It is expected that an appointment will be announced within a month of the release of this report and Mr Bauld will step aside from his position as soon as the new Commercial Director takes office.

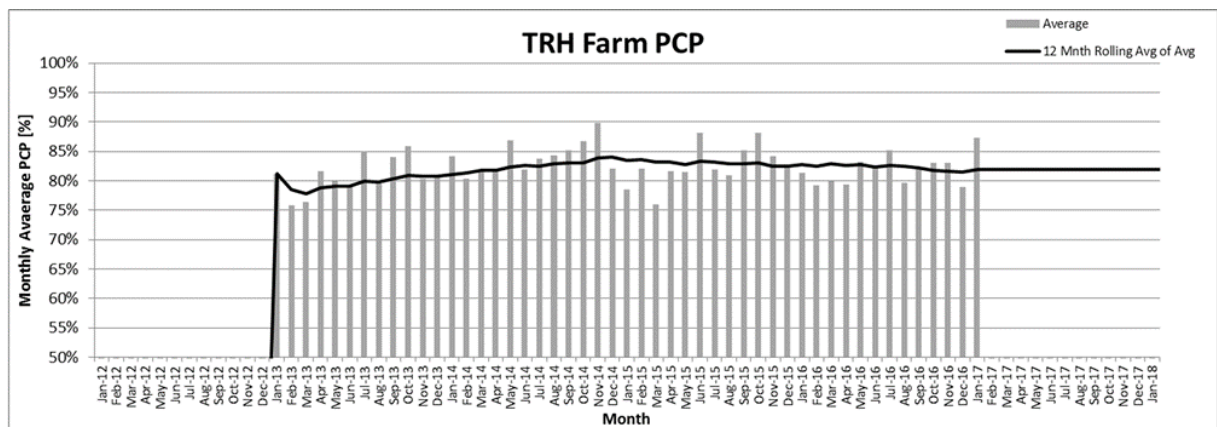
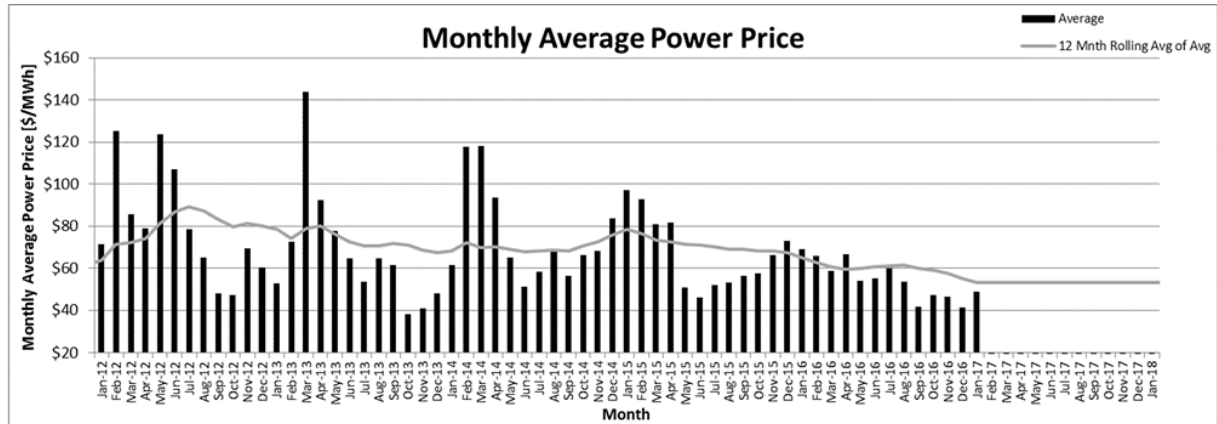
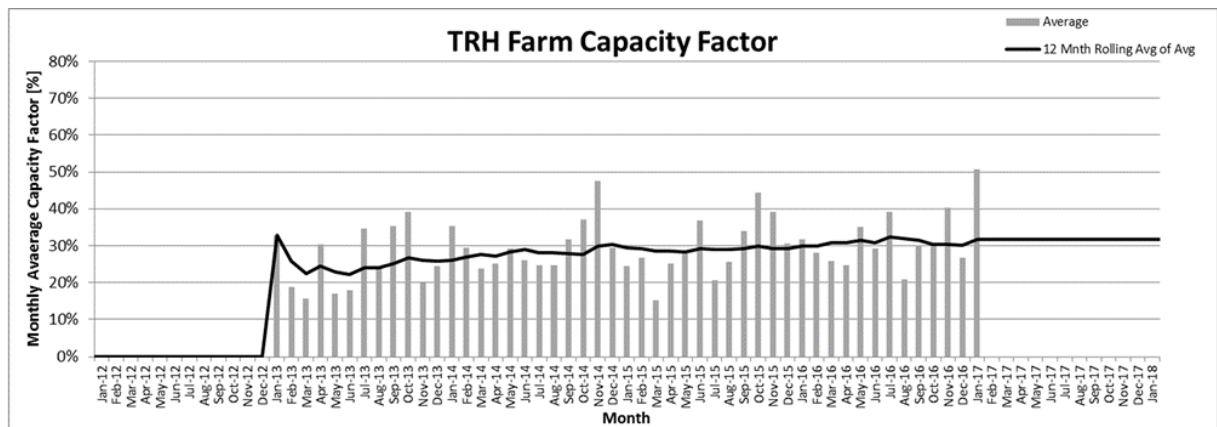
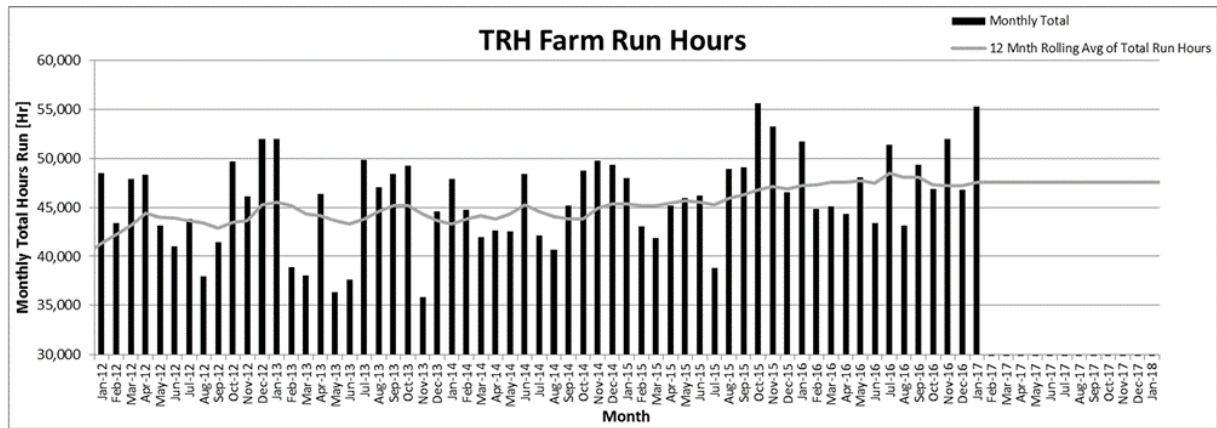
The board has already signalled at the company's annual general meeting that a number of significant changes are being made to its operations. These include steps to deal with the three most significant issues facing the company, being the lease of assets which is impacting the use of our cash, the intermittency of production that is inherent in a windfarm, and revenue which is unpredictable due to the fact that the company supplies the wholesale market and is thus a spot price taker, unable to influence its revenue.

We are already making significant progress. Your board is also actively canvassing the financial markets for instruments that will have the effect of reducing the costs of intermittency however at this point no obvious solutions have been proposed by the market.

Through these changes, the windfarm itself has continued to operate effectively. Production opportunities are being maximised; an all-time record production was achieved in January 2017.

The following charts show our performance over recent years. With the exception of power prices, all of the performance factors show that the wind farm is performing well and within expectations.





As part of its review of the company's operations, the board are having our impairment model rebuilt as the previous model had been in place for some years and was becoming outdated. The Board has resolved not to take mid-year impairment adjustments now or in future, so no adjustment is included in these accounts.

FINANCIAL PERFORMANCE

Electricity generated during the last six months was 65,844 MWH, a reduction of 4% from the previous equivalent period, but still on target for annual production of 130 GWH. Unfortunately the average price achieved was \$43.57 per MWH. This is a reduction of 21.5% over that achieved in the equivalent period last year. This reinforces the determination of the directors to change the operating model so that we have more influence over our revenue and move away from being a spot market price taker. Market prices have been significantly influenced by very high inflows into the hydro system and very high storage levels in the system along with a significant drop in power demand from irrigators in a wet year.

Revenue from electricity generation was \$ 2,869,000, a reduction of 25% over last year. Expenses were reasonably steady at \$3,109,000, a satisfactory position given that there were a number of one off costs associated with the exit of the CEO CFO and the appointment process of the new Commercial Director. With the organisational changes we expect to see a modest reduction in the cost base (\$pa) by the year end. Profit before depreciation, amortisation, impairment and tax was negative \$ 559,000 compared with positive \$ 1,589,000, a result boosted by a final settlement with Windflow Technologies. As a result cash reserves fell by a little under \$1.5 million.

MAIDEN DIVIDEND

I signalled at the AGM that the board was contemplating a maiden dividend in the coming year and while the board will continue to strive towards that end with cost reduction and the acquisition of the transmission assets the challenging fall in power price is likely to defer the dividend for some time until we see power prices rising and we have started to put in place strategies that mitigate the intermittency of power prices.

OPERATIONAL PERFORMANCE

The operation of the windfarm has continued to be satisfactory. Although production fell slightly in the six months, no on farm factors contributed significantly to the fall, and January 2017 was an all-time record production month at 18.3 GWH. Internal measures of performance including Run hours, Capacity, Availability and Output have continued in a satisfactory range. The result has been negatively impacted by the continuing decline in wholesale power prices, which continue to languish well below the long term average.

RESOURCE CONSENTS

There have been no developments of note in this area during the period under review. The section 128 review under the Resource Management Act with Palmerston North City Council is still in progress. As is the district plan review.

BOARD MATTERS

As reported at the annual general meeting, the board now comprises Rodger Kerr-Newell, Chair; Stuart Bauld, Deputy Chair; John Southworth, Chair of the Audit and Remuneration Committees; and Sean Joyce. Rodger Kerr-Newell and Sean Joyce are independent directors. Stuart Bauld is the Acting CEO until a full time Commercial Director is appointed. When Mr Bauld steps down as Acting CEO he can again become an independent director.

The search for a commercial director is proceeding and the board have interviewed final candidates this month. The board has been gratified by the number and calibre of candidates presenting themselves for this role and expect the appointee will be an outstanding leader for the organisation.

The board and Acting CEO have continued to address the issues signalled at the AGM. Three significant issues confronting the company have been identified and are being confronted. The first is the lease over assets on the farm. This constrains our cashflow and because of guarantee requirements prevents the company having a normal commercial banking arrangement. The second is the intermittency inherent in a windfarm in that if the wind does not blow, the farm produces no output. This constrains the ability of the farm to deal with its third issue which is revenue. Unless continuous supply can be guaranteed, we are unable to access retail pricing and therefore condemn ourselves to being a price taker.

OUTLOOK

The Board are of the view that the issues we face are all capable of being resolved and are working towards solutions to them. All price path predictions are for power prices to improve over time which will be positive for us if the predictions come to pass. The windfarm operation continues to operate effectively and continues its active cost containment policy.



Rodger Kerr-Newell
Chairman
28 February 2017

NZ WINDFARMS LIMITED
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
	Notes			
Income				
Electricity sales		2,869	3,828	7,174
Other Income	5	-	1,063	1,011
Warranty income		-	-	-
Total income (excluding interest income)		2,869	4,891	8,185
Administration expenses		189	206	421
Audit fees		24	24	75
Directors' fees	11	64	94	171
Employment expenses		1,012	886	1,776
Insurance		56	61	120
Lease and rental expenses	9	450	447	895
Legal and consulting expenses		265	300	433
Te Rere Hau wind farm operational expenses		955	904	1,750
Other operating expenses		94	105	219
Total operating expenses		3,109	3,027	5,860
Profit before interest, impairment, amortisation, depreciation, and tax		(240)	1,864	2,325
Interest income		155	205	388
Interest expense		(474)	(480)	(958)
Profit before impairment, amortisation, depreciation, and tax		(559)	1,589	1,755
Impairment of Te Rere Hau wind farm	10	-	(2,247)	4,900
Depreciation	2	1,003	1,137	2,343
Loss on disposal of property, plant and equipment		112	53	153
Amortisation		134	137	273
Profit before tax		(1,808)	2,509	(5,914)
Income tax expense (benefit)	1	(506)	406	(1,935)
Profit after tax for the period		(1,302)	2,103	(3,979)
Basic and diluted profit (loss) per share		\$ (0.00)	\$ 0.01	\$ (0.01)

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

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 16.

NZ WINDFARMS LIMITED
INTERIM CONSOLIDATED BALANCE SHEET

		6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
Notes				
Assets				
Current assets				
Cash and cash equivalents		1,143	2,609	2,606
Term Deposit		8,000	8,000	8,000
Convertible notes		-	63	-
Trade and other receivables		554	1,021	698
Inventories		1,331	1,282	1,247
Total current assets		11,028	12,975	12,551
Non-current assets				
Property, plant and equipment	2	34,817	43,120	35,247
Intangible assets		3,611	3,958	3,746
Convertible notes	5	11	-	11
Deferred and provision for tax		19,956	17,105	19,449
Total non-current assets		58,395	64,183	58,453
Total assets		69,423	77,158	71,004
Liabilities				
Current liabilities				
Trade and other payables		1,054	950	1,102
Current portion of finance lease	7	494	456	474
Total current liabilities		1,548	1,406	1,576
Non-current liabilities				
Finance lease	7	8,634	9,127	8,885
Total non-current liabilities		8,634	9,127	8,885
Equity				
Share capital		107,005	107,005	107,005
Retained (loss)/earnings		(47,764)	(40,380)	(46,462)
Total Equity	3	59,241	66,625	60,543
Total equity and liabilities		69,423	77,158	71,004
Net tangible assets per share		\$ 0.12	\$ 0.22	\$ 0.13

Signed for and on behalf of the Board as at 28 February 2017



Rodger Kerr-Newell
Chairman



Stuart Bauld
Deputy Chairman

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 16.

NZ WINDFARMS LIMITED
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
	Notes			
Equity at beginning of period		60,543	64,522	64,522
Profit (Loss) after tax for the period		(1,302)	2,103	(3,979)
Equity at end of period		59,241	66,625	60,543
Represented by:				
Share capital		107,005	107,005	107,005
Retained earnings (loss)		(47,764)	(40,380)	(46,462)
Total equity	3	59,241	66,625	60,543

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 16.

NZ WINDFARMS LIMITED
INTERIM CONSOLIDATED CASH FLOW STATEMENT

		6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
	Notes			
Operating activities				
Cash was received from:				
Trading revenue		2,936	3,610	7,276
Interest received		245	411	507
Other income	5	-	1,000	1,000
		3,181	5,021	8,783
Cash was applied to:				
Interest paid		475	481	959
Payments to suppliers and employees		3,353	3,194	5,759
		3,828	3,675	6,718
Net cash inflow/(outflow) from operating activities	4	(647)	1,346	2,065
Investing activities				
Cash was provided from:				
Sale of property, plant & equipment		-	-	-
		-	-	-
Cash was applied to:				
Investment in Term Deposit		549	1,500	1,500
Purchase of property, plant and equipment		36	548	1,048
		585	2,048	2,548
Net cash (outflow) from investing activities		(585)	(2,048)	(2,548)
Financing activities				
Cash was applied to:				
Finance lease		231	213	435
		231	213	435
Net cash (outflow) from financing activities		(231)	(213)	(435)
Net (decrease) in cash and cash equivalents		(1,463)	(915)	(918)
Cash and cash equivalents, beginning of period		2,606	3,524	3,524
Cash and cash equivalents, end of period		1,143	2,609	2,606
Cash and cash equivalents				
Short term deposits		-	2,000	1,800
Bank account and on call deposits		1,143	609	806
Cash and cash equivalents, end of period		1,143	2,609	2,606

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 to 16.

REPORTING ENTITY AND STATUTORY BASE

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

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

The condensed consolidated interim financial statements of NZ Windfarms Limited as at 31 December 2016 comprise the Company and its 100% owned subsidiaries NZWL–TRH Limited and TRH Services Limited. Consolidated interim financial statements are presented in accordance with the Financial Reporting Act 2013.

BASIS OF PREPARATION

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

The Company is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013. The December 2016 financial statements of the Group have been prepared in accordance with the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013 and prepared in accordance with and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented entities. The Group financial statements comply with International Financial Reporting Standards (IFRS) and have been prepared on a going concern basis.

The financial statements are expressed in New Zealand dollars which is the Group's functional currency, except that certain financial instruments are recognised at fair value.

MEASUREMENT BASE

The measurement base adopted in the preparation of these financial statements is historical cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the condensed group interim financial statements are unchanged from the audited 30 June 2016 financial statements.

The condensed group interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these condensed consolidated group interim financial statements are to be read in conjunction with the 30 June 2016 financial statements.

1. INCOME TAX EXPENSE (BENEFIT)

	6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
Profit (Loss) for the period before tax	(1,808)	2,509	(5,914)
Expected tax expense (benefit) at 28%	(506)	703	(1,656)
Adjustment recognised in the current year in relation to the current tax of prior years	-	-	3
Adjustment for non-deductible expenses and non-assessable income			
Settlement payment from Windflow Technology Limited	-	(280)	(283)
Convertible Notes in Windflow Technology Limited	-	(17)	1
	(506)	406	(1,935)
Represented by:			
Deferred	(506)	406	(1,935)
Income tax (benefit)	(506)	406	(1,935)

2. PROPERTY, PLANT AND EQUIPMENT

	6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
Opening carrying amount	35,247	42,299	42,299
Additions	785	569	1,072
Writeback of retentions	-	(780)	(780)
Transfer from Inventories	(99)	-	-
Impairment of Te Rere Hau wind farm	-	2,247	(4,824)
Disposals	(113)	(78)	(177)
	35,820	44,257	37,590
Depreciation	(1,003)	(1,137)	(2,343)
Closing carrying amount	34,817	43,120	35,247

3. EQUITY

	6 months ended 31/12/2016 \$000 (unaudited)	6 months ended 31/12/2015 \$000 (unaudited)	Year ended 30/06/2016 \$000 (audited)
Opening issued share capital	107,005	107,005	107,005
Closing issued share capital	107,005	107,005	107,005
Retained earnings			
Opening balance	(46,462)	(42,483)	(42,483)
Net profit (loss)	(1,302)	2,103	(3,979)
Closing retained earnings	(47,764)	(40,380)	(46,462)
Closing balance	59,241	66,625	60,543

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

	31/12/2016 6 months ended \$000 (unaudited)	31/12/2015 6 months ended \$000 (unaudited)	30/06/2016 Year ended \$000 (audited)
Net profit (loss) attributable to equity holders of the Company	(1,302)	2,103	(3,979)
Non Cash Items:			
Depreciation	1,003	1,137	2,343
Amortisation of intangible assets	134	137	273
Impairment of Te Rere Hau wind farm	-	(2,247)	4,900
Revenue from capitalisation of convertible notes	-	(63)	
Deferred taxation	(506)	406	(1,935)
Convertible notes	-	-	(11)
Loss on disposal of assets	113	53	153
	(558)	1,526	1,744
Changes in working capital:			
Trade and other payables	(38)	(105)	(743)
Retentions write-off to wind turbines		-	780
Inventories	(195)	(87)	(51)
Trade and other receivables	145	12	335
Net cash flow from operating activities	(646)	1,346	2,845

5. CAPITAL COMMITMENTS

At 31 December 2016 the Group's capital commitments \$400,000 (30 June 2016 – \$422,000), (31 December 2015 - \$187,000).

6. CONTINGENT ASSETS AND LIABILITIES

6.1. Bank Guarantee and General Security Deed

The Bank of New Zealand (BNZ) has provided a bank guarantee of \$9,220,000 to a supplier on behalf of the Company. The obligation of Bank of New Zealand under the current guarantee terminates on 30 November 2017, when it is anticipated that it will be replaced by a similar 12 month guarantee. The guarantee is secured by way of security interests over the present and after-acquired property of the Company and its subsidiaries, including first mortgages over the Group's land and a specific security interest over \$6.5 million of cash.

6.2. Litigation

The Company has engaged in a dialogue with the Palmerston North City Council to determine how the remaining issues concerning noise can be finally resolved. The Company expects that some conditions of the resource consent will be reviewed under the Resource Management Act as provided by earlier decisions of the Environment Court. The Company considers that the proposed review of consent conditions is the most likely process to finally resolve all of the noise issues raised, rather than further litigation.

Action under the Section 128 Review being conducted with the Palmerston North City Council and joint action in relation to changes to the District Plan has not progressed.

7. FINANCE LEASE

On 8 October 2007, the subsidiary company NZWL-TRH Limited entered into a 20-year agreement to lease an internal electricity gathering system that connects turbines to the onsite sub-station. The finance lease commenced in September 2008 and was increased during the 2011 financial year to include the internal electricity gathering system to connect the Stage 4 turbines to the onsite sub-station. At the end of the lease NZWL-TRH Limited has the option to acquire the assets for a nominal price. The lease liability is as follows:

	31/12/2016 6 months ended \$000 (unaudited)	31/12/2015 6 months ended \$000 (unaudited)	30/06/2016 Year ended \$000 (audited)
Non-cancellable lease payments:			
Within 1 year	1,428	1,407	1,418
1 to 5 years	5,888	5,821	5,855
More than 5 years	10,278	11,773	11,027
Minimum lease payments	17,594	19,001	18,300
Less future finance charges	(8,467)	(9,418)	(8,941)
Present value of minimum lease payments	9,127	9,583	9,359

Present value of minimum future lease payments

Non-cancellable lease payments:			
Within 1 year	493	456	474
1 to 5 years	2,419	2,234	2,324
More than 5 years	6,215	6,893	6,561
Present value of minimum lease payments	9,127	9,583	9,359

Included in the financial statements as:

Finance lease - current	493	456	474
Finance lease - non-current	8,634	9,127	8,885

8. OPERATING LEASES

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

On 8 October 2007, the subsidiary company NZWL-TRH Limited entered into a 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. The operating lease commenced in September 2008.

	31/12/2016 6 months ended \$000 (unaudited)	31/12/2015 6 months ended \$000 (unaudited)	30/06/2016 Year ended \$000 (audited)
Lease payments expensed during the year	450	447	895
Non-cancellable lease commitments:			
Within 1 year	865	892	906
1 to 5 years	3,585	3,700	3,749
More than 5 years	6,392	7,730	7,303
Total non-cancellable lease commitments	10,842	12,322	11,958

9. TE RERE HAU FARM ASSET IMPAIRMENT

The Group has only one cash generating unit which is the Te Rere Hau wind farm. The value in use method has been used to establish the carrying value of the assets of the wind farm using a remaining life of thirty four and a half years from 31 December 2016 with no terminal value. The remaining life is based on the turbine manufacturers design life for the turbines and the group's long term replacement strategy for the major turbine components. During the six months ended 31 December 2015, the Group carried out a review of the carrying values of the assets in accordance with NZ IAS 36 - Impairment of Assets and determined that an impairment reversal of \$2,247,000 was required.

The key assumptions underpinning the model are future electricity prices, output, costs including the cost of mid-life refurbishment, inflation and the discount rate. Generally due to the short period since the assumptions were last assessed there is insufficient new evidence available to require a change in the assumptions.

The asset impairment model is currently being rebuilt, but in any event the Directors have resolved not to make a midyear adjustment to the asset values.

10. RELATED PARTY TRANSACTIONS

10.1. Vector Limited

Vector Limited holds 22.11% of the shares in NZ Windfarms Limited.

NZ Windfarms Limited has negotiated an arms-length agreement with Vector Limited whereby Vector Limited provides general electricity services. In the six months ended 31 December 2016 \$60,000 fees have been paid to Vector Limited (30 June 2016 - \$120,000; 31 December 2015 - \$60,000).

10.2. Key management

Key management personnel short term employee benefits, including remuneration to Directors, were \$427,000 during the six months ended 31 December 2016 (30 June 2016 - \$627,000; 31 December 2015 - \$350,000).

10.3. Directors' remuneration

Directors' remuneration of \$63,875 was paid and expensed during the six months ended 31 December 2016 (30 June 2016 - \$171,250; 31 December 2015 - \$94,250).

There were no key related party shareholdings as at 31 December 2016.

10.4. ESOP

At the Annual General Meeting on 29 November 2016 a share option plan was adopted by shareholders. The valuation of the plan is still incomplete.

11. EVENTS SUBSEQUENT TO 31 DECEMBER 2016

There were no significant events subsequent to 31 December 2016.

12. SEGMENT ANALYSIS

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

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

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

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

DIRECTORS

Rodger Kerr- Newell (Chairman)
Stuart Bauld
Sean Joyce (appointed 27/10/2016)
John Southworth (appointed 29/11/2016)
Simon Mackenzie (resigned 25/10/2016)

EXECUTIVE STAFF

Stuart Bauld – Acting Chief Executive Officer
Chris Sadler – CEO (resigned 31/10/2016)
Derek Eades – CFO (resigned 23/11/2016)

SOLICITORS

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