NZ WINDFARMS LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

CHAIRMAN'S LETTER

Dear Shareholders,

This year's Annual Meeting of the Company will deal with the usual matters to be considered and addressed at an annual meeting, namely:

- An appraisal of the operational and financial performance of the Company for the previous 12 months;

- A discussion of the future prospects for the Company;

- The general business of the Company, namely the reappointment of the one director required to retire by rotation.

In addition to the general business, the Board of NZ Windfarms Limited (**Company**) is seeking shareholder approval for the implementation of a significant acquisition and financing initiative which has been negotiated and endorsed by the Board of the Company, subject to shareholder approval.

The Initiative comprises the following principal component parts:

- The purchase (**Acquisition**) of the transmission line and associated assets (**Assets**) from PowerCo Transmission Services Limited (**Vendor**) for a total consideration of $17,300,000.

- To assist the Company fund the Acquisition, the Company proposes to borrow up to $12.3m from the Bank of New Zealand (BNZ).

- The Board considers that the Acquisition will generate materially positive benefits for the Company, including:

  - The total servicing cashflows are around $700k per annum less than the current operating and finance lease costs;
  - The Acquisition frees up a $6.5m bank guarantee in place to secure the current leases, $5.0m of which will be used to part-fund the asset purchase;
  - The Acquisition gives NZ Windfarms full control of all its generation and reticulation assets
  - The Acquisition makes funds available for return to shareholders;

The Board recommends that all shareholders carefully read the Explanatory Notes that form part of this Notice of Meeting, together with the Report prepared by PricewaterhouseCoopers that accompanies this Notice of Meeting.

The Board of NZ Windfarms Limited is very pleased to present the Acquisition to shareholders for their consideration. I encourage shareholders to approve all of the resolutions required to implement the Acquisition at the Annual Meeting.

Yours faithfully

Rodger Kerr-Newell
Chairman

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Annual Meeting of Shareholders of NZ Windfarms Limited (**Company**) will be held at The Grand Mercure Hotel, 8 Customs Street East, Auckland, on Tuesday 26 September 2017 at 12:30pm.

The Explanatory Notes which accompany this Notice of Meeting set out the details of the transactions which are the subject of the resolutions and the approval required for each resolution by the shareholders of the Company pursuant to the NZX Main Board Listing Rules (**Listing Rules**), the Companies Act 1993 (**Act**) and the constitution of the Company (**Constitution**).

BUSINESS OF THE MEETING

1. Re-election of Director – Ordinary resolution

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

Mr Stuart Bauld retires in accordance with the provisions of the Constitution of the Company and, being eligible, offers himself for re-election.

2. Appointment and remuneration of Auditors

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

"That the Board are authorised to appoint and fix the remuneration of the Company's auditors for the forthcoming financial year ending 30 June 2018.

3. Acquisition of certain Transmission Line and associated assets – Ordinary Resolution – Listing Rule 9.1.1

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

"*The Agreement for Sale and Purchase of Assets (**Sale Agreement**) entered into between the Company and PowerCo Transmission Services Limited (**Vendor**), pursuant to which the Company has agreed to acquire all of the transmission line facilities and associated assets as further described in the Explanatory Notes (**Assets**) for $17,300,000 (**Acquisition**), which consideration will be satisfied by the payment of cash to the Vendor, and the transactions described in the Sale Agreement are approved, and that the Directors be authorised to take all actions, do all things and execute all documents and agreements necessary or considered by them to be expedient to give effect to such transactions*."

The implementation of this resolution is conditional upon resolution 4 being approved by the shareholders of the Company.

4. Entry into a loan facility for up to $12.3m from BNZ to partially fund the Acquisition ("Loan Facility") – Ordinary Resolution – Listing Rule 9.1.1

If resolution 3 is passed, to consider, and if thought fit, pass the following resolution as an ordinary resolution of the Company:

"*That:*

*(a) The Company borrow up to $12.3m from BNZ (**Lender**)on the terms set out in the Explanatory Notes;*

(b) The Loan Facility is to be drawn down upon by the Company and applied towards the partial payment of the purchase price payable by the Company to acquire the Assets;

(c) The directors are authorised to enter into and execute all of the documentation in support of the Loan Facility, including but not limited to granting in favour of the Lender a General Security Agreement over the present and after acquired personal property of the Company, and are further authorised to take all actions, do all things and execute all documents and agreements necessary or considered by them to be necessary or expedient to secure the provision of the Loan Facility."

The implementation of this resolution is conditional upon resolution 3 being approved by the shareholders of the Company.

NOTES

1. EXPLANATORY NOTES

Explanatory Notes for Resolutions 1, 3 and 4 are set out in the following pages.

2. PROXIES

All shareholders of the Company entitled to attend and vote at the meeting are entitled to appoint a proxy to attend and vote for them instead.

A proxy need not be a shareholder of the Company.

A proxy form is enclosed and to be effective must be lodged at least 48 hours before the meeting is due to begin (i.e. before 12:30pm on Sunday, 24 September 2017) with the Company's Share Registrar in accordance with the instructions in the Notes to the proxy form accompanying this Notice.

3. VOTING RESTRICTIONS

There are no voting restrictions in respect of the resolutions.

All persons registered on the Company's register of shareholders as the holders of shares as at 5pm on Monday, 25 September 2017 shall, subject only to the preceding restrictions, be entitled to vote at the Meeting in person or by proxy.

4. CONDITIONAL NATURE OF RESOLUTIONS 3 and 4

The implementation of resolutions 3 and 4 are conditional upon both of resolutions 3 and 4 being approved by the shareholders of the Company.

By Order of the Board of Directors

Rodger Kerr-Newell
Chairman

EXPLANATORY NOTES

Listing Rules and Companies Act
The Company is listed on the NZX Main Board and must comply with the Listing Rules. In addition, various provisions of the Listing Rules are included in the Constitution. The Act, the Constitution and the Listing Rules contain specific requirements which are relevant to the resolutions comprised in this Notice.

The implications of the Listing Rules, the Act and the Constitution, insofar as they relate to each resolution, are addressed in the Explanatory Notes to each resolution.

Nature of Resolutions
The resolutions which are to be considered at the Meeting include four ordinary resolutions. An ordinary resolution is a resolution passed by a simple majority of votes of shareholders of the Company, entitled to vote and voting.

Set out below is further information on the resolutions to be proposed at this Meeting.

RESOLUTION 1: RE-ELECTION OF STUART BAULD AS A DIRECTOR

In terms of the Constitution, the Listing Rules and the Companies Act, Mr Bauld is required to retire as a director of the Company as at the date of the next annual meeting of shareholders of the Company.

Mr Bauld has been nominated to act as a director of the Company, and shareholders are being asked to consider, and if thought appropriate, appoint Mr Bauld as a director of the Company.

A brief biography for Mr Bauld is provided below:

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.

The Board considers that Mr Bauld, if elected, would be an Independent Director for the purposes of the NZX Main Board Listing Rules.

RESOLUTION 3: ACQUISITION ("ACQUISITION") OF TRANSMISSION LINE AND ASSOCIATED ASSETS ("ASSETS") – ORDINARY RESOLUTION – LISTING RULE 9.1.1

GENERAL
The Company has entered into an Agreement for Sale and Purchase of Assets (**Sale Agreement**) with PowerCo Transmission Services Limited (**Vendor**) to acquire certain transmission line assets and collateral plant and equipment which is currently leased by the Company from the Vendor (**Assets**). The purchase price payable to acquire the Assets is $17,300,000.

THE ASSETS
The Assets proposed to be acquired comprise the following:

Internal Reticulation Assets
The reticulation assets that electrically connect each windfarm turbine (from the Company's Connection Point – being the point from the outgoing terminals on the low voltage switchboard for the connection to the wind turbine generator transformer of each windflow 500 turbine/s) within the Company's Windfarm to the 2 incoming cable termination points on the switch gear in the Vendor's Substation including:

- All low voltage equipment.
- The turbine step up transformer located adjacent to the base of the turbine tower complete with concrete pad and associated transformer earthing.
- The low voltage cables running from the turbine step up transformer to within the base of the turbine switchboard.
- The fibre optic cables termination shelf terminated within the turbine tower base cabinets.
- 33kv reticulation cabling and fibre optic cables run through the site interconnecting the turbines.

Equipment
- The Powerco Substation including circuit breakers, neutral earthing resistors, neutral earthing transformers, voltage transformers and necessary protection, control, communications and SCADA panels.
- Current transformers on Trustpower circuit breakers in the Trustpower Substation.
- Protection and control panels in the Trustpower Substation.

Transmission Assets
All the assets used to connect the Windfarm (from the Company's Connection Points) to the TrustPower Substation including:

- The electricity transmission line or lines (**Transmission Lines**) including the dedicated conductor(s) between the Company's Connection Points and the TrustPower Substation.
- The cable, cable terminators and cable joints relative to the Transmission Lines.
- All switching equipment, circuit breakers, communications and metering equipment incident to the Transmission Line and associated equipment and materials.
- Any other equipment which might reasonably be required to operate the Transmission Line and associated assets referred to above.

Electrical Network
- Distribution assets on site in the environs of the Windfarm plus two transmission circuits connecting the Windfarm to the Trustpower Substation. The assets consist of 400v and 33kV power cables, transformers, switch gear, fibre optic communications cable and a small substation. From the Powerco Substation two transmission circuits run underground 7km north to terminate inside the Trustpower Substation at circuit breakers 3042 & 3142 respectively. The Vendor's network terminates at the cable lug connection to the CB.

Fibre optic
- In addition to the power cables a 12 core single mode fibre optic cable is installed alongside all HV cables connecting between turbines, the O&M building, Powerco Substation and Trustpower Substation.

Critical spares
- Two turbine transformers are located inside the fenced area at the Powerco Substation.
- Deadbreak Elastimold HV boots & connectors for 630 and 120mmAL .
- 185mm Cu Cantol.
- Safety measures including insulating plugs, padlocks, tags, applied earths & VDD.
- HV cable(s) to be sourced from the Vendor's critical spares held offsite.

Assets on site

- 99 550kVa 400-33kV transformers
- 2 33kV SF6 switches (Vista Switches)
- 2 Neutral Earthing Transformers
- 2 Neutral Earthing Resistors
- 2 Voltage transformers
- 12 core single mode fibre optic
- 185mmCu 400v Cantol
- 120mmAL 33kV HDPE/XLPE cable
- 630mmAL 33kV HDPE/XLPE cable
- Powerco Substation protection panels and relays
- Powerco Substation building & fences (steel mesh & timber rail)
- All HV terminations are the Elastimold boot type – dead break

THE PURCHASE PRICE

The purchase price will be satisfied by the payment of $17,300,000 in immediately available cleared funds on the date of completion of the Acquisition.

It is proposed that the payment of the purchase price will be funded as follows:

- The Company utilising $5.0m of its own existing cash reserves (from the current bank guarantee that will be released as part of the transaction); and
- The Company borrowing $12.3m from BNZ as contemplated in Resolution 4. Further terms of this loan facility are provided in the Explanatory Notes to Resolution 4.

REQUIREMENT FOR RESOLUTION

The entry into the Sale Agreement, and the ultimate Acquisition of the Assets must be approved by shareholders in accordance with Listing Rule 9.1.1 (b) which requires that any acquisition of assets, in respect of which the gross value of the is in excess of 50% of the Average Market Capitalisation of the Company requires the approval of the shareholders of the Company by an ordinary resolution. The purchase price proposed to be paid by the Company to acquire the Assets exceeded 50% of the Average Market Capitalisation for the Company (as that term is defined in the Listing Rules) as at the date of the announcement of the Acquisition to the market. The Average Market Capitalisation for the Company, as calculated from trades on the NZSX over the 20 Business Days before the day the Acquisition was announced to the market, was $25,689,420.00.

CONDITIONS

The Acquisition is primarily conditional upon:

- The Company undertaking a due diligence investigation of the Assets and the results of that investigation being satisfactory to the Company in all respects, at the Company's absolute discretion;

- The counterparties to the material contracts relevant to the Assets, consenting in writing to the assignment or novation of the Vendor's interest in those contracts to the Company. The contracts that are required to be assigned or novated to the Company are primarily contracts with third party property owners, which contracts permit the Assets to be located on those third parties properties, and enable the Company to access those third parties properties to manage and maintain the Assets;

- The Company obtaining all of the approvals required from the Company's shareholders to acquire the Assets, and to raise sufficient debt finance required to fund the Acquisition;

- The Company securing sufficient finance (on terms acceptable to the Company in all respects) from a third party, or third parties, to assist the Company to fund the payment of the purchase price for the Assets.

THE COMMERCIAL RATIONALE FOR THE TRANSACTION

The Current Position
The Company currently enjoys access to the electrical reticulation assets through a finance and an operating lease. The Company is obliged to provide a $6.5m cash bank guarantee to secure these leases. The total annual lease and bank guarantee costs are approximately $2.4m per annum, and these costs escalate at around $35k/annum until termination in 2028 when the assets transfer to the Company's ownership for $1.00.

To date the Company has expended the aggregate sum of $16,935,000 in terms of the lease arrangements. That amount comprises the following component parts:

- $2,835,000 on account of the payment of principal in respect of the finance leases;

- $7,312,000 on account of the interest payable in respect of the finance lease; and

- $6,788,000 on account of the Line Charges payable in respect of the operating lease.

If the finance lease arrangement were to run until their contracted termination, it is anticipated that the costs that the Company would incur from today until the date of termination of the finance lease in 2028 would be approximately $26,911,000.

In the event that the Company proceeds with the Acquisition, the finace lease arrangement would terminate. The Company is not liable for any early termination charges or cost in this scenario.

The Financial Benefits of the Acquisition
The Company has calculated that it is more cost effective to purchase the reticulation assets than to continue to pay the current finance and operating leases until termination.

If the finance lease arrangement were to run until its contracted date of termination, it is anticipated that the costs that the Company would incur from today until the date of termination of the finance lease in 2028 would be approximately $26,911,000.

If $5 million of the $6.5 million bank guarantee funds are utilised alongside a loan facility of $12,300,000 with full amortisation over 13 years, the annual savings are around $700,000 per annum, increasing by around $60,000 per annum as the debt is paid down. The total cost of the loan, including principal repayments and interest, should the loan run its full term, is approximatey $17,000,000.

The Valuation Methodology Utilised by the Board
The Board commissioned PWC to undertake a valuation of the acquisition. The PWC assessment *NZ Windfarms; Financial analysis of option to acquire the Powerco connection assets* is attached as Attachment 1. The Commercial Director and Board negotiated the purchase price for the Assets on an arms-length basis with the Vendor.

The PWC Report presented a valuation range, from $14.7 million to $20.2 million. The purchase price of $17.3 million falls within the valuation range.

KEY RISKS

The Board has identified a number of risk factors associated with the Acquisition and the owning of the Assets which may affect the Company's future operating performance and financial position and the value of the Company's shares post completion of the Acquisition.

Key risks, their severity and mitigation are listed below:

- The asset fails due to a manufacturing defect. The company is currently exposed to such failures and Powerco is providing reasonable warranties in the sale in the event of a fundamental failure.
- An asset failure causes significant revenue loss. The current arrangements expose the company to contingent losses.
- All transmission assets can be subject to thermal overload and failure. This risk exists now but all the cabling is buried (rather than overhead) minimising these risks.
- Post completion of the Acquisition, the Company will have a significant debt facility with its bankers. In the event that the Company fails to pay the interest and principal payments when due under that facility, the Company may fall into default in respect of that facility which would enable its bankers to call up the loan facility in full and potentially take further action against the Company in terms of the securities that it holds over the Company and its assets.

In the event that the Acquisition does not proceed then the Company will continue to utilise the Assets via its finance lease arrangement.

BOARD RECOMMENDATION

In the Board's opinion, there are primarily two options available to the Company in respect of the manner in which it structures the ownership/lease arrangements of the Assets:

- Continue with the existing finance lease arrangements; or
- Terminate the finance lease arrangements, and acquire the Assets as contemplated in resolution 3.

Having regard to the commercial reasons discussed above, the Board of Directors considers that the termination of the finance lease arrangement, and the acquisition of the Assets is the optimal course of action for the Company to follow, and unanimously recommend that the shareholders support resolution 3.

RESOLUTION 4: ENTRY INTO A LOAN FACILITY FOR UP TO $12.3m FROM BNZ TO PARTIALLY FUND THE PURCHASE OF THE ASSETS ("LOAN FACILITY") – ORDINARY RESOLUTION – LISTING RULE 9.1.1

GENERAL

The Company proposes to enter into a loan facility (**Loan Facility**) with BNZ whereby it will draw down upon and borrow the sum of up to $12.3 million, which sum will be applied towards the payment of the purchase price payable by the Company to acquire the Assets.

THE PRINCIPAL TERMS OF THE LOAN FACILITY

The principal terms of the Loan Facility are as follows:

Principal Sum	Up to $12.3m
Interest Rate	BKBM (3 month bank bill rate - currently 1.955%) + 3.6% per annum (to give a total current rate of 5.555%)
Term of the Loan Facility	3 years, expires 31 October 2020
Repayment	Equal quarterly principal repayment instalments of $236,538.46

REQUIREMENT FOR RESOLUTION

The entry into the Loan Facility to fund the Acquisition of the Assets must be approved by shareholders in accordance with Listing Rule 9.1.1(b), given the entry into the Loan Facility is a transaction related to the Acquisition, and the Acquisition is required to be approved by shareholders given it is an acquisition of assets, in respect of which the gross value of the is in excess of 50% of the average market capitalisation of the Company.

BOARD RECOMMENDATION

The Directors unanimously recommend that shareholders support resolution 4.

ATTACHMENT 1

Report prepared by PricewaterhouseCoopers - NZ Windfarms; Financial analysis of option to acquire the Powerco connection assets

Consulting

NZ Windfarms

Financial analysis of option to acquire the Powerco connection assets

NZ Windfarms

August 2017

pwc

Provided for the sole use of NZ Windfarms and its Shareholders

John Worth
Commercial Director
NZ Windfarms Limited
376 North Range Road
Aokautere
Palmerston North 4471

16 August 2017

Financial analysis of option to acquire the Powerco connection assets

Dear John,

Please find enclosed our analysis of NZ Windfarms Limited's (NZ Windfarms or the Company) option to acquire Powerco Limited's (Powerco) transmission assets that connect the Te Rere Hau wind farm to the national grid (the Assets). This report summarises our analysis, key assumptions and observations.

This report is provided in accordance with the terms of our letter of engagement dated 9 February 2017, and should be read in conjunction with the Important Notice contained in Appendix A of this report. We note this report is provided to NZ Windfarms and its shareholders solely for the purpose of understanding the option of purchasing the Assets early. PwC accepts no duty of care to any other party in connection with the provision of this report.

Yours sincerely,

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Background and scope

Background

NZ Windfarms owns and operates the Te Rere Hau wind farm situated in the Tararua Ranges, near Palmerston North.

The wind farm connects to the national grid through transmission assets that are owned by Powerco. NZ Windfarms has rights to use the capacity of these Assets under a 20 year lease contract (the Contract). When the Contract expires in 2028 the Assets will revert to NZ Windfarms for $1.

NZ Windfarms has been reviewing its costs including the current lease arrangements with Powerco and the bank guarantee associated with the lease arrangement.

Under the Contract, NZ Windfarms can potentially purchase the Assets early, at a price equal to the greater of:

- the market value of the Assets in their current use and location
- a termination charge, approximately calculated as the present value of revenue earned less expenditure already incurred by Powerco as at the transaction date.

We understand that NZ Windfarms has provisionally agreed to buy the Assets from Powerco for $17.3m on 29 September 2017, subject to approvals.

Scope

The scope of this report is to present the outputs of our modelling as described below. We have not analysed the wider impacts for your organisation, and as such this report should not be interpreted as a recommendation to proceed or not with any potential transaction. We have not been involved in negotiations between NZ Windfarms and Powerco.

Our analysis relies on information provided by NZ Windfarms about the Assets, including the Contract and your initial analysis of the financial data associated with the Contract.

By its very nature, much of our work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of professional judgement.

Approach and results

To assist NZ Windfarms in considering the option to purchase the Assets early, we have estimated the impact on the present value of cash flows to NZ Windfarms under a range of potential early purchase prices.

In estimating this range we have used a discounted cash flow ('DCF') approach to model the operating and funding cash flows for each company. The key assumptions made in our analysis are provided in Appendix B. The resulting cash flows available to equity are discounted using our estimate of each company's cost of equity.

The low end of our value range is **$14.7m**.

- This is our estimate of the minimum purchase price that Powerco would accept, which is based on the Contract terms.
- Under the Contract, the minimum purchase is the greater of the market value of the Assets in their current use or the termination payment. We assume the market value of the Assets is the price required by Powerco to make it no worse off if it sells the Assets early. We estimate this to be $13.6m, which is less than our estimate of the termination payment required of $14.7m. Accordingly, we assume that Powerco will not sell the Assets for less than $14.7m.
- At the low value, the present value of NZ Windfarms' cash flows is **$4.9m** higher if it completes an early transaction than if it remains in the Contract until it expires.

The high end of our value range is **$20.2m**.

- This is our estimate of the purchase price at which the present value of NZ Windfarms' cash flows are the same under the early purchase scenario and allowing the Contract to run until it expires in 2028.

The proposed transaction price is **$17.3m**.

- This falls within our estimated value range.
- At this price, the present value of NZ Windfarms' cash flows is **$2.6m** higher if it completes an early transaction than if it remains in the Contract until it expires.

In addition, NZ Windfarms will benefit from the removal of the bank guarantee associated with the Contract under the early purchase scenario. We estimate that the benefit of this to NZ Windfarms is between **$0.4m** and **$0.5m**.

The results of our analysis are most sensitive to:

- gearing assumptions
- cost of funding assumptions
- the future costs of operating the Assets.

Appendix A – Important notice

This Report has been prepared solely to assist you in understanding the option to purchase the Assets early from Powerco and should not be relied upon for any other purpose.

This Report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information. We accept no duty or responsibility to any party other than the NZ Windfarms.

We have not independently verified the accuracy of information provided to us by NZ Windfarms or public sources, and have not conducted any form of audit in respect of this information. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

We have referenced forecasts and assumptions prepared by NZ Windfarms and others about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report. We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our engagement letter dated 9 February 2017 and the Terms of Business attached thereto.

In addition the following should be noted:

- Certain numbers included in tables and text throughout this report have been rounded and therefore do not add exactly
- Unless otherwise stated all amounts are expressed in New Zealand dollars.

Appendix B – Assumptions

Status Quo scenario assumptions

Assumption	NZ Windfarms	Powerco
Projection period	Cash flows are projected over the 45 year estimated useful life of the Assets, recognising NZ Windfarms is the long-term owner of the Assets. We assume the Assets are already 8 years old as at the calculation date of 29 September 2017 based on the historical data you have provided us.	Cash flows for Powerco are projected over the 20 year period of the Contract starting at the commencement of the Contract in 2008 and ending with the expiry of the lease in 2028.
Lease payments	We have projected lease payments based on historical information and on our analysis of the Contract terms.	As for NZ Windfarms.
Operating costs	No operating costs are incurred until the Assets are transferred in 2028. We have projected direct operating costs by escalating historical total operating costs forward for inflation of 2%. We have assumed NZ Windfarms incurs no incremental indirect operating costs in operating the Assets.	As for NZ Windfarms
Capital expenditure	We assume capital expenditure is nil over the life of the Assets.	As for NZ Windfarms.
Tax depreciation	The transfer of the Assets to NZ Windfarms for $1 at expiry of the Contract means the tax value of the Assets will be immaterial.	We have used a diminishing value depreciation method and a depreciation rate of 8.48% based on information provided to us. Tax asset balances are rolled forward from original capex on the Assets.
Debt funding	You have identified that there are no separate debt funding arrangements in the status quo scenario.	We have estimated a pre-tax cost of debt for Powerco of 6.75% based on our analysis of yields on longer-dated BBB rated bonds, consistent with Powerco's credit rating. We have assumed that Powerco funded the initial Asset capex using 60% debt, based on Powerco's current treasury policy. We have assumed straight-line amortisation of the principal over the 20 year period of the Contract.
Tax	NZ Windfarms' significant deferred tax assets mean it is unlikely to pay tax on income generated by the Assets. Accordingly, we assume tax is nil.	We have used our standard tax modelling approach and applied a tax rate of 28%.
Working capital	We assume that accounts payable and receivable are paid on the 20th of the month following invoicing, consistent with the Contract terms. Working capital is unwound at the transfer date.	As for NZ Windfarms.
Cash flows to equity	The cash flows to equity generated under this scenario have been discounted at a post-tax cost of equity of 8.77% and utilise mid-period discounting. This cost of equity applied is consistent with that used in our generation impairment model report dated 3 February 2017.	As for NZ Windfarms except we have estimated a post-tax cost of equity for Powerco of 10.38%. Powerco's cost of equity is higher than NZ Windfarms' due to its higher target gearing of 60% relative to the 30% we have applied for NZ Windfarms.
Bank guarantee	We have forecast the bank guarantee amount based on the Contract terms. We have assumed that the current pricing and security required as a percentage guarantee amount will remain over the Contract term.	N/A
Cash held in term deposit	We understand that $5m of cash is being held in a term deposit as security for the bank guarantee. We have assumed this will be progressively released in proportion with the reductions in the bank guarantee amount. We have assumed that your current credit interest rate of 3.44% will continue over the forecast period.	N/A

Appendix B – Assumptions

Early purchase scenario assumptions

Our assumptions are as per the status quo, except where noted below:

Assumption	NZ Windfarms	Powerco
Early acquisition payment from NZ Windfarms to Powerco	We have utilised historical information provided by you and completed projections based on our analysis of the Contract terms. Per the Contract terms, we have assumed the acquisition payment will be the greater of the current market value of the Assets and the termination payment specified in the Contract. No further payments from NZ Windfarms to Powerco are assumed following the acquisition payment. To establish the termination payment under the Contract we have used your estimate of the termination payment as at 31 March 2016 and updated this for a 29 September 2017 transaction date and our estimate of the contractual lease payments and costs to date. We have assumed that the market value of the Assets is the acquisition price required for Powerco to be no worse off if it sells the Assets early, being the status quo value of the Assets to Powerco.	As for NZ Windfarms.
Operating costs	We have assumed that the direct operating costs incurred by Powerco under the status quo are instead incurred by NZ Windfarms as owner of the Assets.	We have assumed that Powerco does not incur any operating costs following the transfer of the Assets.
Tax depreciation	We have assumed that the Assets are recorded at the acquisition price for tax purposes, and are depreciated at 8% pa using a declining balance method. 8% pa is the IRD depreciation rate for electricity cables and transformers. Note, there is no impact on tax due to NZ Windfarms' significant accumulated tax loss balance.	We have assumed that the acquisition does not result in a gain or loss on the sale of the Assets, which might impact Powerco's tax position.
Debt funding	As instructed by you, we have assumed that NZ Windfarms funds the part of the transaction cost, not funded by liquidating the term deposit, with debt. The initial principal is amortised straight line over a 13 year period. We have estimated that your cost of debt in each of the first three years will be 5.6%, 6.2% and 7.0% respectively. This is calculated using NZIER's June 2017 forecast of 90 day BKBM plus a fixed margin of 3.6% which you have advised us of. Beyond this, we have assumed that your cost of debt will be 7.0% pa based on our analysis of longer-dated BBB- bonds.	We have assumed that Powerco funded the initial capex for the Assets using 60% debt, based on Powerco's current treasury policy. We have assumed that upon receiving the acquisition payment, Powerco fully repays the remaining principal balance.
Bank guarantee	We have assumed the bank guarantee is removed from 29 September 2017. We have applied a +/- 10% range to our benefit estimate to reflect uncertainty, including about future pricing and security requirements.	N/A
Cash held in term deposit	As instructed by you, we have assumed the $5m term deposit will no longer be required and is liquidated on 29 September 2017 to help fund the purchase.	N/A