

Annual Report

For the year ended 30 June 2019



NZ Windfarms
POWERED BY NATURE



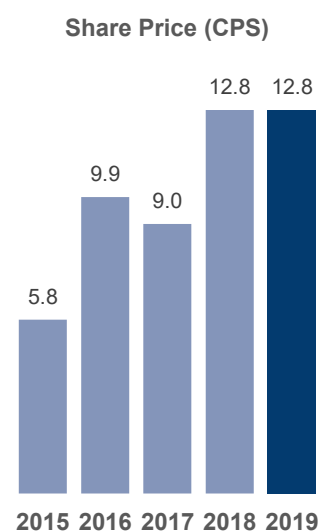
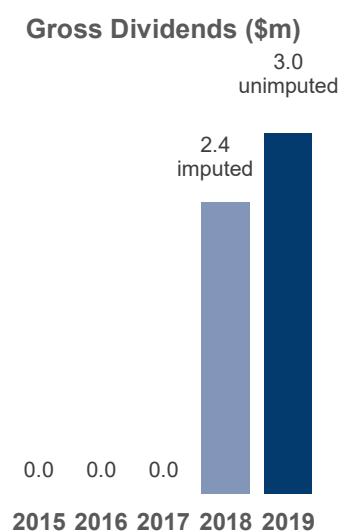
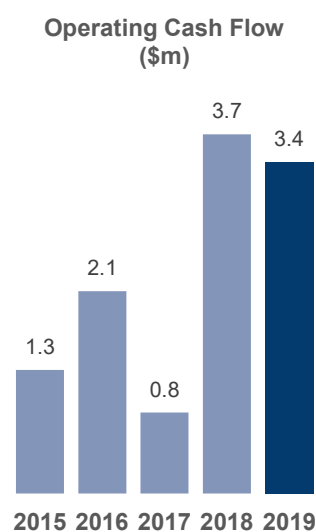
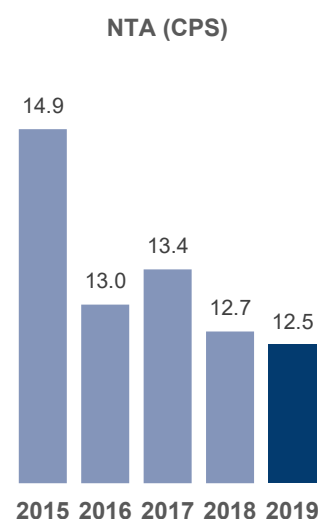
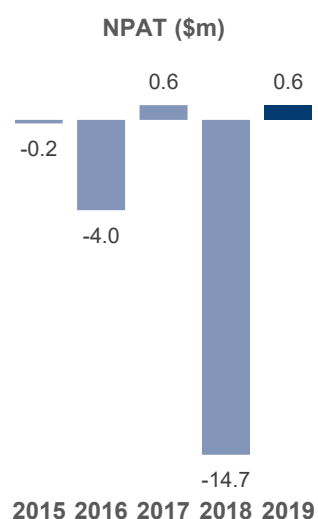
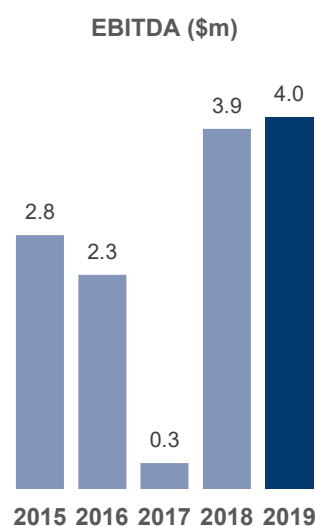
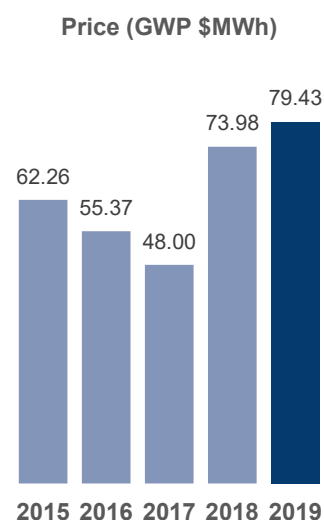
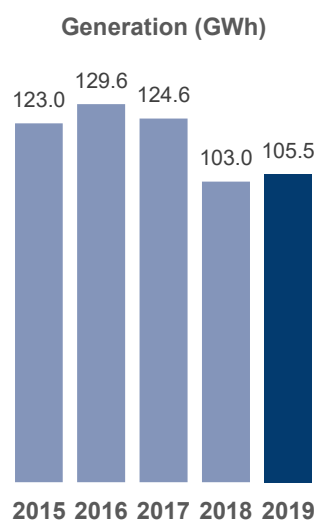
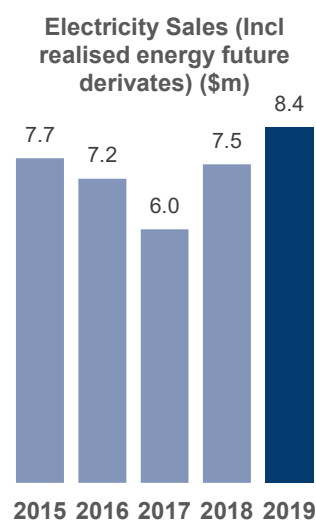
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Cover Image:

Part of the Te Rere Hau Wind farm on the Tararua Ranges, Palmerston North

Financial Overview





John Southworth
Chairman

Dear Shareholders,

Over the past year, NZ Windfarms has taken an important further step in transforming the company into a stable income producing asset for its shareholders. While this process is not complete, it is progressing.

The company paid its second dividend ever in June of 0.50 cents per share. We recognise that shareholders value regular income from utility assets, and a final dividend for the 2019 year of 0.55 cents per share (non-imputed) has been declared after year-end. A further of 0.40 cents per share (non-imputed) has also been declared for the first quarter of 2020, payable in early October 2019.

Beyond the recent operational and financial progress, market dynamics and a fixed pricing contract has given the company a more certain outlook, which enables longer-term strategic decision-making.

A number of milestones

NZ Windfarms has achieved several notable milestones during the year. Governance and management changes will be at the forefront of many shareholders minds, as they follow similar changes made only two to three years ago.

The Board and management changes that occurred over the past 12 months were due to a mix of factors. The main reason for the change was a realisation that the company needed a different set of skills to make the most of existing opportunities.

Key shareholders supported these changes and the outgoing directors accepted the decisions made. Shareholders will be able to voice their views and vote on the new directors at the Annual Shareholders Meeting in September.

Other milestones include:

- Payment of an interim dividend of 0.5 cents per share in June 2019 (announced May).
- A final dividend of 0.55 cents per share announced for the year, payable in September 2019.

Subsequent to the year end:

- Entered into an agreement of a variable production fixed price agreement (VPFPA) to sell all our energy at a fixed price.
- Announcement of a share buyback programme.
- The inaugural provision of forward guidance.

In my view, what we have achieved over the past 12 months is a positive step forward and indicates a company that is maturing.

A change in the way the market operates offers more certainty

In the Board's view, both present and past, the price uncertainty of selling into the spot wholesale electricity market posed a number of serious difficulties for the company. The core issue was an inability to effectively plan for number of business functions such as capital structure, dividend policy, and a long-term strategic plan for asset optimisation.

The electricity market has undergone a sea change brought on by central government policy changes, which we applaud. These changes reflect the inevitable de-carbonisation of electricity production. Going further than direct electricity generation, energy generation by both industry and government must move away from gas, coal and even the lower carbon footprint of woodchips.

The progress should not stop there. Hospitals, universities and, in particular, the dairy industry are still using carbon producing forms of energy production. This use directly contradicts government policy intent and businesses' social contracts on de-carbonisation. We continue to advocate for Government to mandate change within its own institutions, and also continue to apply pressure on industry to change.

The broad change in policy has allowed the company to enter into a conditional VPFPA for its future production for five quarters. I note, as part of that process, we also received longer term bids.

VPFPA certainty extends planning horizons

With a VPFPA conditionally in place, we now have a level of certainty which allows us to plan ahead. The Board is able to fully focus on the strategic direction of the business. This includes a combination of a near term and long-term planning horizons. In the

past, the lack of a business plan impacted on developing an asset management plan. The way forward must reflect what we have now and the environment we operate in today, not that of ten years ago.

The conditional VPFPA has allowed the Board to form policy and to establish an internal strategy review. The external review that was conducted over the year gave the leadership serious food for thought about its long-term future and that of its asset.

This internal review will address what to do with the assets in the long term. It will review what assets exist beyond the economic life of the current turbine fleet, such as other infrastructure including transmission cables, roading and the land that the company owns. The results of the review will be communicated to shareholders on completion.

Near-Term Focus

The near-term focus is stable returns to shareholders, balanced with supporting the assets. Wind speed will always be a factor we cannot control, so our focus is on the production factors we can and do control.

Long-Term Focus

We have a substantial asset base made up of turbines, other substantial infrastructure and an outstanding wind site. We are looking ahead to the future, the impact on running the farm, and how to provide income to shareholders. Near-term strategic fleet operation will be impacted by this long-term view.

Long-term planning will consider a range of factors including:

- The life expectancy of the current turbine against newer technologies when

measured by financial benefit to shareholders

- An assumption that existing shareholders will not provide capital to undertake re-development
- The extent the current infrastructure can be re-used.

Why is this important now? Because it will impact on how we maintain the turbines going forward. Without a clear view of the future we do not know whether we are running the current fleet for ten years or twenty years. Clearly if the fleet life is only ten years this will materially affect our settings for capital expenditure and maintenance.

Maintenance and capital expenditure of assets are the biggest draws on our cashflow. Encouragingly, the focus on the way the assets are managed has changed over the past couple of years. Some turbines did not, and never will, generate enough revenue to cover their basic operating costs and have therefore been de-commissioned.

Conclusion

I would like to thank all the directors - past and present – for the work that went in to front the governance part of the business. I also thank the shareholders for their capital. Your vital contribution is not lost on the company, and NZ Windfarms is striving to reward you.

Finally, on behalf of the Board and shareholders, I thank staff and in particular their families for allowing their loved ones to go up a cold and windy hill to maintain and operate our fleet. The staff are integral to how the company has been able to achieve world class availability outcomes and improvements on the original design of critical componentry. Together we will continue moving this company forward to benefit all.

Chief Executive Officer's Review



Warren Koia
Chief Executive

Dear Shareholders,

Overview

It has been a milestone year for the Company, represented by record electricity prices, revenue, EBITDA¹, and NPBT was \$0.627m. This has been reinforced by exceeding the manufacturers availability benchmark (98.4% vs 95.0%) and a continuation of an exemplary health and safety record. Through our capital initiatives, we have reduced debt, preserved cash by closely monitoring operating and capital expenditure, and reduced risk through a recently announced variable production fixed price agreement (VPFPA), which remains conditional on normal legal documentation and credit processes.

During the 2019 financial year we have returned shareholder funds through:

- a 0.50 cents per share interim dividend (2018: nil); and
- a 0.55 cents per share final dividend (2018: 0.50 cents per share) announced today.

We will continue to return shareholder funds over the upcoming financial year through:

- a recently announced share buyback for up to 5% of the shares on issue; and
- a quarterly dividend of 0.40 cents per share for the first quarter 2020 (pcp: nil) announced today.

We have made significant progress to build resilience across our business. Our focus on reducing operating and capital expenditure, managing exposure to the wholesale electricity market and optimising turbine availability in a safe and sustainable way will continue to drive the focus of the Board and leadership team.

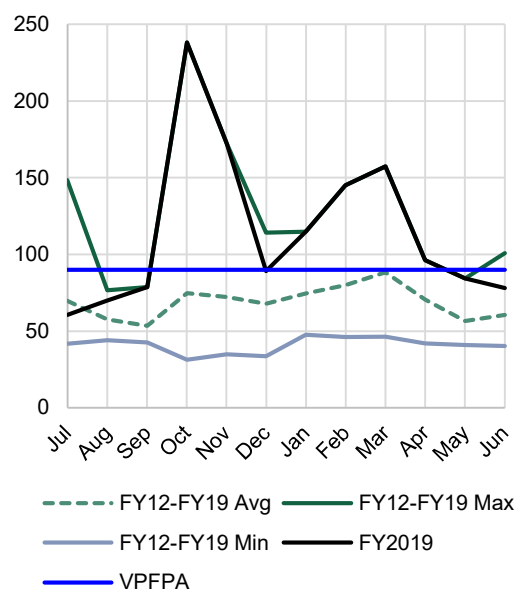
¹Earnings before interest, tax, depreciation and amortisation is a non-GAAP measure

Record electricity sales and wholesale electricity prices

The Company produced record electricity sales (excluding energy futures operations) of \$12.2m (2018: \$7.2m). This was driven by high wholesale electricity prices throughout the year. High prices were mainly driven by low hydro levels in the North Island catchment areas and thermal generation supply side constraints.

The chart below shows that power prices were at record highs for most of FY19. The average power price received over FY19 (excluding energy futures operations) was \$115.50 MWh (2018: \$69.60 MWh). Prices were extremely volatile during FY19 with average monthly prices received by the Company ranging between \$60.39 MWh and \$238.10 MWh (2018: \$45.60 MWh - \$148.42 MWh).

Average Monthly Power Price (FY12 to FY19 (\$MWh)



Energy futures operations

Price volatility will be managed differently going forward. The price will be fixed for all generation produced for a period of five quarters starting on 1 October 2019. We will continue energy futures operations that sit outside of the fixed price period and only when a replacement agreement is finalised will we unwind any overlap.

When energy futures operations are factored into profit and loss for FY19, electricity sales are reduced by -\$3.4m (2018: +\$0.4m). The hedging losses were

Chief Executive Officer's Review

the result of low fixed electricity prices at the start of the hedging periods (some opened 18 months in advance) and high spot electricity prices at the conclusion of the hedging periods.

Non-recurring costs

We incurred some non-recurring costs during FY19, that related to the strategic review during the year. These costs total ~\$0.4m and are made up of:

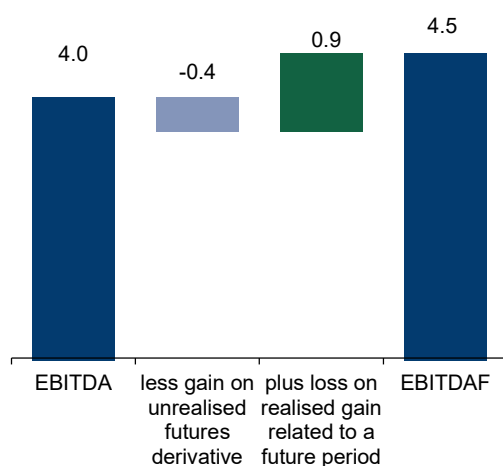
- Strategic review process costs;
- Legal and consulting services related to the strategic review; and
- A period of double payments to Chief Executives to cover transition arrangements during handover periods. There were two handover periods during the financial year.

Profitability

NPBT² was \$0.718m (2018: \$0.780m). NPAT³ was \$0.627m (2018: (\$14.7m)).

EBITDAF⁴ was \$4.5m (2018: \$3.9m). To calculate EBITDAF (a non-GAAP measure) we use EBITDA and exclude moves in the fair value of financial instruments. In NWF's case, electricity hedges that relate to hedges that fall outside of FY19 are excluded. This includes any hedges that have been transacted or closed within the period that replicate future hedging positions. The Company utilises EBITDAF to better evaluate profit and loss that relates to the financial year and is consistent with the approach taken by other listed companies.

EBITDAF Waterfall Chart (\$m)



Generation

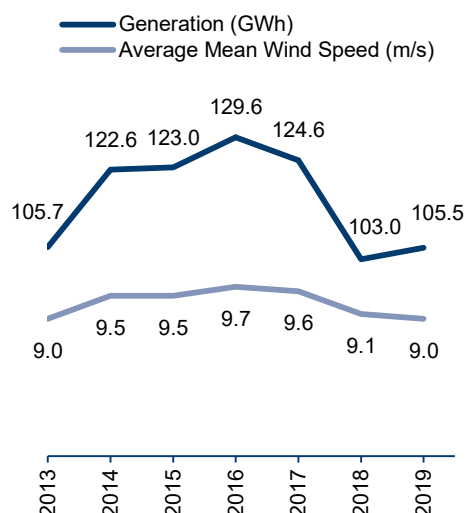
² Net profit before tax

³ Net profit after tax

⁴ Earnings before interest, tax, depreciation, amortisation and financial instruments. EBITDAF is a non-GAAP financial measure.

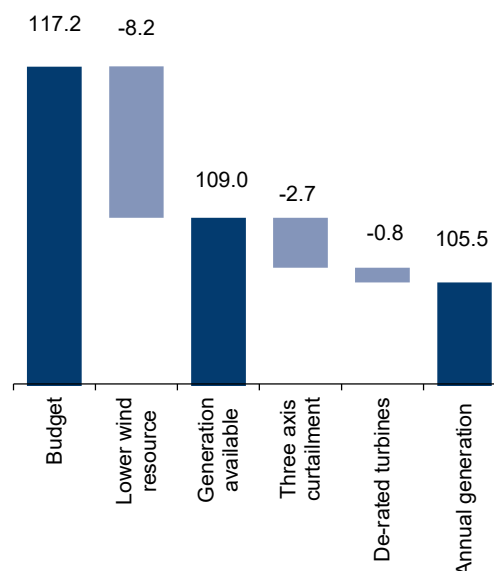
Annual generation was 105.5GWh (2018: 103.0GWh).

Generation (GWh) and Average Mean Wind Speed (m/s)



The Company's budgeted generation⁵ is 117.2GWh. The 11.7GWh difference between budgeted and actual generation for FY2019 is explained below:

Generation (GWh) Waterfall Chart



The key factor contributing to lower generation over the year was lower wind resource across the site. Three axis curtailment (as discussed below and in

⁵ Independent firm DNV-GL validated the annual generation output and adjusted it to 117.2GWh (2018: 120.0GWh). This reflects operating history, the operational strategy and the turbine fleet in operation today.

Chief Executive Officer's Review

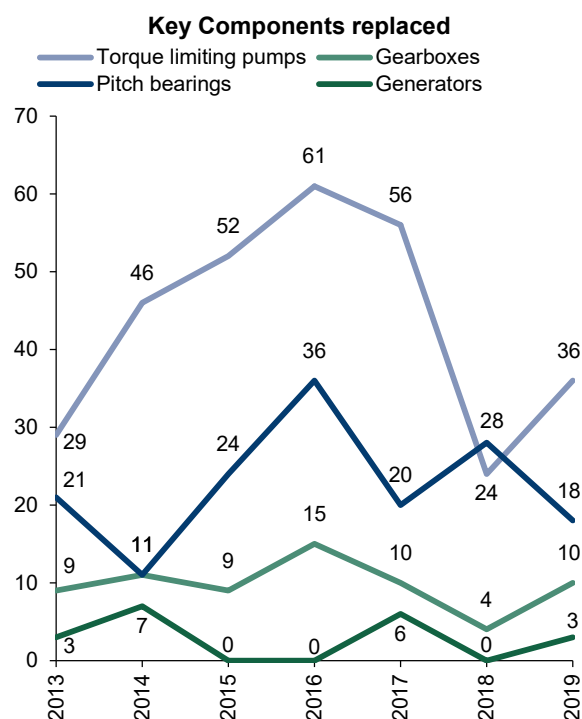
previous years) and derating turbines accounted for the balance.

Discontinuation of three axis curtailment

The three-axis curtailment strategy has been extensively tested and after thorough evaluation the Board and leadership team have decided to discontinue it. The rationale was cost rationalisation (primarily through lower maintenance costs and prolonged component life by not running in adverse conditions) did not outweigh the foregone revenue.

Key component replacement

The chart below highlights the key components replaced between FY13 and FY19.



Our in-house operational team continue to work with our suppliers to develop and improve turbine components to maximise component life and further reduce operating costs. We expect to see improvement over the next five-year cycle, with several component developments in the pipeline. Each turbine is made up ~1,100 individual components with ~900 of those generically available from multiple sources. Components are sourced from individual suppliers and no longer from the turbine OEM.

Term debt

During the year, the Company amortised \$0.9m of principal. The current portion of term debt of \$0.9m recognises the amount of principal to be amortised over the next 12 months. We have comfortably met our lending covenants since establishment and are

forecast to remain within them over the next 12 months.

Staffing

We have a dedicated and robust team of nine operations and maintenance personnel led by Adam Radich, General Manager of Operations. The professionalism and dedication this group have displayed is commendable and their hard work and collective efforts are clearly visible in the reported results.

The Financial Controller role has been recently outsourced to the Palmerston North based accounting firm Naylor Lawrence and Associates Limited. I would like to thank the team from Naylor Lawrence for the quick and effective transition.

Partnerships

Partnerships are vital to the long-term success of our business. Together we can create synergies, deliver benefits to all stakeholders and continue to be good corporate citizens of the Palmerston North and Tararua districts.

We focus on utilising local suppliers, contractors and service providers both locally as well as those outside the region. The structure of the business means that we do not have the capacity to hold all equipment, components or expertise on site. Therefore, we partner with quality providers to deliver the services and capabilities we require to run the business. To all those involved, we are grateful for your continued support.

To our neighbours: our Company is committed to maintaining and strengthening the relationships we have formed over the last few years. We continue to engage formally with the community on an annual basis through the community liaison group meetings and less formally when our leadership team personally visit local residents.

Conclusion

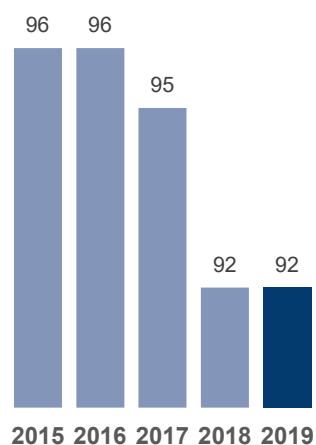
The FY19 annual result indicates the Company's underlying business, assets and operating regime are positioned appropriately.

Management will continue to optimise the windfarm, in a fiscally disciplined manner, and we will do so whilst maintaining a strong health and safety focus.

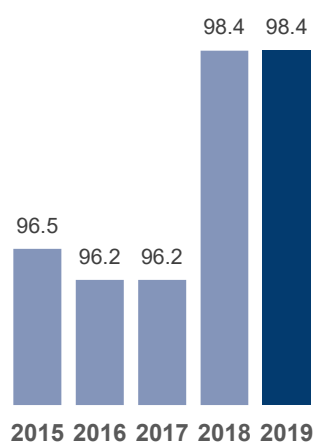
As we look to the future the Company's prosperity is improving as a result of elevated forward electricity prices, historically low interest rates, and reduced electricity price volatility.

Operational Overview

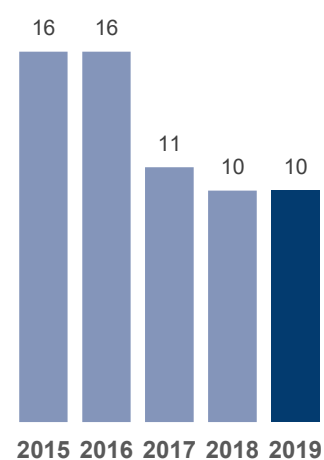
Operational Fleet



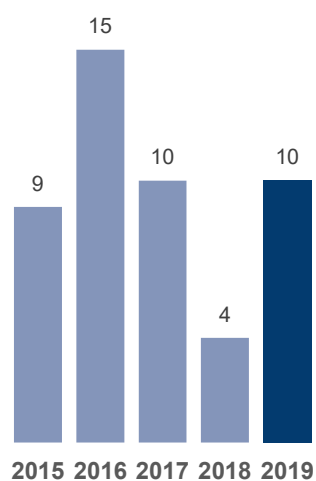
Availability (%)



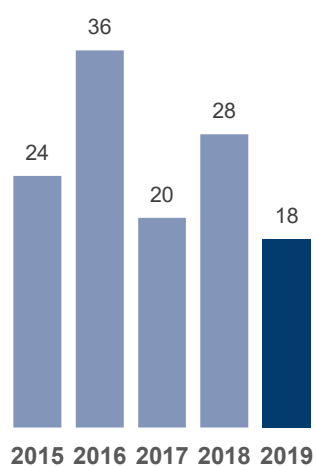
Staff Numbers



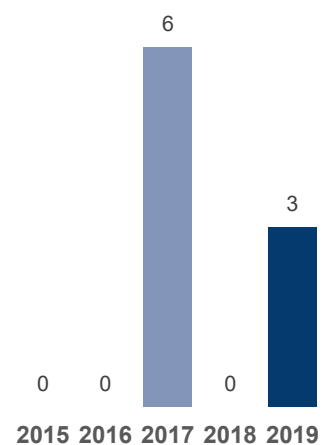
Gearboxes replaced



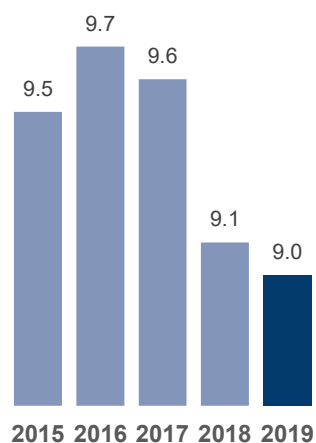
Pitch bearings replaced



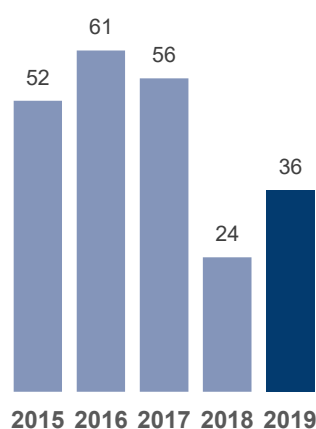
Generators replaced



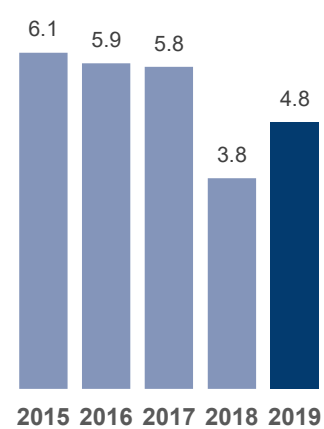
Average Mean Wind Speed (m/s)



Torque limiting pumps replaced



Operating Expenditure (\$m) (adj for hedges)



The Directors of NZ Windfarms Limited are:



**John Southworth,
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.

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



**Patrick Brockie,
Director**

Patrick is Chief Financial Officer for City Rail Link Limited.

Patrick has been on the Board of Infrastructure New Zealand since 2012 and was Chair from 2015 to 2018. From 2010 to 2018 Patrick was Head of Loans & Specialised Finance for ANZ Bank New Zealand Limited. Prior to ANZ Patrick had a 20 year career with Citibank based in New Zealand, Singapore, Hong Kong and London.

Patrick has extensive experience with debt markets including syndications, project and acquisition finance, export agency finance and trade finance both in developed and emerging markets with much of this financing in the infrastructure, renewable energy and telecommunications sectors.



**Philip Lennon,
Director**

Philip was the Founder of Apex Rental Cars Limited and was its Managing Director from 1992 until the sale of the business in 2013.

He is currently involved as a director and shareholder in a number of private companies - Steval Properties Ltd, Deerace Corporation Ltd, Lennon RFID Developments Ltd, ArcActive Limited.

He holds a Bachelor of Engineering Degree (Electrical and Electronic) from University of Canterbury and in the ten years prior to establishing Apex Rental Cars he held various positions in Communications Engineering with the former Telecom NZ.



**Mark Evans,
Director**

Mark has over 30 years self-employed business experience directing, developing, owning and operating a diverse set of businesses across a wide range of business sectors. They include retail, industrial services, commercial property, finance and management consulting and commercial property portfolio restructures.

Mark is currently the Managing Director of Site Managers Ltd and Kericrest Properties Ltd

Corporate Governance Statement

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 Whistle-blower's 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.

Corporate Governance Statement

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 2019 the Board comprised four Directors: a non-executive Chairman, and three non-executive Directors, two of which are independent Directors.

The Board has a broad base of knowledge and experience in energy, engineering, financial management, 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 Constitution, the Board timetable and Board Committees' Terms of Reference.

Table 1; Director Attendances at Board and Audit & Risk Meetings in FY2019

	Board Meetings Attended / Meetings Held	Audit & Risk Committee Meetings Attended / Meetings Held
Stuart Bauld ⁶	11 of 11	2 of 2
John Southworth ⁷	12 of 12	3 of 3
Rodger Kerr-Newell ⁸	0 of 3	0 of 1
Toby Stevenson ⁹	4 of 5	1 of 1
Rob Foster ¹	11 of 11	3 of 3
Patrick Brockie ¹⁰	2 of 2	1 of 1
Philip Lennon ⁴	2 of 2	1 of 1
Mark Evans ⁴	2 of 2	1 of 1

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.

⁶ Stuart Bauld and Rob Foster ceased as directors on 31 May 2019

⁷ John Southworth was not a member of two ARC meetings but was in attendance for those two meetings.

⁸ Rodger Kerr-Newell ceased as director on 12 September 2018

⁹ Toby Stevenson was appointed as a director on 7 December 2018, and ceased as a director on 31 May 2019

¹⁰ Patrick Brockie, Philip Lennon and Mark Evans were appointed as directors on 31 May 2019

Corporate Governance Statement

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 Patrick Brockie and Mark Evans are independent director's. John Southworth is a Director of LET Capital No 1 Ltd, the Company's third largest shareholder holding at 7.29% and Philip Lennon who is the Company's fourth largest shareholder at 5.82%.

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 2019 there were six (2018: five) Directors and Officers. The gender composition is shown in the table below.

	2019	2018
Directors – female	0	0
Directors – male	4	4
Officers – female	0	0
Officers – male	2	1

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 Patrick Brockie (Chair), Philip Lennon and Mark Evans.

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 Naylor Lawrence & Associates Ltd (Virtual CFO) 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 John Southworth (Chair), Patrick Brockie, Philip Lennon and Mark Evans. 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.

Corporate Governance Statement

Nominations Committee

The Nominations Committee at the end of the financial year comprised John Southworth (Chair), Patrick Brockie, Philip Lennon and Mark Evans. 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 and the External Auditor confirms 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 2019

Directors' disclosure of their shareholdings pursuant to Section 148 of the *Companies Act 1993* and the NZX Listing Rules at 30 June 2019 are listed below:

Name of Related Party	Relationship	Shares 30 June 2018	Movement	Shares 30 June 2019
John Southworth	Director	*21,089,881	0	*21,089,881
Patrick Brockie	Director	0	0	0
Philip Lennon	Director	16,758,000	0	16,758,000
Mark Evans	Director	**10,844,988	0	**10,844,988

* LET Capital No 1 Limited holds 21,002,881 shares, and 87,000 are held by John Southworth

** Kercrest Properties Ltd holds 10,844,988 shares

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
John Southworth	Full year	LET Capital No 1 Limited NZWL-TRH Limited TRH Services Limited	Director/Shareholder Director Director
Philip Lennon	Commenced 31 May 2019	NZWL-TRH Limited TRH Services Limited Tracient Technologies Limited Hackthorne Acquisitions Limited Lennon Property Holdings Ezystream Limited Brothers Stream Forest (No5) Limited Steval Properties Limited Lennon RFID Developments Limited ArcActive Limited	Director Director Director Shareholder Director/Shareholder Shareholder Director/Shareholder Director/Shareholder Director/Shareholder Director/Shareholder
Patrick Brockie	Commenced 31 May 2019	NZWL-TRH Limited TRH Services Limited Infrastructure New Zealand	Director Director Director
Mark Evans	Commenced 31 May 2019	Winter Pixel Limited NZWL-TRH Limited TRH Services Limited Site Managers Limited Kericrest Properties Limited	Shareholder Director Director Director/Shareholder Director/Shareholder

NZX WAIVERS

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

DIRECTORS REMUNERATION

Directors' fees total \$211,146 (2018: \$179,500) per annum. The Board Chairman receives \$70,000 per annum and the remaining director's receive a base fee of \$45,000 per annum. The Chair of the Audit and Risk Committee receives an additional \$6,000 per annum and the other members of the Audit and Risk Committee receive an additional \$3,000 per annum. The Deputy Chair (Vacant) receives an additional \$7,500 per annum. Membership of any other standing committee's does not attract any additional fees. Fees paid to executive directors fall outside the director fee pool calculation.

The following table summarises Directors' remuneration for the year to 30 June 2019:

Director	Director Fees \$
Stuart Bauld	64,833
Rodger Kerr-Newell	8,000
John Southworth	56,186
Toby Stevenson	24,562
Rob Foster	45,315
Patrick Brockie	4,250
Mark Evans	4,000
Philip Lennon	4,000

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 (2018: \$20,000,000) in the aggregate.

SUBSIDIARIES

The following persons held the office of Director of NZ Windfarms Limited's subsidiaries at 30 June 2019. 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): John Southworth (Chairman), Patrick Brockie, Philip Lennon and Mark Evans.

TRH Services Limited (100% owned): John Southworth (Chairman), Patrick Brockie, Philip Lennon and Mark Evans.

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 were as follows:

Remuneration range	Number of employees	
	2019	2018
\$250,000 - \$300,000	0	1
\$200,000 - \$250,000	1	0
\$150,000 - \$200,000	1	0
\$100,000 - \$150,000	6	5

Total remuneration above includes all benefits.

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 share register at 30 June 2019.

Twenty largest ordinary shareholders

Shareholder	Address	Shares	% of Issued Capital
Robert Alexander Stone	Singapore	40,300,000	13.99%
BNP Paribas Nominees NZ	Wellington	27,389,762	9.51%
LET Capital No 1 Limited	Wellington	21,002,881	7.29%
Philip George Lennon	Christchurch	16,758,000	5.82%
Hsu-Cheng Yang	Auckland	11,000,000	3.82%
Kericrost Properties Limited	Kerikeri	10,844,988	3.76%
Bruce Howden Blake	Auckland	7,947,905	2.76%
Capital Property Group Limited	Queenstown	7,596,661	2.64%
Heard Park Trustee Limited	Auckland	5,307,500	1.84%
Accident Compensation	Wellington	4,791,950	1.66%
Tony Whyman	Wellington	4,000,000	1.39%
National Nominees New Zealand	Auckland	3,900,834	1.35%
New Zealand Permanent Trustees	Wellington	3,800,000	1.32%
JPMorgan Chase Bank	Wellington	3,504,505	1.22%
Po-Hui Chi	Auckland	3,100,000	1.08%
Rotorua Trust Perpetual Capital	Rotorua	2,656,062	0.92%
Anthony Anselmi & Ross Alleman	Auckland	2,566,667	0.89%
Craig Earl Gregory Bowler	Waiuku	2,059,056	0.71%
Custodial Services Limited	Tauranga	2,009,430	0.70%
Ian Graham Douglas & Basil Cook	Katikati	1,802,657	0.63%
Totals		182,338,858	63.30%

Holding Ranges	Number of holders	Shares	% of Issued Capital
1 to 1,000	108	80,203	0.03%
1,001 to 5,000	589	1,918,002	0.67%
5,001 to 10,000	350	2,750,959	0.95%
10,001 to 50,000	746	18,526,820	6.43%
50,001 to 100,000	197	15,093,434	5.24%
100,001 to 500,000	169	36,566,234	12.69%
500,001 to 1,000,000	22	16,663,393	5.78%
1,000,001 and over	30	196,464,539	68.20%
Totals	2,211	288,063,584	100.00%

Shareholder Information

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 2019:

Shareholder	Number of shares directly held	%
Robert Alexander Stone	40,300,000	13.99
BNP Paribas Nominees NZ	27,389,762	9.51
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 2019 was 288,063,584 (30 June 2018: 288,063,584).

Directors' statement

The Annual Report is dated 27 August 2019 and is signed on behalf of the Board by:



John Southworth
Chairman



Patrick Brockie
Director

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	Notes	2019 \$000's	2018 \$000's
Income			
Electricity sales		12,184	7,165
Gain on realised energy futures derivatives	12	-	346
Gain on unrealised energy futures derivatives	12	428	104
Land lease		27	27
Other income		-	40
Total income (excluding interest income)		12,639	7,682
Operating expenses			
Administration		204	282
Audit fees	3	53	50
Directors' fees	15	211	179
Employment expenses		1,424	1,155
Payments to defined contribution plan		30	29
Share option expenses	9	-	139
Insurance		161	126
Lease and rental expenses	17	80	267
Legal and consulting expenses		462	228
Loss on realised energy futures derivatives	12	3,804	-
Loss on disposal of property, plant and equipment	4	540	42
Written off inventories		236	-
Te Rere Hau wind farm operational expenses		1,178	1,088
Other operating expenses		223	186
Total operating expenses		8,606	3,771
Profit before interest, impairment, amortisation, depreciation and tax		4,033	3,911
Interest income and expense			
Interest income		34	200
Interest expense on liabilities at amortised cost		(684)	(795)
Profit before impairment, amortisation, depreciation and tax		3,383	3,315
Depreciation and amortisation			
Depreciation	4	2,374	2,226
Amortisation	5	291	274
Loss on derecognition of finance lease		-	36
Profit before tax		718	780
Income tax expense (benefit)	1	91	15,527
Total comprehensive income and Profit (Loss) after tax		627	(14,747)
Earnings per share			
Basic earnings (loss) per share	10	\$0.0022	\$(0.0512)
Diluted earnings per share	10	\$0.0021	-

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.

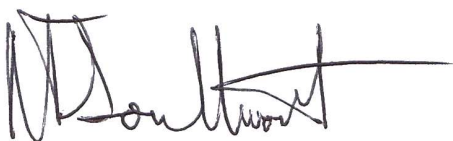
These financial statements should be read in conjunction with the notes to the financial statements.

Consolidated Balance Sheet

As at 30 June 2019

	Notes	2019 \$000's	2018 \$000's
Assets			
Current assets			
Cash and cash equivalents	13	2,848	2,337
Trade and other receivables	2	1,227	854
Derivative asset	12	428	104
Inventories		1,063	1,174
Total current assets		5,566	4,469
Non-current assets			
Property, plant and equipment	4	42,242	44,615
Intangible assets	5	3,675	3,966
Convertible notes		-	11
Deferred tax	7	3,571	3,662
Total non-current assets		49,488	52,254
Total assets		55,054	56,722
Liabilities			
Current liabilities			
Trade and other payables	8	915	872
Current portion of term loan	18	946	946
Total current liabilities		1,861	1,818
Non-current liabilities			
Term Loan	18	9,871	10,769
Total non-current liabilities		9,871	10,769
Equity			
Share capital	9	107,005	107,005
Share option reserve	9	85	139
Retained (loss)/earnings		(63,768)	(63,009)
Total equity		43,322	44,136
Total equity and liabilities		55,054	56,722
Net tangible assets per share	10	\$0.1252	\$0.1267

Signed for and on behalf of the Board as at 27 August 2019.


John Southworth
Chairman

Patrick Brockie
Director

These financial statements should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Notes	Share capital \$000's	Share option reserve \$000's	Retained earnings \$000's	Total \$000's
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	9	-	-	(2,449)	(2,449)
Balance at 1 July 2018		107,005	139	(63,009)	44,135
Total comprehensive income for the year		-	-	627	627
Transactions with owners of the Company in their capacity as owners					
Share options forfeited	9	-	(55)	55	-
Dividends paid	9	-	-	(1,440)	(1,440)
Balance at 30 June 2019		107,005	85	(63,767)	43,322

These financial statements should be read in conjunction with the notes to the financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2019

	Notes	2019 \$000's	2018 \$000's
Operating activities			
Cash was received from:			
Trading revenue		11,838	7,293
Derivative income		-	250
Other income		-	112
Interest received		33	307
		11,871	7,962
Cash was applied to:			
Interest paid		(536)	(763)
Derivative loss paid		(3,700)	-
Payments to suppliers and employees		(4,252)	(3,530)
		(8,488)	(4,293)
Net cash inflow from operating activities	11	3,383	3,669
Investing activities			
Cash was provided from:			
Release of restricted short term deposit		-	6,500
		-	6,500
Cash was applied to:			
Purchase of intangible assets		-	(705)
Purchase of property, plant and equipment		(833)	(8,758)
		(833)	(9,463)
Net cash (outflow) from investing activities		(833)	(2,963)
Financing activities			
Cash was provided from:			
Drawdown of BNZ borrowings		-	12,300
		-	12,300
Cash was applied to:			
Dividend paid		(1,093)	(2,449)
Repayment of finance lease		-	(8,926)
Repayment of BNZ borrowings		(946)	(585)
		(2,039)	(11,960)
Net cash (outflow)/inflow from financing activities		(2,039)	340
Net increase in cash and cash equivalents		511	1,046
Cash and cash equivalents, beginning of year		2,337	1,291
Cash and cash equivalents, end of year	13	2,848	2,337
Cash and cash equivalents			
Bank account and on call deposits		2,848	2,337
Ending cash and cash equivalents		2,848	2,337

These financial statements should be read in conjunction with the notes to the financial statements

Statement of Accounting Policies

For the year ended 30 June 2019

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 Markets 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 2019 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 Tier 1 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 NZ GAAP, and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). 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.

MEASUREMENT BASE

The measurement base adopted in the preparation of these financial statements is historical cost, except for derivative financial instruments, which 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 14.
- Carrying value, impairment and useful life of intangible assets - accounting policy, notes 5 and 14.
- Recognition of Deferred Tax Asset – note 7.
- Fair value of derivative financial instruments – accounting policy, note 12.

Changes in accounting policies

Other than the new accounting standards as described in the next paragraph, all other policies have been applied on a basis consistent with those used in previous years.

New accounting standards, interpretations and amendments effective from 1 July 2018

Two new financial reporting standards are applied for the first time in this report.

NZ IFRS 9 Financial Instruments

The Group has conducted a review of the impact of changes under the new financial instrument standard. It was determined that there are no material changes to the way that the Group recognises and measures its financial instruments.

The Group previously classified its financial instruments as loans and receivables, liabilities at amortised cost, and derivative financial instruments as either assets at fair value through profit or loss or liabilities at fair value through profit or loss. Under the new accounting standard, the Group has classified its financial instruments as financial assets at amortised cost, financial liabilities at amortised cost, and derivative financial instruments as either assets at fair value through profit or loss or liabilities at fair value through profit or loss, respectively.

There have been no adjustments as a result of the classification. The new standard has been adopted using the 'modified approach' whereby comparative amounts are not restated.

Statement of Accounting Policies

For the year ended 30 June 2019

NZ IFRS 15 Revenues from Contracts with Customers

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 an assessment of the impact of the standard and has determined that there is no material impact on the financial statements.

Revenue is generated from the grid, which is governed by one contract. There is a single performance obligation, being the sale of electricity. There is a standalone selling price for the sale of electricity.

Electricity revenue is recognised over time when control has transferred to the customer. This takes place when electricity is delivered to the national grid.

Based on the above, the Group has concluded the amount, timing, and profile of the Group's revenue recognition does not materially change upon the adoption, and retrospective application, of IFRS 15. As such, there is no adjustment to opening retained earnings upon transition.

Revenue that has been recognised, but has not yet been (contractually) invoiced to customers, is presented in the statement of financial position as contract asset revenue.

The new standard has been adopted using the 'modified approach' whereby comparative amounts are not restated.

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. Management has performed an initial assessment of the standard and determined that the impact of a right of use asset and lease liability is estimated to be similar to the operating lease commitments at 30 June 2019 of \$0.956m.

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

Revenue is generated from the grid, which is governed by one contract. There is a single performance obligation, being the sale of electricity. There is a standalone selling price for the sale of electricity.

Electricity revenue is recognised over time when control has transferred to the customer. This takes place when electricity is delivered to the national grid.

Energy futures derivatives

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

Statement of Accounting Policies

For the year ended 30 June 2019

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 statement of profit or loss and other comprehensive income 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.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined principally on the moving average price basis. Inventories include finished good consumable items.

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 in the manner intended by management.

The economic lives have been estimated for the current and prior period 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

Statement of Accounting Policies

For the year ended 30 June 2019

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 instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under NZ IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified into categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and cash equivalents, and trade and other receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Statement of Accounting Policies

For the year ended 30 June 2019

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group's financial assets at fair value through profit or loss includes derivative assets.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECL's) for all debt instruments not held at fair value through profit or loss. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL's are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or liabilities at amortised cost, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of liabilities at amortised cost, net of directly attributable transaction costs.

The Group's amortised cost financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Statement of Accounting Policies

For the year ended 30 June 2019

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Other financial liabilities

This is the category most relevant to the Group. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the Effective Interest Rate method (EIR). Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings, and trade and other payables.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Employee benefits

Short term employee entitlements

Accruals are 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 accruals 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 accruals made in respect of employee benefits are expected to be wholly 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

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.

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 profit or loss.

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.

Impairment of non-financial 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 profit or loss.

Statement of Accounting Policies

For the year ended 30 June 2019

After impairment, 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 profit and loss.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

1. INCOME TAX EXPENSE (BENEFIT)

For the year to	2019 \$000's	2018 \$000's
(Loss)/profit for the year before tax	717	780
Expected tax expense (benefit) at 28%	201	218
Adjustment for non deductible expenses and non-assessable income		
Derecognition of deferred tax (asset)/liability	-	(837)
Prior period adjustment	(99)	(104)
Forfeiture of tax losses	-	16,248
Other non deductible expenses	(11)	1
	91	15,527
Represented by:		
Current tax		
Deferred tax	91	15,527
Total tax expense (benefit)	91	15,527
Tax loss from previous years	20,440	75,374
Tax losses lost on Vector exit	-	(58,030)
Tax loss for year	41	3,096
Tax loss carried forward	20,481	20,440

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

2. TRADE AND OTHER RECEIVABLES

As at	2019 \$000's	2018 \$000's
Trade debtors	655	746
Other receivable	479	-
Accrued income	-	24
Prepayments	93	85
Closing balance	1,227	854

Of the trade debtors nil (2018: nil) relate to balances not received by their due date, and all remain current within 30 days (2018: all current within 30 days).

As at 30 June 2019, there is no impairment of the Group's trade debtors (2018: nil).

Other receivable relates to the settlement of a contract for difference portion which was received after year-end.

3. FEES PAID TO AUDITOR

	2019 \$000's	2018 \$000's
Audit of financial statements	53	50
Total	53	50

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

4. PROPERTY, PLANT AND EQUIPMENT

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

	Land \$000's	Office equipment \$000's	Buildings, plant and equipment \$000's	Motor Vehicles \$000's	Foundations \$000's	Electrical \$000's	Roading \$000's	Wind Turbines \$000's	Total \$000's
Cost:									
Balance at 1 July 2018	3,300	410	1,498	269	4,651	21,097	4,953	81,538	117,717
Additions	-	26	14	208	-	-	-	585	833
Transfer to inventories	-	-	-	-	-	-	-	(2,564)	(2,564)
Disposals	-	-	-	-	(155)	-	-	(2,814)	(2,969)
Balance at 30 June 2019	3,300	436	1,513	478	4,496	21,097	4,953	76,745	113,017
Depreciation and impairment:									
Balance at 1 July 2018	-	(405)	(692)	(251)	(2,717)	(8,146)	(2,963)	(57,928)	(73,102)
Transfer to inventories	-	-	-	-	-	-	-	1,869	1,869
Accumulated depreciation on disposals	-	-	-	-	78	-	-	2,754	2,832
Depreciation	-	(15)	(65)	(29)	(47)	(261)	(70)	(1,887)	(2,374)
Balance at 30 June 2019	-	(420)	(757)	(280)	(2,686)	(8,407)	(3,033)	(55,192)	(70,775)
Carrying amount at 30 June 2019	3,300	15	756	198	1,810	12,690	1,921	21,553	42,242

During the year ended 30 June 2019, the Group carried out a review of the carrying values of its assets in accordance with NZ IAS 36 - Impairment of Assets. Note 14 also provides further information.

As at 30 June 2019, the Board resolved to write off three decommissioned turbines and related foundations. A loss on disposal of \$522,000 has been recognised in profit or loss, outside of \$18,000 of other disposed assets. In addition, parts of the decommissioned turbines have been transferred back into Inventory as these are considered salvageable \$250,000.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land \$000's	Office equipment \$000's	Buildings, plant and equipment \$000's	Motor Vehicles \$000's	Foundations \$000's	Electrical \$000's	Roading \$000's	Wind Turbines \$000's	Total \$000's
Cost:									
Balance at 1 July 2017	3,300	407	1,437	269	4,651	12,593	4,953	81,383	108,993
Additions	-	3	62	-	-	8,504	-	197	8,766
Disposals	-	-	-	-	-	-	-	(42)	(42)
Balance at 30 June 2018	3,300	410	1,498	269	4,651	21,097	4,953	81,538	117,717
Depreciation and impairment:									
Balance at 1 July 2017	-	(389)	(631)	(212)	(2,670)	(8,055)	(2,893)	(56,025)	(70,875)
Accumulated depreciation on disposals	-	-	-	-	-	-	-	-	-
Depreciation	-	(16)	(62)	(39)	(47)	(91)	(70)	(1,903)	(2,227)
Balance at 30 June 2018	-	(405)	(692)	(251)	(2,717)	(8,146)	(2,963)	(57,928)	(73,102)
Carrying amount at 30 June 2018	3,300	5	806	18	1,933	12,951	1,990	23,610	44,614
Carrying amount at 30 June 2017	3,300	18	806	57	1,980	4,538	2,060	25,358	38,117

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

5. INTANGIBLE ASSETS

Changes in the net carrying amount of intangible assets follow:

	Land use consent and wind rights \$000's	Grid connection \$000's	Total \$000's
Cost:			
Balance at 1 July 2018	1,737	5,522	7,259
Balance at 30 June 2019	1,737	5,522	7,259
Amortisation and impairment:			
Balance at 1 July 2018	(275)	(3,018)	(3,293)
Amortisation	(42)	(249)	(291)
Balance at 30 June 2019	(317)	(3,267)	(3,584)
Carrying amount at 30 June 2019	1,420	2,255	3,675

	Land use consent and wind rights \$000's	Grid connection \$000's	Total \$000's
Cost:			
Balance at 1 July 2017	1,032	5,522	6,554
Additions	705	-	705
Balance at 30 June 2018	1,737	5,522	7,259
Amortisation and impairment:			
Balance at 1 July 2017	(250)	(2,769)	(3,019)
Amortisation	(25)	(249)	(274)
Balance at 30 June 2018	(275)	(3,018)	(3,293)
Carrying amount at 30 June 2018	1,462	2,504	3,966
Carrying amount at 30 June 2017	782	2,753	3,535

During the year ended 30 June 2019, the Group carried out a review of the carrying values of its assets in accordance with NZ IAS 36 - Impairment of Assets. Note 14 provides further information.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

6. INVESTMENT IN SUBSIDIARIES

	Percent held	
	2019	2018
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

As at 30 June	2019 \$000's	2018 \$000's
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The analysis of deferred tax assets and liabilities is as follows:

Deferred tax assets	5,784	5,684
Deferred tax liabilities	(2,213)	(2,022)
Deferred tax assets (net)	3,571	3,662

Movement in temporary differences during the year

Opening balance		
Property, plant and equipment	(2,147)	(1,168)
Provisions	75	(759)
Losses	5,723	21,105
Other	10	10
Tax assets/(liabilities)	3,662	19,188

Recognised in profit (loss)		
Property, plant and equipment	(67)	(979)
Provisions	(26)	834
Losses	12	(15,382)
Other	(10)	-
Movement in temporary differences	(91)	(15,527)

Closing balance		
Property, plant and equipment	(2,213)	(2,147)
Provisions	49	75
Losses	5,735	5,723
Other	-	10
Tax assets/(liabilities)	3,571	3,662

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

8. TRADE AND OTHER PAYABLES

As at 30 June	2019 \$000's	2018 \$000's
Trade payables	158	350
Withholding tax	347	-
Accrued expenses	270	362
Employee entitlements	75	61
Goods and services tax	65	29
Insurance	-	70
Closing balance	915	871

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

As at 30 June 2019 share capital comprised 288,063,584 ordinary shares (30 June 2018: 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 (2018: 288,063,584)

Dividends

The Directors declared and paid gross dividends of \$1.440m during the year ended 30 June 2019, and dividend per share was 0.5 cents per share. (2018: Dividend of \$2.449m, 0.85 cents per share).

Share Options

Details of the share option plan

During the 2017 year, the Company entered into a share option plan with 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 2017 year, the Company entered into a share option plan with 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 plus three months or three years from the date of grant.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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 2017 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 vested on 15 March 2019. 2,560,000 share options were issued during the 2018 year, which vested in two equal tranches, vested on 1 July 2018 and 1 July 2019.

Fair value of share options granted

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 2019 was \$nil (2018: \$157,000) and \$54,625 of options were forfeited in the year (2018: \$18,000).

No share options have been exercised as at 30 June 2019.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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	2019 \$000's	2018 \$000's
Net profit (loss) for the year	627	(14,747)
Number of shares on issue over year (000's)	288,064	288,064
Number of share options with dilutive effect (000's)	17,060	-
Basic earnings (loss) per share	\$0.0022	\$(0.0512)
Diluted earnings per share	\$0.0021	-
Net tangible assets per share		
As at 30 June	2019 \$000's	2018 \$000's
Net assets	43,322	44,136
Less:		
Intangible assets	3,675	3,966
Deferred tax	3,571	3,662
Net tangible Assets	36,076	36,508
Number of shares on issue over year (000's)	288,064	288,064
Net tangible assets per share	\$0.125	\$0.127

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

11. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS

Reconciliation of Profit (Loss) to Net cash flows from operations

For the year to 30 June

	Notes	2019 \$000's	2018 \$000's
Net profit (loss) attributable to equity holders of the		717	(14,747)
Non Cash Items:			
Depreciation	4	2,374	2,226
Amortisation of intangible assets	5	291	274
Deferred taxation		-	15,527
Written off inventories	4	236	-
Interest expense		148	-
Share option expenses	16	-	(139)
Loss on disposal of property, plant and equipment		581	42
Unrealised loss/(gain) on derivatives		(428)	(104)
Write off convertible notes		11	-
		3,930	3,079
Changes in working capital			
Trade and other payables		(286)	230
Inventories		112	70
Trade and other receivables		(373)	290
Net cash flow from operating activities		3,383	3,669

Significant non-cash transactions

The movement in term loans liability includes non-cash amortisation of an establishment fee of \$48,000. The cash outflow from the repayment of the term loan was \$946,000.

12. DERIVATIVE FINANCIAL INSTRUMENTS

a) Classification of Derivative financial instruments

Derivative 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.

The Group has not applied hedge accounting.

The energy futures derivatives are measured at fair value on a recurring basis, and have been classified as Level 2 financial instruments.

This refers to the determination of fair value from inputs other than unadjusted quoted prices from an active market for identical assets and liabilities, which are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The energy future derivatives are valued using the wholesale electricity price paths from the ASX, as explained below.

There have been no transfers between levels in the year.

b) Energy futures and contracts for differences

The Company began trading Australian Securities Exchange (ASX) electricity futures on 20 June 2017. Each futures contract is a standardised 'contract for difference' (CFD) 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 ASX.

The Company also trades in CFD's with gentailer's, and these are typically traded as over the counter instruments (OTC's).

The Company has converted some ASX futures contracts into OTC CFD's with gentailers. The terms and conditions for settlement with the gentailer are similar to the original ASX futures contracts.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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

For the year to 30 June	2019 \$000's	2018 \$000's
Energy futures		
Net (loss)/gain on realised energy futures derivatives	(4,336)	77
Contracts for difference		
Net gain on realised contracts for difference	562	269
Total (loss)/gain on realised derivative financial instruments	(3,804)	346
Fair value gain on unrealised energy futures derivatives and fair value derivative asset	428	104
Total (loss)/gain on energy futures derivatives	(3,376)	450

All unrealised derivative financial instruments have a maturity of 3 months.

13. CASH AND CASH EQUIVALENTS

As at 30 June	2019 \$000's	2018 \$000's
Operating accounts	562	630
On call accounts	2,286	1,707
Closing balance	2,848	2,337

On call accounts attract interest of 1.45% per annum (2018: 1.70%)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

14. TE RERE HAU WIND FARM ASSET IMPAIRMENT

The Group has only one cash generating unit which is the Te Rere Hau wind farm. The 'value in use' method has been used to establish the recoverable value of the assets of the wind farm using a remaining life of thirty two years from 30 June 2019 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 2019, 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 required (2018: no impairment of assets).

The value in use calculation indicated an impairment of less than 1% of the carrying value of the assets and as such the Board determined that no impairment would be required.

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 as per the variable production quarterly fixed price agreement for 100% of the production through to December 2020, the extent of the ASX futures market at 30 June 2019 for the pricing from January 2021 up to June 2022 and thereafter, the latest PricewaterhouseCoopers (PwC) price patch, released in July 2019. All prices refer to the Otahuhu price node (OTA).

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 are still validated annually.

The PwC price path is based on the ASX futures curve, short, medium and long term factors, demand, supply, Government policy shifts and decarbonisation. This is updated by PwC annually and forecasts a decline of 6% in long term electricity prices.

Output

Output for the 2019 financial year reached 105.5 GWh (2018: 103 GWh). 2019 and 2018 financial years were low wind year's and were impacted by the Group's three axis curtailment, which has been discontinued.

The business has now adjusted the long term target from 120 GWh to 117.2 GWh after engaging an independent firm DNV – GL to validate the output. This reflects operating history, the operational strategy and the turbine fleet size in operation today.

Operating costs and capital expenditure

Progress continues to be made in maturing wind farm operations. The operating costs and capital expenditure embedded in the model are based off the FY2020 budget, which was based on current year actual costs. This is the best forward looking proxy for operating costs available to the Board.

Mid-life refurbishment

The model assumes a mid-life refurbishment of the turbines is performed when the fleet age is between 20 and 25 years, in 2031. This is expected to allow the existing turbines to operate for a further twenty years up to age range of 40 and 45 years. A substantial part of the cost of the turbine is contained in the structural components such as the tower and blades. These components have an operational life of well in excess of fifty years. Conversely, experience has shown that other major components have operational lives that are less than the twenty year design life of the turbines and these components 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 2019 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 2.00% (2018: 2.00%).

Discount rate

The pre-tax discount rate used in the impairment model is a weighted average cost of capital (WACC) of 8.36% (2018: 8.72%).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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, derivative financial instruments 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	1,109	(1,140)
Operating costs and capital expenditure (including mid-life refurbishment)	(808)	780
Discount rate	(355)	331

15. RELATED PARTY TRANSACTIONS

Key management

Key management personnel includes the Board of Directors, CEO and GM Operations. Key management personnel short term employee benefits, including remuneration to Directors, was \$742,488 during the year ended 30 June 2019 (2018: \$451,500).

Directors' remuneration

Directors' remuneration of \$211,146 was paid and expensed during the year (2018: \$179,500).

The share options forfeited in the year related to a Director. Refer to note 9.

16. CAPITAL COMMITMENTS

The Group had \$153,879 of capital commitments as at 30 June 2019 (2018: \$428,968) for inventories and property, plant and equipment.

17. 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.

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

As at 30 June	2019 \$000's	2018 \$000's
Lease payments expensed during the year	80	267
Non-cancellable lease commitments:		
Within 1 year	76	47
1 to 5 years	306	186
More than 5 years	574	414
Total operating lease commitments	956	647

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

18. TERM LOAN

In September 2017, the Company entered into a term loan facility to partially fund the purchase of the 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 the 90 day Bank Bill rate plus a margin, being between 3.68% and 3.87% per annum (excluding line fees).

As at 30 June 2019, the Company's assessment was that it is compliant with all covenants. (2018: 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.

	2019	2018
Term Loan - Liability	\$000's	\$000's
Current portion	946	946
Non-current portion	9,871	10,769
Total loan	10,817	11,715

19. 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 14).

The Company utilises ASX futures and OTC CFD's as tools to manage this risk as discussed in note 12. The principal objective in using economic hedges is to baseline revenues by protecting against a collapse in the wholesale price. This helps the Company achieve reasonable separation between income and cost to operate.

Post balance date, the Company announced a conditional deal with a gentailer that hedges the price of all the generation of the Company for a period of five quarters starting from 1 October 2019. This is another tool available to management and the Board to manage price risk in the business.

A change in the average electricity spot price of \$1 per MWh would lead to a \$21,137 change in the unrealised energy futures derivative held at 30 June 2019.

The Company will still maintain economic hedges outside of the fixed price period. We will continue to balance risk and potential upside, but our principal objective is the baselining of revenues to ensure sustained profitability.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

The Group places its cash and funds on deposit with approved registered banks with minimum credit rating of AA- 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.

	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	Total \$000's	Carrying value at reporting date \$000's
Financial liabilities - 2019						
Trade and other payables	429	-	-	-	429	429
Term loan	336	996	10,202	-	11,534	10,817
Total	765	996	10,202	-	11,963	11,245

	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	Total \$000's	Carrying value at reporting date \$000's
Financial liabilities - 2018						
Trade and other payables	712	-	-	-	712	712
Term loan	348	1,032	11,536	-	12,916	11,715
Total	1,060	1,032	11,536	-	13,628	12,426

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 \$11,242 (2018: \$11,800). For a 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 receivables, trade and other payables and current borrowings are approximately equivalent to their fair value because of the short term to maturity.

Capital management

The Group's capital structure includes share capital and retained earnings.

The business continues to mature its approach to the use of shareholders capital. In the 2018 year, the purchase of the Powerco assets was part-funded by a new \$12.3m loan facility, and the transaction allowed the Company to pay a maiden dividend. The loan amortises over 4 years, and all 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 2019; 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 2020.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Financial instrument classification

	Assets at amortised cost \$000's	Fair value through profit or loss \$000's	Total \$000's
Financial assets - 2019			
Cash and cash equivalents	2,848	-	2,848
Trade receivables	1,134	-	1,134
Derivative asset	-	428	428
Total	3,982	428	4,410

	Liabilities at amortised cost \$000's	Total \$000's
Financial liabilities - 2019		
Trade and other payables	915	915
Term loan	10,817	10,817
Total	11,732	11,732

	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 receivables	746	-	746
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	871	871
Term loan	11,715	11,715
Total	12,586	12,586

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

20. 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, CEO and GM Operations, 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.

21. 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	2019 \$000's	2018 \$000's
Credit at beginning of the year	-	1,159
Attached to dividend	-	(952)
Lost on shareholder continuity change	-	(207)
Credit balance at end of the year	-	-

The imputation tax credit associated with the dividend declared in the year was unpaid at 30 June 2019.

22. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

The Company announced on 24 July 2019 that it intends to undertake an on-market share buy-back programme to purchase up to 5% (14,403,179 shares) of its total ordinary shares on issue. Under the share buy-back programme the Company will acquire shares on the NZX Main Board. Shares may be acquired from 25 July 2019 until 30 June 2020 and all shares acquired will be cancelled, and the number of shares on issue reduced accordingly. The Company will only buy shares through NZX's order-matching market during normal trading hours (i.e. there will be no off-market transactions) We will keep shareholders fully informed of material information and monitor compliance with its various information disclosure requirements throughout the buyback period.

The Company announced on 29 July 2019 that it has agreed the terms of a variable production quarterly fixed price agreement for 100% of its production from 1 October 2019 to 31 December 2020. This agreement has been reached with a major NZ-based counterparty. Both the identity of the counterparty and price are commercially sensitive and remain confidential. The agreement is subject to normal legal documentation and credit processes.

The Directors resolved on 23 August 2019 to declare a final FY2019 dividend of 0.55 cents per share and a quarterly FY2020 dividend of 0.40 cents per share, payable on 23 September 2019 and 1 October 2019 respectively.

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 2019, 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 2019, 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 14 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 and capital 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

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 Information

The directors are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

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
27 August 2019

DIRECTORS

John Southworth of Auckland (Chair)
Patrick Brockie of Auckland
Philip Lennon of Christchurch
Mark Evans of Kerikeri

LEADERSHIP TEAM

Warren Koia - Chief Executive Officer
Adam Radich - GM Operations

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