



NZ Windfarms Ltd  
POWERED BY NATURE

# Investment Statement and Prospectus

9 May 2007

Joint Lead Managers



# Important Information

(The information in this section is required under the Securities Act 1978)

**Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.**

## Choosing an Investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

What sort of investment is this?	62
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In addition to the information in this document, important information can be found in the current registered Prospectus for this investment. You are entitled to a copy of that Prospectus on request.<sup>1\*</sup>

## Choosing an Investment Advisor

You have the right to request from any investment advisor a written disclosure statement stating his or her experience and qualifications to give advice. That document will tell you:

- Whether the advisor gives advice only about particular types of investments.
- Whether the advice is limited to the investments offered by one or more particular financial organisations.
- Whether the advisor will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment advisor commits an offence if he or she does not provide you with a written disclosure statement within five working days of your request. You must make the request at the time the advice is given or within one month of receiving the advice.

In addition:

- If an investment advisor has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing.
- If an investment advisor receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the investment advisor what the purpose of your investment is. This is important because different investments are suitable for different purposes.

This Offer Document is in respect of the Subsequent Public Offer by NZ Windfarms Limited of 68,181,819 Shares at an

Issue Price of \$1.10 per Share. This Offer Document is dated and prepared as at 9 May 2007.

## Important Notice

This Offer Document is a combined Investment Statement and Prospectus for the purposes of the Securities Act 1978 and the Securities Regulations 1983.

The purpose of the Investment Statement section of this Offer Document is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for Shares under the Offer. However, investors should note that other important information about the Shares and the Offer is available in this Offer Document.

## Registration of Offer Document

A copy of this Offer Document, duly signed by or on behalf of the Directors, together with copies of all material contracts and the Auditors' Reports were delivered to the Registrar of Companies for registration in accordance with section 42 of the Securities Act 1978.

## Overseas Investors

The Offer is only being made to New Zealand and certain overseas Institutional Investors, clients and associates of the Joint Lead Managers, clients of selected NZX firms and eligible shareholders under the Shareholder Priority Pool.

NZ Windfarms Shareholders must have New Zealand addresses to be eligible to participate in the Offer.

No person may offer, invite, sell or deliver any Shares or distribute any document (including this Offer Document) to any person outside New Zealand except in accordance with all the legal requirements of the relevant jurisdiction. This Offer Document may not be sent to or distributed in the United States of America.

Unless otherwise agreed with NZ Windfarms, any person or entity subscribing for Shares in the Offer will, by virtue of such Application, be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of the Offer or an invitation of the kind contained in this Offer Document and is not for the account or benefit of a person within such jurisdiction.

## Definitions

Capitalised terms used in this Offer Document have a specific meaning and are defined in the Glossary on page 74.

## Transfer of Listing to NZSX

Application has been made to NZX for permission to transfer the Company's listing from the NZAX to the NZSX and to list the Shares on the NZSX. The requirements of the NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, the NZX accepts no responsibility for any statement in this Offer Document.

\* This is the wording required by Schedule 3D of the Securities Regulations 1983 which contemplates a separate Investment Statement and Prospectus. For the Offer the two documents have been combined and accordingly the prospectus available on request is identical to this document.



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# Investment Highlights

## **The Global Wind Energy Sector has been Growing at a Significant Rate**

- There are wind energy developments in more than 70 countries around the world. The capacity of wind generation installed globally has reached over 74,000 MW, increasing 26 percent in 2006 alone<sup>1</sup>.
- There is an increasing need to ensure security of energy supply due to the increased global demand for electricity, declining known energy reserves and security issues faced by some fossil fuel supplying countries which impacts on oil and gas prices.
- There is a strong desire to reduce emissions that are harmful to the environment.
- Technological advances in wind turbines have improved the productivity and strengthened competitiveness.
- Government legislated incentive programs for renewable energy sources, including wind energy, have been introduced in many countries, and have made wind energy generation more cost competitive.

## **Wind Energy will have a Major Role in New Zealand's Energy Future Strategy**

- New Zealand has a world-class wind resource, however wind energy accounts for only two percent of New Zealand's electricity generation capacity.
- New Zealand's demand for electricity is predicted to rise significantly over the medium to long term and wind energy is forecasted to account for an increasing proportion of the total electricity supply.
- The price of electricity is heavily influenced by gas prices, which are expected to rise as New Zealand's existing low cost gas reserves (such as Maui) decline and are replaced with higher cost gas.
- An additional 3,200MW of electricity generation capacity is predicted by 2030 to meet New Zealand's increasing demand for electricity. Wind energy is forecast to contribute around 1,500MW, or 47%, of new generation capacity by 2030, more than any other generation type including coal (2%) and hydro (1%).
- The New Zealand Government has signaled that it supports a carbon emissions trading system in a bid to encourage clean energy.<sup>2</sup> An alternative carbon charge scenario has been considered and predicts an increase to future wholesale electricity prices, which would add to the investment attraction of wind generation.

## **NZ Windfarms is an Owner, Operator and Developer of Wind Farm Generation Assets**

- NZ Windfarms is proposing to develop a portfolio of wind generation assets throughout New Zealand, in addition to its 50 percent interest in the 48.5 MW Te Rere Hau Wind Farm.

- Babcock & Brown, a large global investor in wind energy, and NP Power, a specialist in renewable energy, together acquired a 50 percent interest in the Te Rere Hau Joint Venture in December 2006.
- NZ Windfarms is progressing development opportunities which are typically geographically dispersed, smaller in scale, supply electricity close to local consumer demand and present partnering opportunities with a variety of stakeholders.
- Development of smaller scale wind farms allows for existing roading infrastructure to be used, less environmental impact from earthworks, machinery transportation and visual impact, and enables NZ Windfarms to achieve a competitive capital cost per MW of generation installed.
- NZ Windfarms does not intend to hedge its exposure to wholesale electricity prices during the development phase, providing investors with direct exposure to price movements that may result from new policies on carbon or emissions and movements due to weather (i.e. dry years).
- Proceeds of the Offer will be used to fund NZ Windfarms' share of the cost of completing the Te Rere Hau Wind Farm and develop new wind farms from an existing pipeline of opportunities.

## **Vector Limited as a Cornerstone Shareholder**

- Vector Limited has conditionally agreed to acquire a cornerstone interest of 19.99 percent in the Company by subscribing for 15.7 million Shares in the Offer. See Section 14, paragraph 14.17(l) of this Offer Document for details of the agreement with Vector Limited.
- Vector Limited is one of New Zealand's largest energy infrastructure companies with significant electricity and gas businesses. The investment provides Vector Limited with the opportunity to appoint two directors to the Board of NZ Windfarms. The Shares in the Offer are not guaranteed by Vector Limited.

## **Strategic Relationship with Windflow Technology**

- NZ Windfarms has a strong strategic relationship with Windflow Technology, the supplier of turbines to the Te Rere Hau Wind Farm. This relationship alleviates possible turbine supply constraints for NZ Windfarms that the global industry may face.
- An independent Board subcommittee, the Procurement Committee, will be established to oversee the procurement of turbines and will comprise directors that are independent of Windflow Technology.

<sup>1</sup>Global Wind Energy Council, Press Release, 2 February 2007

<sup>2</sup>Article entitled "Government Favours Carbon Trading System" New Zealand Herald, 25 April 2007





# Key Offer Information

## Details of Shares Offered

Issuer/Company	NZ Windfarms Limited
Issue Price	\$1.10 per Share
New Shares being issued	68,181,819 Shares
Total proceeds of Offer	\$75 million
Total Shares on issue upon completion	78,559,197 ordinary Shares

## Summary of Prospective Financial Information

The financial information set out below should be read in conjunction with the notes to the table below and the information in Section 7 "Prospective Financial Information" and Section 11 "Historical Financial Information" of this Offer Document.

For years ending 30 June	2007	2008
Trading Revenue (\$'000)	343	1,379
EBITDA <sup>2</sup> (\$'000)	(746)	(324)
Net Tangible Assets (\$'000)	77,720	80,559
Net Tangible Assets per Share (\$) <sup>3</sup>	0.99	1.03

Key Sensitivities	Variable	Impact on FY2008		
		GWh	Trading Revenue	EBITDA
<b>Base Case</b>		<b>16.57</b>	<b>1,379</b>	<b>(324)</b>
+15 percent change in power price (c/kWh)	8.51	16.57	1,550	(155)
-15 percent change in power price (c/kWh)	6.29	16.57	1,208	(492)
+5 percent change in windspeed (m/s at 30m)	11.11	17.97	1,476	(228)
-5 percent change in windspeed (m/s at 30m)	10.05	15.17	1,282	(419)
-2 percent change in turbine availability	96 %	16.24	1,356	(346)
-4 percent change in turbine availability	94 %	15.91	1,333	(369)

## Important Dates

Offer Document Date	9 May 2007
Record Date for Shareholder Priority Pool	11 May 2007
Offer Opening Date	14 May 2007
Special General Meeting of NZ Windfarms Shareholders	28 May 2007
Offer Closing Date	1 June 2007
Allotment date	5 June 2007
Transfer of listing from NZAX to NZSX, listing of Shares on NZSX and trading commences	6 June 2007
Holder Statements sent by	8 June 2007

Completion of the Offer and transfer to the NZSX is dependent upon certain resolutions being approved by Shareholders in a Special General Meeting to be held on 28 May 2007. Refer to Section 1 "Description of the Offer" of this Offer Document for further information.

The above timetable is indicative only and investors are encouraged to submit their Application Form as early as possible. NZ Windfarms, in consultation with the Joint Lead Managers, reserves the right to extend the Closing Date, or vary any of the above dates at its sole discretion. The Closing Date cannot be extended beyond 30 September 2007 (refer to Section 1 "Description of the Offer" of this Offer Document).

### Notes:

<sup>1</sup> The summarised financial information is extracted from the prospective financial information of NZ Windfarms for the financial years ended 30 June 2007 and 2008 as set out in Section 7 "Prospective Financial Information" of this Offer Document.

<sup>2</sup> EBITDA means earnings before interest, tax, depreciation and amortisation.

<sup>3</sup> Net Tangible Assets per Share figures are based on an Issue Price of \$1.10 per Share.

# Letter from the Chairman

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Dear Investor

On behalf of the directors of NZ Windfarms Limited, I am pleased to present this opportunity to invest in shares in New Zealand's emerging renewable electricity generator, NZ Windfarms Limited. The offer is for \$75 million ordinary shares at a price of \$1.10 per share. The offer is fully underwritten and is subject to a number of approvals by existing shareholders at our upcoming Special General Meeting.

NZ Windfarms is currently a 50% joint venture partner in the Te Rere Hau Wind Farm in the Manawatu. The Company intends to use the proceeds from this offer to fund its share of development costs to complete the Te Rere Hau Wind Farm, and to undertake feasibility studies, development and ultimately ownership of a portfolio of renewable generation assets in New Zealand, focused initially on utilising wind energy.

As part of the offer, we are pleased to introduce Vector Limited as a 19.99% cornerstone investor in NZ Windfarms. Vector Limited is already a significant player in the New Zealand electricity market and with the opportunity to request the appointment of two directors to the NZ Windfarms Board. We expect them to play a significant role both strategically and operationally in the ongoing development of our business.

In 2006 NZ Windfarms achieved a significant milestone with the commitment by Babcock & Brown, a global energy investor, and N.P. Power, a specialist renewable energy investor, to a joint venture investment in the Te Rere Hau Wind Farm. The Te Rere Hau Wind Farm will be 48.5 MW in total upon completion, utilising 97 Windflow 500 turbines, designed specifically for New Zealand's harsh wind conditions by NZ Windfarms' current preferred supplier, Windflow Technology Limited. Stage One of the wind farm was opened formally by the Prime Minister, the Rt. Hon Helen Clark, in September 2006 and is presently generating electricity.

In recent publications on energy strategy, climate change and transmission, the New Zealand Government has signalled that it prefers the utilisation of renewable energy sources, and in particular wind generation, to deliver secure and sustainable electricity supply. The Government has indicated that its policy is likely to focus on a carbon emissions trading system to financially incentivise the use of clean energy to meet its Kyoto Protocol obligations.

NZ Windfarms intends, over time, to build a portfolio of renewable generation assets of smaller scale wind farm developments, and where possible, feed electricity directly into local networks to the end users of the electricity. This smaller scale of development can reduce competition for sites, and the use of smaller turbines where appropriate, can reduce site development costs significantly. This strategy provides partnering opportunities with local stakeholders, potentially reducing the time and cost of the resource consent process.

During its development phase, NZ Windfarms intends to supply electricity unhedged (at spot prices) into the New Zealand wholesale electricity market. It is therefore ideally placed to benefit financially from both the anticipated longer term upward trend in electricity prices resulting from the uncertainty of supply of fossil fuels for thermal generation plants, and importantly, any impact from implementation of government policy on carbon emissions trading. The Company does not intend to utilise debt in its capital structure during its development phase.

The renewable energy sector, and particularly wind energy, is attracting investors on a global scale. It has the long term fundamental benefits of being environmentally sustainable and has low ongoing marginal cost. On behalf of the NZ Windfarms' Board of Directors, I invite you to consider an investment in NZ Windfarms as we continue our development in New Zealand.

Yours sincerely,



Derek Walker  
Chairman  
**NZ Windfarms Limited**

“... secure, sustainable electricity supply.”

# Section 1: Description of the Offer

This Offer Document is a combined Investment Statement and Prospectus in respect of the Offer of Shares in NZ Windfarms.

The following section outlines the main terms of the Offer. Investors should also refer to the detailed information outlined in Section 13 "Investment Statement - Answers to Important Questions" on pages 62 to 64.

## The Offer

NZ Windfarms is offering 68,181,819 Shares for subscription under the Offer at an Issue Price of \$1.10 per Share. The Shares offered represent 86.79 percent of the total number of Shares, which will be on issue after completion of the Offer.

## Conditions to the Offer

The Offer is conditional upon the approval, in accordance with the NZAX Listing Rules, by NZ Windfarms Shareholders of certain resolutions being passed at a Special General Meeting to be held on 28 May 2007. In summary, the resolutions are to approve:

- (a) the issue of 68,181,819 ordinary shares pursuant to the Offer;
- (b) the adoption of changes to the Company's constitution that enables the listing to be transferred from the NZAX to the NZSX;
- (c) the listing agreement for listing the Shares on the NZSX;
- (d) NZ Windfarms' entry into the subscription agreement with Vector Limited for the issue of Shares in the Offer to Vector Limited resulting in it owning 19.99 percent of NZ Windfarms; and
- (e) the issue of options to the Directors under the NZ Windfarms' Share Option Scheme as described in Section 6 "Board and Senior Management" of this Offer Document.

## Vector Limited as Cornerstone Investor

Vector Limited has committed to acquiring a cornerstone stake in the Company by applying for 15,704,000 Shares in the Offer. On completion of the Offer, Vector Limited will have an interest of 19.99 percent in NZ Windfarms. Vector Limited will be subscribing for Shares in the Offer on the same terms as all other Applicants under the Offer. Details of the subscription agreement between Vector Limited and NZ Windfarms are set out in Section 14, paragraph 14.17(l) of this Offer Document.

## Use of Proceeds of the Offer

Money raised in the Offer is proposed to:

- (a) fund the Company's contribution to the Te Rere Hau Joint Venture in order to complete the development of the Te Rere Hau Wind Farm;
- (b) fund the ongoing investigation of possible wind farm sites, undertaking feasibility studies on potential sites, and fund the development of new wind farms, with the intention of establishing a portfolio of operating wind farms;

(c) provide working capital until such time as the operational earnings from the Company's wind generation portfolio is sufficient; and

(d) repay a loan of \$0.55 million owed to Windflow Technology.

Prior to the use of the proceeds of the Offer as set out above, NZ Windfarms will invest funds in short-term cash securities in the Company's name with major registered New Zealand banks.

Although it is intended that the proceeds of the Offer will be used as set out above, they may be applied to any undertaking in which NZ Windfarms may lawfully engage.

## Structure of the Offer

The Offer is comprised of:

### Shareholder Priority Pool

Up to 5,000,000 Shares have been reserved for priority allocation to NZ Windfarms Shareholders that are resident in New Zealand. The Shareholder Priority Pool represents 7.33 percent of Shares under the Offer.

There will be no offer of Shares made directly to the general public. Members of the public who wish to apply for Shares must contact an NZX Firm that has a Firm Allocation or apply for Shares from the Shareholder Priority Pool if they have an entitlement, right or obligation relating to existing Shares at the Record Date.

### Firm Allocation

Up to 63,181,819 Shares have been reserved for Firm Allocation to Vector Limited, Institutional Investors, clients and associates of the Joint Lead Managers and clients of other NZX Firms and representing 92.67 percent of Shares under the Offer.

Further details of the Shareholder Priority Pool and Allocations are set out below.

## Offer Pricing

The Issue Price of all Shares under the Offer is \$1.10 per Share.

## Opening and Closing Dates

The Opening Date of the Offer will be 14 May 2007. The Closing Date for all applications will be 5.00pm, 1 June 2007. NZ Windfarms, in consultation with the Joint Lead Managers, may vary any of these dates at its discretion. In the event of an extension to the Closing Date, application money will continue to be held on trust for Applicants pending Allotment and in accordance with the requirements of the Securities Act 1978. Under no circumstances will the Closing Date be extended beyond the date permitted by the Securities Act 1978, which in the case of this Offer, will be no later than 30 September 2007 in accordance with section 37A (1A) of the Securities Act 1978. Any extension will require that a Memorandum of Amendments be filed with the Companies Office in accordance with the Securities Act 1978 and other applicable laws and the NZSX Listing Rules be complied with.



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## Shareholder Priority Pool

Under the Shareholder Priority Pool, the Company has reserved a pool of up to 5,000,000 Shares for Applications from holders with an entitlement, right or obligation relating to existing Shares in NZ Windfarms as at the close of business on the Record Date of 11 May 2007. Shares not taken up by those NZ Windfarms Shareholders may be reallocated by the Joint Lead Managers at their discretion.

Applications from Shareholders under the Shareholder Priority Pool must be received by the Closing Date of 1 June 2007 (5.00pm). If the number of Shares applied for under this part of the Offer exceeds the amount set aside, Applications may be subject to scaling. The level of scaling and the allocation of Shares will be determined by the Company in conjunction with the Joint Lead Managers. For information regarding allocation of shares see "Allocation of Shares" on page 8 of this Offer Document.

Applying for Shares under the Shareholder Priority Pool does not preclude a Shareholder from also applying for Shares under a Firm Allocation.

## Firm Allocation

An aggregate amount of 63,181,819 Shares has been allocated on a Firm Allocation basis to Vector Limited, Institutional Investors, clients and associates of the Joint Lead Managers, and clients of other NZX Firms. Shares will only be available to retail investors in New Zealand through ABN AMRO Craigs and other NZX Firms that have received a Firm Allocation (unless the retail investor has an entitlement, right or obligation relating to existing Shares at the Record Date, refer to the paragraph "Shareholder Priority Pool" above).

Applications pursuant to Firm Allocations will not be subject to scaling by NZ Windfarms, although the allocation and scaling of Shares to a client of an NZX Firm will be at the discretion of the NZX Firm through which the Applicant receives their allocation of Shares.

If you want to receive an allocation under the Firm Allocation you must contact the Joint Lead Managers or any other NZX Firm. The NZX Firm will act as your agent in submitting your Application Form and application monies to the Registrar (which will receive them on behalf of NZ Windfarms). It will be the NZX Firm's responsibility to ensure that the Applications are submitted to the Registrar by the Closing Date of 1 June 2007 (5.00pm). None of NZ Windfarms, the Joint Lead Managers or the Registrar takes any responsibility for any acts or omissions by your NZX Firm in connection with your Application, Application Form or application monies.

## How to Apply for Shares

Applications for Shares must be on the Application Forms contained at the back of this Offer Document. If you are applying for Shares under a Firm Allocation, use the form headed "Application Form – Firm Allocation". If you are applying for Shares from the Shareholder Priority Pool, use the form headed "Application Form – Shareholder Priority".

Application Forms must be completed in full and submitted in accordance with the instructions set out in this Section and on the reverse of the relevant Application Form. An Application constitutes an irrevocable offer by the Applicant to purchase the number of Shares specified in the Application Form on the terms and conditions set out in this Offer Document and on the Application Form. By submitting an Application Form, Applicants agree to be bound by its terms and conditions and the Constitution of NZ Windfarms.

### *Minimum Application Size*

Applications under the Offer must be made for a minimum of 3,000 Shares and thereafter in multiples of 1,000 Shares.

### *Application Monies*

All Application Forms must be accompanied by payment of the Issue Price for the number of Shares applied for.

Cheques must be drawn on a registered New Zealand bank, made payable to **"NZ Windfarms Limited Share Offer"** and should be crossed **"Not Transferable"**. Cheques must not be post-dated.

Cheques will be banked on receipt into a designated bank account and held on trust by NZ Windfarms pending Allotment of Shares. The banking of such monies does not constitute confirmation of allocation of any Shares. Interest will not be paid on any application monies held on trust by NZ Windfarms.

You should ensure that sufficient funds are held in your account to cover the cheque that accompanies your Application Form. Shares will be allocated and Allotted on the assumption that the cheque will clear. If an Applicant fails to make payment for the Shares under the Offer, or an Applicant's cheque fails to clear, then the entitlement of that Applicant to receive Shares may be cancelled or the transfer of any Shares to the Applicant may be reversed.

### *Place and Time to Lodge Applications*

Firm Allocation Applications should be lodged with the NZX Firm through which your Firm Allocation was obtained. Shareholder Priority Pool applications may be lodged with ABN AMRO Craigs, any other Primary Market Participant or other channel approved by NZX and in sufficient time to reach the Registrar no later than the Closing Date of 1 June 2007 (5.00pm).

The address of the Registrar for Applications is:

Link Market Services Limited  
PO Box 384  
Ashburton

Applicants are encouraged to submit their Applications as early as possible. NZ Windfarms, in consultation with the Joint Lead Managers, may elect to close the Offer early, extend the Offer, or accept late Applications. The Offer may be closed at an earlier date without further notice.

#### **Allocation of Shares**

Allocation of Shares to a Firm Allocation applicant will be at the discretion of the NZX Firm from which the Firm Allocation Application Form was obtained, subject to NZ Windfarms having the right to, at its discretion, reject any Application in full or accept any Application in part only, without giving any reason.

Allocation of Shares to a Shareholder Priority Pool Applicant may be subject to scaling as described above.

#### **Notification of Allocations**

Applicants wishing to confirm their Allotment can do so by contacting the NZX Firm from which their allocation was obtained or contacting the Registrar on the fifth Business Day (as defined in the NZAX Listing Rules) after the Closing Date.

Holding statements will be sent to all successful Applicants no later than 8 June 2007.

If you sell Shares before receiving an initial holding statement, you do so at your own risk, even if you obtained details of your holding through the Registrar or confirmed your allocation through an NZX Firm or otherwise. None of NZ Windfarms, the Joint Lead Managers, the Underwriter, nor any of their respective directors, officers, employees, consultants, partners, advisors or agents accept any responsibility or liability whatsoever should any person attempt to sell or otherwise deal with Shares before Allotment.

#### **Refunds**

Money received in respect of Applications that are scaled or declined, in whole or in part, will be refunded in whole or in part as the case may be. Refunds for unsuccessful Applications will be posted on the same day that holding statements are posted to successful Applicants, which is intended to be prior to 8 June 2007. Interest will not be paid on any Application money refunded to Applicants.

#### **Settlement for Institutional Investors**

Settlement for Applications from Institutional Investors will be on a delivery versus payment ("DVP") basis through Austraclear. Allocations will be confirmed prior to the Closing Date and settlement is to take place on 5 June 2007, the Institutional Settlement Date, prior to the Allotment of Shares by NZ Windfarms.

Institutional Investors that are not registered in New Zealand who wish to settle through Austraclear, must deposit cleared funds with ABN AMRO Securities NZ Limited as agent for the Joint Lead Managers by the Closing Date. To obtain detailed settlement instructions for non-DVP settlement, Institutional Investors must contact the Joint Lead Managers prior to the Closing Date.

#### **Allotment of Shares**

Subject to approval being obtained from the NZ Windfarms Shareholders as referred to above in the paragraph "Conditions to the Offer", Shares for successful Applicants will be Allotted on 5 June 2007 following settlement by Institutional Investors.

NZ Windfarms reserves the right to withdraw the Offer at any time prior to Allotment.

#### **Brokerage and Underwriting**

No brokerage or commission is payable by Applicants on acquisition of Shares under the Offer.

NZ Windfarms will pay the following brokerage and underwriting fees:

- (a) to the Joint Lead Managers, a brokerage fee of 1.5 percent of the Application proceeds in respect of Shares Allotted pursuant to valid Applications submitted by Institutional Investors and cornerstone investors;
- (b) to the Joint Lead Managers, a retail brokerage fee of 1.5 percent of the Application proceeds in respect of Shares Allotted pursuant to valid Applications submitted by NZX Firms and Shareholder Priority Pool Applicants. The Joint Lead Managers will pay to NZX Firms brokerage at the same rate in respect of Shares Allotted pursuant to Applications bearing their stamp;
- (c) to the Underwriter, an underwriting fee of 1.5 percent of the Underwritten Amount; and
- (d) to the Joint Lead Managers, a Firm Allocation commission at the rate of 0.5 percent based on the aggregate principal amount of the Shares Allocated on a firm basis to Institutional Investors, cornerstone investors, clients and associates of the Joint Lead Managers and clients of other NZX Firms. The Underwriter has discretion and has agreed with the Company to pay a Firm Allocation fee from its underwriting fee.

The Offer has been fully underwritten. The Underwriting Agreement may be terminated by the Underwriter in certain circumstances. Further details on the Underwriting Agreement are set out in Section 14, paragraph 14.17(k) of this Offer Document.

#### **Transfer Listing from NZAX to NZSX**

Application has been made to the NZX for permission to list the Shares and all the requirements of the NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, the NZX accepts no responsibility for any statement in this Offer Document. The NZX has authorised the Joint Lead Managers to act in the Offer.

NZ Windfarms is seeking to have the listing of the Shares transferred from the NZAX to the NZSX and has applied to the NZX for the transfer. Until the transfer is effected the Shares will remain listed on the NZAX.

Quotation of Shares on the NZSX will be under the symbol "NWF" and trading is expected to occur on 6 June 2007.

#### **Trading Shares on the NZSX**

NZ Windfarms will not issue Share certificates to successful Applicants. NZ Windfarms will instead

participate in the Fully Automated Screen Trading and Electronic Registration system ("FASTER"). FASTER is a comprehensive system for recording and completing the transfer of securities listed on the NZSX. FASTER provides for paperless settlement and full electronic transfer of securities.

Under FASTER, Shareholders will be sent a statement of their holdings following the Allotment of Shares to them under the Offer and on any subsequent transfers or issues, detailing the number of Shares Allotted, transferred or issued to them. If you sell Shares before receiving an initial holding statement, you do so at your own risk. Companies listed on NZSX are required to have their share registers connected electronically to FASTER, and accordingly, that system will contain details of all shareholders.

#### Overseas Investors

The Offer is only being made to New Zealand and certain overseas Institutional Investors, clients and associates of the Joint Lead Managers, the clients of selected NZX firms and eligible shareholders under the Shareholder Priority Pool.

No person may offer, invite, sell or deliver any Shares or distribute any document (including this Offer Document) to any person outside New Zealand except in accordance with all the legal requirements of the relevant jurisdiction. This Offer Document may not be sent to or distributed in the United States of America.

Unless otherwise agreed with NZ Windfarms, any person or entity subscribing for Shares in the Offer will, by virtue of such Application, be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of the Offer or an invitation of the kind contained in this Offer Document and is not for the account or benefit of a person within such jurisdiction.

None of NZ Windfarms, the Joint Lead Managers, the Underwriter, nor any of their respective directors, officers, employees, consultants, agents, partners or advisors accept any liability or responsibility to determine whether a person is able to participate in the Offer.

#### Shares on Issue Pre and Post the Offer

On successful completion of the Offer, the Shares on issue will be held as follows:

Shareholder	Shares	Percent of Total Shares
Existing shares on issue	10,377,378	13.21%
Shares issued under the Offer	68,181,819	86.79%
Total shares on issue on completion of the Offer	78,559,197	100.0%

#### No Guarantee

The Shares offered under this Offer Document are not guaranteed by the Joint Lead Managers, the Underwriter, Vector Limited, any of the persons who may participate in the NZ Windfarms' Share Option Scheme, NZ Windfarms or any other person.

#### Important Document

If you are in any doubt as to how to deal with this Offer Document, please immediately contact an NZX Firm, an accountant, lawyer or a financial advisor.





# Section 2: Global Wind Energy Industry

## Introduction

The global market for wind energy has been expanding faster than any other source of renewable energy<sup>3</sup>. The amount of wind energy generation installed globally has increased twelve-fold since 1996, from just 6,100 MW<sup>3</sup> to more than 74,000 MW at the end of 2006<sup>4</sup>. Alongside the rapid growth in capacity, the distribution of wind energy generation has spread from its traditional base in Germany, Spain, Denmark and California, to Asia, North America and Europe.

As security of energy supply and the impact of climate change appear more on the global political agenda, wind energy is becoming a mainstream energy source in many countries around the world. The proportion of electricity generated from wind is challenging more conventional fuels in several countries including Denmark where wind energy contributes 20 percent of its electricity supply. In Spain, the world's second largest wind energy generator, wind energy contributes 8 percent of its electricity supply and is expected to reach 15 percent by 2010.<sup>3</sup> By comparison, in 2005 wind energy only contributed 1.5 percent of New Zealand's current electricity supply. [Refer to Section 3 "New Zealand Electricity Market" of this Offer Document].

## Current Installed Wind Generation Capacity

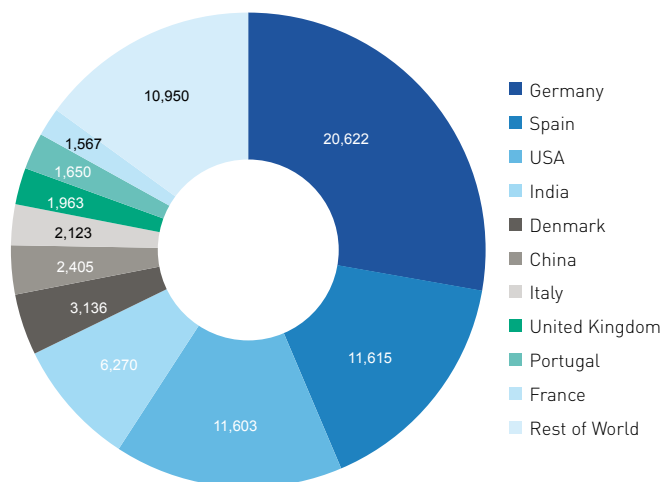
Figures published by the Global Wind Energy Council, which include wind energy developments in more than 70 countries around the world, show cumulative installed wind generation capacity reached 74,223MW in 2006.<sup>4</sup>

The wind energy market remains concentrated in Europe, which has 48,545 MW of cumulative installed wind generation capacity, or 65 percent of the global total.<sup>4</sup>

Asia now accounts for 10,667 MW of cumulative installed wind generation capacity, or 14 percent of the global total. Substantial new developments in Asia during 2006 added 3,679 MW of generation capacity primarily in India (1,840 MW) and China (1,347 MW). China more than doubled its cumulative installed capacity during 2006 making it now the world's sixth largest country for wind energy generation.<sup>4</sup>

Wind generated electricity accounted for more than one percent of global electricity consumption in 2006<sup>5</sup> but its penetration is expected to increase as wind becomes more accepted as a mainstream source of electricity. In a base case scenario presented by Global Wind Energy Council, wind energy would supply five percent of global electricity by 2030 and 6.6 percent by 2050<sup>3</sup>.

Top 10 countries by 2006 installed wind generation capacity (MW)



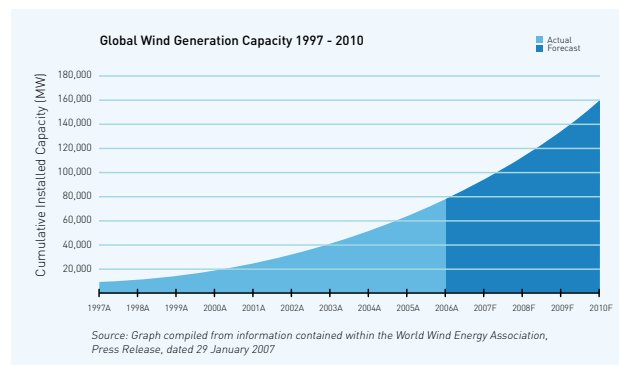
Source: Chart compiled from information contained within the World Wind Energy Association, Press Release, dated 29 January 2007

## Global Growth in Wind Energy Generation

Wind energy generation has expanded at a significant rate over recent years and at a faster rate than other sources of renewable energy. A further 15,197 MW of wind generation capacity was installed globally in 2006. This represents growth of 26 percent for 2006, following 24 percent growth in 2005.<sup>4</sup>

The United States of America continues to invest heavily in wind energy adding 2,454 MW of wind generation capacity in 2006, more than any other country, at a cost of US\$4 billion. Germany, the world's largest wind energy market, added 2,233 MW, followed by India (1,840 MW) and Spain (1,587 MW).<sup>4</sup>

The rapid expansion of wind power globally has increased the demand for turbines, particularly in North America, which has lengthened lead times as manufacturers expand their production capacities to meet this new level of demand.



Source: Graph compiled from information contained within the World Wind Energy Association, Press Release, dated 29 January 2007

<sup>3</sup> Global Wind Energy Council, Global Wind Energy Outlook, September 2006, publicly available at [www.gwec.net](http://www.gwec.net)

<sup>4</sup> Global Wind Energy Council, Press Release, dated 2 February 2007

<sup>5</sup> World Wind Energy Association, Press Release, dated 29 January 2007



#### Increase in Wind Generation Capacity in 2006

	MW Installed in 2006	Percentage increase over 2005
Europe	7,708MW	18.8 percent
Asia	3,679MW	52.6 percent
North America	3,230MW	32.9 percent
Global Total	15,197MW	25.7 percent
New Zealand	3MW	1.8 percent

Source: Table compiled from information contained within the Global Wind Energy Council, Press Release, dated 2 February 2007

### Key Factors Driving the Growth in Wind Farm Development

The main factors that are driving the growth in wind generation capacity include:

#### (a) Security of energy supply

While global electricity demand is rising, the supply of fossil fuels traditionally used for electricity generation, such as gas, is falling. For example, indigenous sources of oil and gas in Europe are in decline and uranium, from which Europe generates 30 percent of its electricity, is expected to run out within 40 years. As a result, developed economies of the world are placing increasing reliance on imported fuels, sometimes from regions of the world where political instability threatens the security of that supply. Europe currently imports 50 percent of its energy supplies and this is expected to increase to 70 percent within 20 years.<sup>6</sup>

Security of energy supply has thus become increasingly significant to economic growth objectives in many countries. The importance of diversifying the energy source to those that rely upon sustainable and renewable resources, such as wind and hydro generated electricity, has been recognised by many countries and incorporated into their national energy strategies.

#### (b) Environmental concerns

Electricity generation using fossil fuels, such as coal and gas, creates air pollution which is a major global issue, particularly in developing countries like China and India. Environmental concerns around the impact of climate change and the desire to reduce emissions that are harmful to the environment, such as carbon dioxide, have led to national targets for the reduction of carbon dioxide and other emissions. The main driver for combating climate change has been the Kyoto Protocol (see below), which has set legally binding targets for some developed countries to reduce emissions of certain greenhouse gases over the first commitment period of 2008 to 2012.<sup>6</sup>

Renewable sources of energy, including wind generated electricity, offer the potential to greatly reduce harmful emissions and help countries satisfy their Kyoto Protocol obligations.

#### (c) Technology advancements

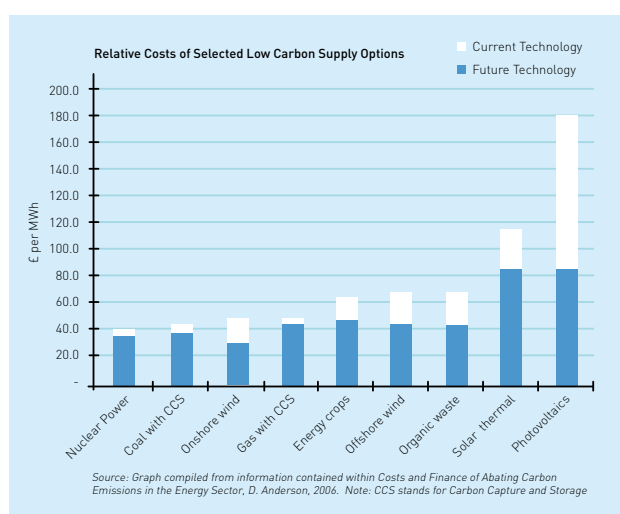
Advances in wind turbine technology have increased the annual productivity of turbines 180 fold over the past 20 years with a modern wind turbine able to produce electricity at less than half the cost per unit (kWh) than its equivalent 20 years ago<sup>6</sup>. As well as technological improvements, economies of scale from the growth in turbine volumes have also helped to reduce the cost per unit (kWh).

These advances have strengthened the competitiveness of wind energy generation by allowing the most appropriate turbine to be selected for each development to maximise its cost effectiveness.

#### (d) Cost competitiveness of wind power

As well as technological improvements, the relative cost competitiveness of wind power has also been increased by the recent rise in the price of fossil fuels, in particular the price of gas used to fuel power stations<sup>6</sup>. Since wind energy has no fuel element its short run marginal cost is unaffected by the world trade for fossil fuels.

The graph below sets out the relative long run marginal costs of selected low carbon generation options as presented in a paper commissioned in support of the Stern Review Report on the Economics of Climate Change:



<sup>6</sup>Global Wind Energy Council, Global Wind Energy Outlook, September 2006, publicly available at [www.gwec.net](http://www.gwec.net)

The above graph shows that, based on current technology, onshore wind was the third most cost-effective of the presented low carbon supply options. However, onshore wind is expected to become the most cost-effective of the presented low carbon supply options in the longer term. In addition, the chart does not include any carbon reduction measures, such as carbon taxes or emissions trading schemes, which will further increase the cost competitiveness of wind energy as the polluting effects of fossil fuel burning electricity generation becomes reflected in the cost of such generation alternatives.

*(e) Government incentive programmes for wind energy*

Public concerns for the environment and the scientific consensus about the damage caused by greenhouse gas emissions have influenced governmental policy in many countries toward the adoption of renewable energy sources including wind energy. Methods of promoting the use of renewable energy vary between countries although it has become apparent that stable policies and effective incentives can positively influence the level of investment in renewable energy generation.<sup>7</sup>

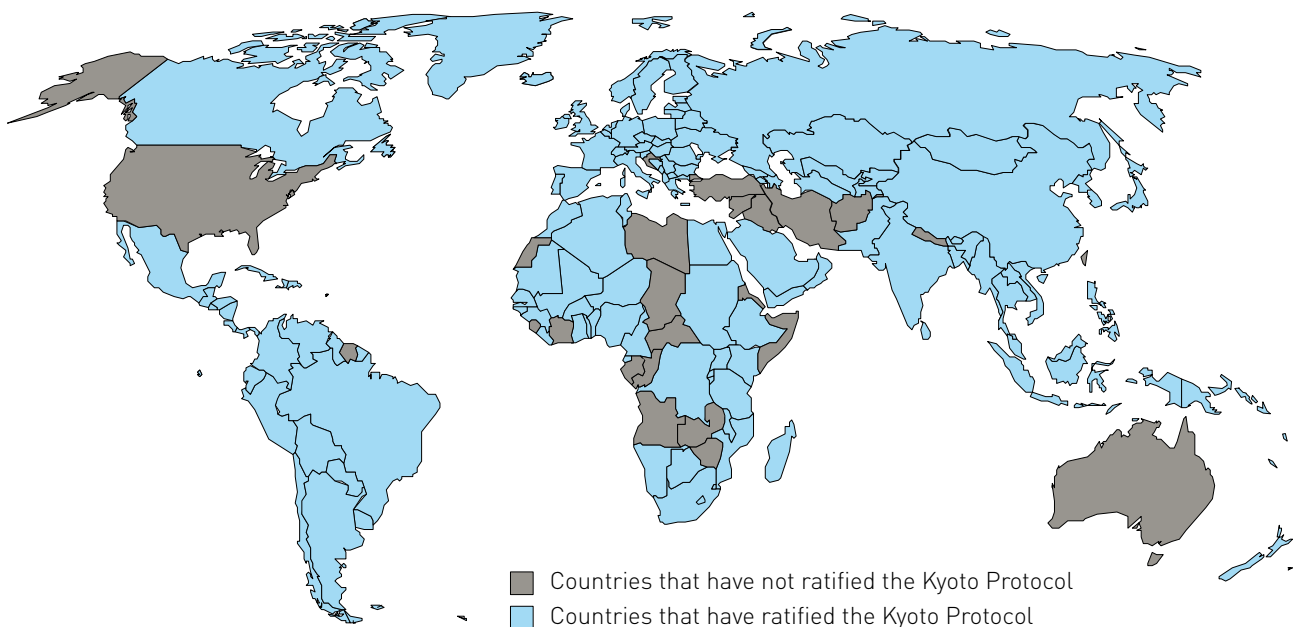
## The Kyoto Protocol

After limited progress with earlier efforts by developed countries to reduce greenhouse gas emissions to 1990 levels by 2000<sup>8</sup> (albeit with targets that were non-binding), negotiations on a new protocol began in 1995. The Kyoto Protocol, named after the city where it was finally concluded in 1997, is an agreement to address these concerns. Countries that ratify this protocol assume a legally binding commitment to reduce their emissions of carbon dioxide and five other greenhouse gases relative to 1990 levels, or engage in emissions trading, if they maintain or increase emissions of these gases. Commitments under the Kyoto Protocol vary from nation to nation but, on average, represent an emissions reduction of five percent from 1990 levels. Developing countries, such as India and China, are not required to decrease emissions even if they have ratified the Kyoto Protocol.

New Zealand ratified the Kyoto Protocol in December 2004<sup>9</sup>, with the agreement entering into force in February 2005. As at December 2006, a total of 169 countries had ratified the Kyoto Protocol, notable omissions being the United States and Australia.

The relevance of the Kyoto Protocol for electricity generation is that generation facilities that produce greenhouse gases will become relatively less attractive as the cost of their greenhouse gas emissions is priced into their supply cost, thus paving the way for renewable electricity sources such as wind power.

The map below shows countries which have ratified the Kyoto Protocol.



Source: Map compiled from information contained on United Nations Framework Convention on Climate Change, publicly available at: [http://unfccc.int/kyoto\\_protocol/background/status\\_of\\_ratification/items/2613.php](http://unfccc.int/kyoto_protocol/background/status_of_ratification/items/2613.php)

<sup>7</sup> For example: The resurgence of investment in wind energy in the United States of America has been in part attributed to the extension of the Production Tax Credit Scheme for a further three years. The increased investment in wind energy in Spain since the mid 1990's was encouraged by a national premium tariff and policy based on industrial regeneration. In Germany, successive laws have paid generators of wind power a premium tariff for their output. Global Wind Energy Council, Global Wind Energy Outlook, September 2006, publicly available at [www.gwec.net](http://www.gwec.net)

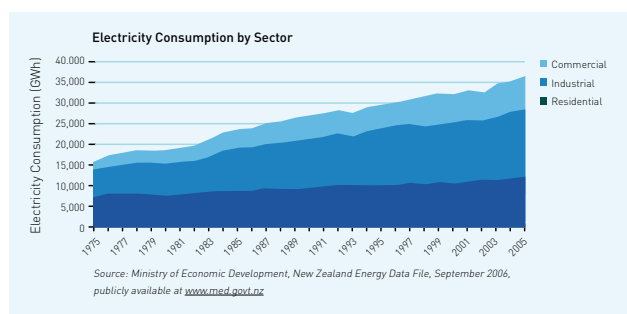
<sup>8</sup> The adoption of the United Nations Framework Convention on Climate Change at the 'Earth Summit' in Rio de Janeiro in May 1992.

<sup>9</sup> Kyoto Protocol, Status of Ratification, United Nations Framework Convention on Climate Change, publicly available at [http://unfccc.int/kyoto\\_protocol/background/status\\_of\\_ratification/items/2613.php](http://unfccc.int/kyoto_protocol/background/status_of_ratification/items/2613.php)

# Section 3: New Zealand Electricity Market

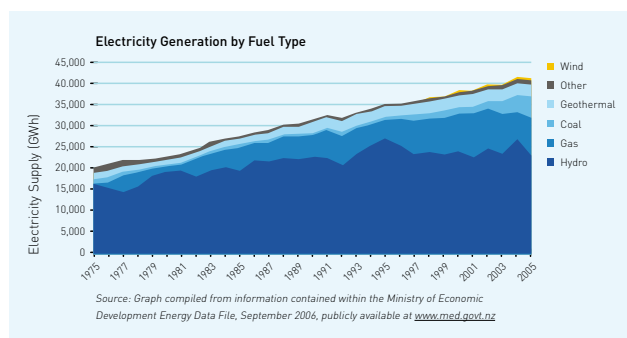
## Historical Growth in Electricity Demand

New Zealand's demand for electricity has grown by approximately 127 percent over the last 30 years, from 16,272 GWh in 1975 to 36,898 GWh by 2005. This growth, which equates to an average compound rate of growth of 2.8 percent per annum, has been driven by population and economic growth over this period.<sup>10</sup>



## Historical Growth in Electricity Generation

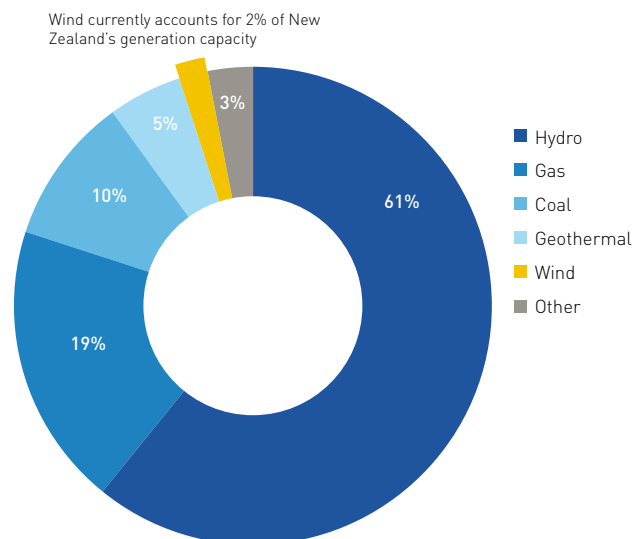
New Zealand has historically relied on hydro generation to supply the majority of its electricity needs. Although hydro generation remains the largest source of electricity, accounting for 56 percent of the electricity generated, New Zealand has diversified its generation mix over the last 30 years to include other sources in greater quantities such as coal, gas and geothermal generation (see graph below). Wind generated electricity is only recently emerging in New Zealand, accounting for approximately 1.5 percent of total electricity generation output in 2005.<sup>11</sup>



## Current Generation Capacity

New Zealand currently has around 8,900 MW of installed generation capacity<sup>12</sup>. Hydro generation is the largest source of capacity, accounting for 61% of New Zealand's total generation capacity. The second largest source of capacity is gas fired generation, which accounted for 19 percent of total capacity at the end of 2005, with this number expected to increase once Genesis Energy's 385MW Huntly e3p station becomes fully operational later this year. Other than Huntly e3p, there have been few new generation projects of any significant size in the past five years. In NZ Windfarms' view, this is due to the uncertainty over future gas supplies, whether they would be sufficient to justify the development of further large gas-fired stations, and the difficulty and time taken to obtain resource consents for all types of generation. The largest hydro project to be consented in the last decade was TrustPower's Deep Stream 7 MW hydro generation plant in Otago. More recently, the coal fired Marsden B proposal has been abandoned. Significantly, over this period, 170 MW of wind-powered generation has been consented and installed.<sup>13</sup>

## Generation Capacity by Fuel Type



Source: Chart compiled from information contained with the supplementary tables to Ministry of Economic Development, New Zealand Energy Data File, September 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

<sup>10</sup> Supplementary Tables, Ministry of Economic Development, New Zealand Energy Data File, September 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

<sup>11</sup> Ministry of Economic Development, New Zealand Energy Data File, September 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

<sup>12</sup> Ministry of Economic Development, New Zealand's Energy Outlook to 2030, August 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

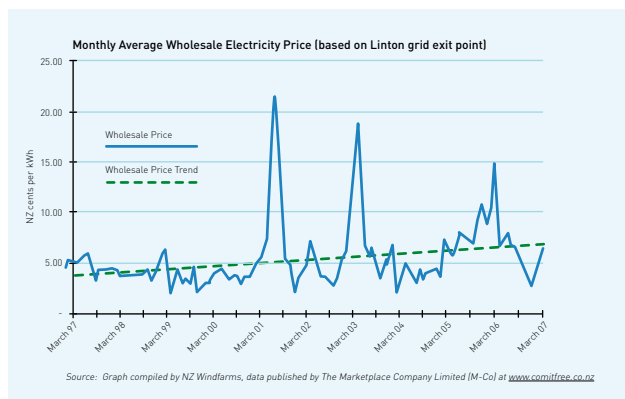
<sup>13</sup> A table of current installed wind capacity by date commissioned is available on the New Zealand Wind Energy Association website at [www.windenergy.org.nz/FAQ/proj\\_dom.htm](http://www.windenergy.org.nz/FAQ/proj_dom.htm)

## Key Drivers of Wholesale Electricity Prices in New Zealand

At present, the wholesale price of electricity on the spot market is predominantly set by bids from fossil fuel powered generation plant. The electricity price is thus heavily influenced by the price of fossil fuels, particularly natural gas.

With the relatively inexpensive Maui gas reserves in decline and other known New Zealand reserves being substantially smaller in size, the price of gas is increasing as Maui gas is replaced with higher cost sources.<sup>14</sup> Furthermore, NZ Windfarms does not expect that imported gas can be used for electricity generation in New Zealand at a competitive price. Accordingly, the increasing price of natural gas has put upward pressure on wholesale electricity prices.

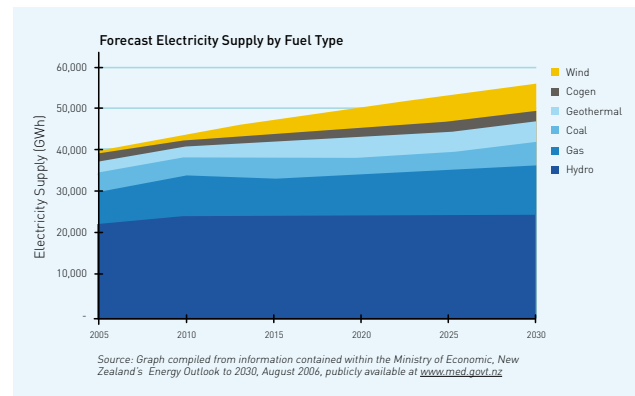
Another key driver of electricity prices is the amount of rainfall. When there is a wide variation in the amount of hydro generation available between a 'wet' and 'dry' year, the shortfall in supply is made up with increased thermal generation, which can cause spikes in wholesale prices during dry years. This is evident in the graph below, which shows monthly average wholesale prices peaking in three dry years:



## Forecast Electricity Supply

Electricity supply is expected to grow significantly over the period to 2030, with the Ministry of Economic Development's base case forecasts, as set out in the report entitled Ministry of Economic Development, New Zealand's Energy Outlook to 2030, August 2006, predicting that New Zealand's total electricity supply will increase by 40 percent by 2030. Electricity supply may also increase above the Ministry of Economic Development's base case forecasts if fuel-switching occurs, for example home heating switching from solid fuel to electricity or increasing use of electric rail and hybrid or fully electric transportation.

The Ministry of Economic Development base case forecasts show wind energy accounting for an increasing proportion of the total electricity supply, from 1.5 percent in 2005 to 11.7 percent by 2030, as shown in the graph above.



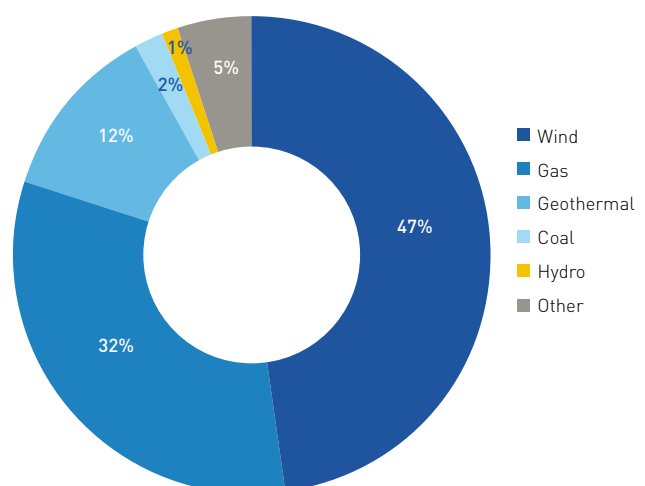
## Outlook for New Generation Capacity

In its base case forecast, the Ministry of Economic Development predicts that additional generation capacity of around 3,200MW will be needed by 2030 to meet the predicted increase in demand. In addition, NZ Windfarms believes some of New Zealand's existing thermal plant is nearing retirement and will also have to be replaced or significantly upgraded.

Hydro is expected to remain the dominant source of energy in New Zealand. However, resource consent issues, high capital costs and competing demands for water mean that the absolute level of hydro generation is expected to remain flat over the period to 2030.<sup>15</sup>

Wind is forecast to be the largest source of growth in electricity supply over the period to 2030, in both percentage and absolute terms. Gas and geothermal generation are expected to be the other main methods of meeting the increased demand. The Ministry of Economic Development base case shows wind energy accounting for 47 percent of the new generation capacity required by 2030. These forecasts are summarised in the chart below.<sup>15</sup>

Installed Generation Capacity to 2030



Source: Chart compiled from information contained within the Ministry of Economic Development, New Zealand's Energy Outlook to 2030, August 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz) (note rounding applies)

<sup>14</sup>For example, the Ministry of Economic Development base case predicts, in the Ministry of Economic Development, New Zealand's Energy Outlook to 2030, August 2006 publicly available at [www.med.govt.nz](http://www.med.govt.nz), that wholesale gas prices will double by 2020 in real terms reflecting tight domestic supply.

<sup>15</sup>Ministry of Economic Development, New Zealand's Energy Outlook to 2030, August 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz)



## Cost of New Generation Capacity

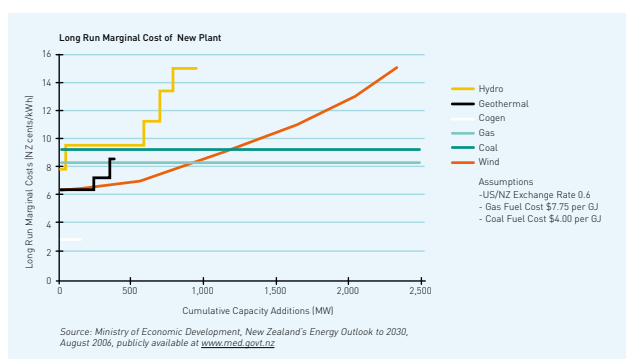
Future electricity prices in New Zealand will be determined by the lowest marginal cost of new generation (the Long Run Marginal Cost). The cost of generation can be broken into two categories:

- Capital Costs.
- Operating costs (including fuel costs).

Coal, oil and gas-fired generation have lower capital outlays relative to renewable generation alternatives but have ongoing fuel costs to power the generation plant. While renewable energy such as hydro, wind and geothermal typically have high upfront capital costs, they have no ongoing fuel costs and produce lower levels of greenhouse gas emissions.

The graph below from the Ministry of Economic Development shows that the Long Run Marginal Cost of new wind, geothermal and combined-cycle gas turbine generation are estimated to be similar, assuming a gas price of \$7.75 per GJ and coal cost of \$4.00 per GJ. If the trend towards higher gas prices continues, or the cost of greenhouse gas emissions are included in the costs of fossil fuel generation, then renewable energy sources are likely to become more attractive relative to fossil fuel generation.

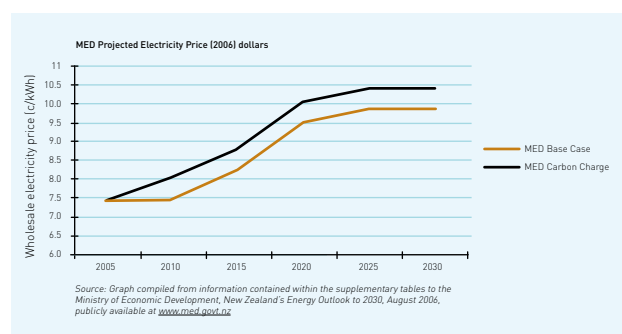
The increasing electricity price will make more expensive sources of generation economically viable, leading to an increase in the use of alternative generation sources, such as wind farms, which have a higher up-front capital cost, but lower ongoing generation cost.



## Forecast Electricity Prices

In the absence of significant rainfall for hydro electricity generation, gas-fired generation is the typical method of increasing near-term supply, leading to a strong correlation between wholesale electricity prices and gas prices. The well-documented reduction in gas production in the Maui gas field is forecast to significantly increase the price of gas, and thus electricity prices.<sup>16</sup>

The Ministry of Economic Development base case projects that the wholesale electricity price will increase by approximately 33 percent in real terms by 2030. In an alternative carbon charge scenario, which examines the impact of an assumed \$15 per tonne of carbon dioxide carbon charge, the wholesale electricity is projected to increase by approximately 40 percent in real terms by 2030.



<sup>16</sup>Ministry of Economic Development, New Zealand's Energy Outlook to 2030, August 2006, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

# Section 4: Wind Energy in New Zealand

## New Zealand's Wind Resource

New Zealand has a world-class wind resource. New Zealand is situated in the "Roaring 40s", which are known for their strength and are unhindered by land mass. With its narrow islands, New Zealand has a good exposure to coastal winds and its ranges and areas of elevated terrain give localised wind speed accelerations.<sup>17</sup> Even though the wind is variable and intermittent on a daily basis, when aggregated over seasons or years, records indicate average wind speeds are very reliable.<sup>18</sup>

Wind provides a natural complement to hydro generation. The ability to store hydro generation resources allows it to be used when wind speed and variability mean that wind generation is not possible. The capacity to interchange wind and hydro generation means that when available, wind can supply a significant proportion of the country's overall electricity mix.

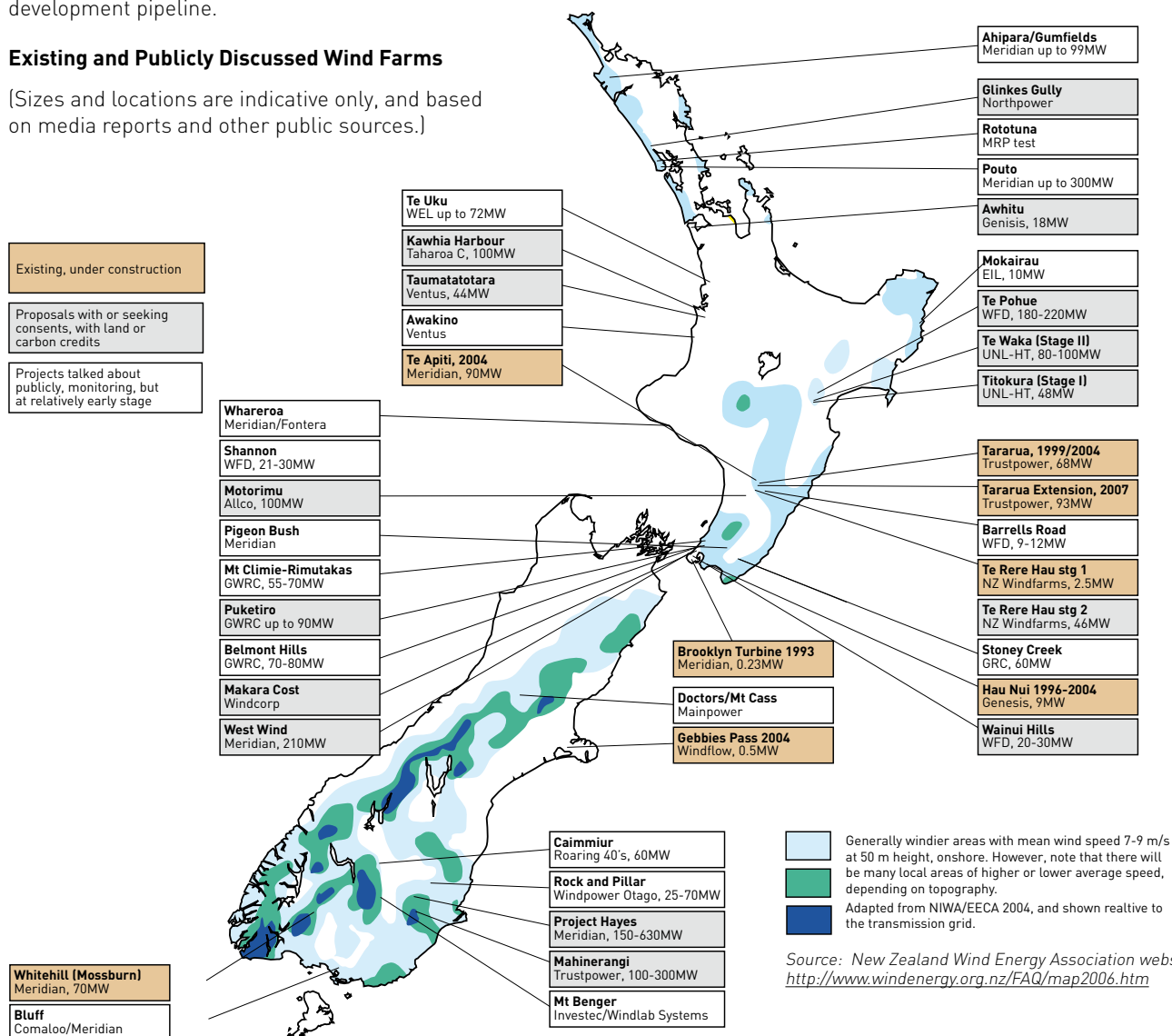
## Wind Generation Capacity in New Zealand

Despite New Zealand adding little additional wind generation capacity in 2006, particularly in comparison to countries internationally, wind generation is the fastest growing form of electricity generation in New Zealand.

There are currently four existing commercial scale wind farms in New Zealand, with a total capacity of around 170 MW. An additional 200 MW is currently under construction at three sites, including the Te Rere Hau Wind Farm. A number of further projects have received resource consent, or are currently seeking consent, with up to 1,472 MW in the identified development pipeline.

## Existing and Publicly Discussed Wind Farms

(Sizes and locations are indicative only, and based on media reports and other public sources.)



<sup>17</sup>Discussion document prepared by Meridian Energy entitled "Choices" publicly available on the Meridian Energy website at [www.meridianenergy.co.nz](http://www.meridianenergy.co.nz)

<sup>18</sup>10 percent variance from the mean for a 1 in 20 year calm event "Smyth, V (1987), Wind Energy Resource Survey of New Zealand, New Zealand Energy Research and Development Committee"

### Wind Farms in Operation

Name	Operator	Date commissioned	Region	No. of Turbines	Turbine capacity	Project capacity
Hau Nui	Genesis	1996	Wairarapa	15	0.55/0.60 MW	8.7 MW
Tararua	TrustPower	1999	Manawatu	103	0.66 MW	68.0 MW
Te Apiti	Meridian	2004	Manawatu	55	1.65 MW	90.8 MW
Te Rere Hau	NZ Windfarms	2006	Manawatu	5 (of 97)	0.5 MW	*2.5 MW
<b>TOTAL</b>				<b>178</b>		<b>170 MW</b>

\* The total project capacity for Te Rere Hau is 48.5 MW on completion when all of the turbines have been installed.

### Wind Farms under Construction

Name	Operator	Date commissioned	Region	No. of Turbines	Turbine capacity	Project capacity
White Hills	Meridian	2007	Southland	29	2.0 MW	58.0 MW
Tararua 3	TrustPower	2007	Manawatu	31	3.0 MW	93.0 MW
Te Rere Hau	NZ Windfarms	2009	Manawatu	92 (of 97)	0.5MW	*48.5 MW
<b>TOTAL</b>				<b>60</b>		<b>199.5 MW</b>

\* 2.5 MW of the planned 48.5 is already in operation

### Wind Farms for which Resource Applications are in Progress

Name	Developer	Consenting Region	Project capacity	Status
Project Hayes	Meridian	Central Otago	up to 630 MW	In progress
Motorimu	Allco Wind Energy	Manawatu	up to 110 MW	In progress
Te Waka	Unison/Roaring 40s	Hastings	up to 111 MW	Consented & appealed
West Wind	Meridian	Wellington	up to 210 MW	Consented & appealed
Hawkes Bay	Hawkes Bay Wind Farm	Hastings	up to 225 MW	Consented
Titikura	Unison/Roaring 40s	Hastings	up to 48 MW	Consented
Taharoa	Taharoa C / PowerCoast	Kawhia	up to 100 MW	Consented
Taumatatotara	Ventus	Waikato	up to 20 MW	Consented
Awhitu	Genesis	Franklin	18 MW	Consented
<b>TOTAL</b>			<b>up to 1,472 MW</b>	

Source: All tables compiled from New Zealand Wind Energy Association website, [www.windenergy.org.nz](http://www.windenergy.org.nz)

### Outlook for New Zealand Wind Generation

Although some of these projects may not proceed, the development potential for wind energy in New Zealand is substantial. In a report to the Ministry of Economic Development, East Harbour Management Consultants estimated that up to 2,450 MW of wind generation could be installed in New Zealand with high confidence and 4,585 MW of wind generation could be installed with high or medium confidence by 2015<sup>19</sup>. A study by Energy Link and MWH New Zealand Limited for the Ministry of Economic Development and the Energy Efficiency and Conservation Authority concluded that wind could technically supply up to 35 percent of New Zealand's peak requirements and supply 20 percent of New Zealand's electricity<sup>20</sup>.

In addition, wind generation is renewable, requires no fuel, and produces no direct greenhouse gas emissions or other chemical pollution. New wind generation projects could therefore play a major role in New Zealand's efforts to meet its Kyoto Protocol obligations and reduce greenhouse gas emissions.

<sup>19</sup> "The Availabilities and Costs of Renewable Sources of Energy for Generating Electricity and Heat, prepared by East Harbour Management Consultants for the Ministry of Economic Development, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

<sup>20</sup> Wind Energy Integration in New Zealand, May 2005, prepared by Energy Link and MWH New Zealand Limited for the Ministry of Economic Development, Energy Efficiency and Conservation Department, publicly available at [www.med.govt.nz](http://www.med.govt.nz)

# Section 5: About NZ Windfarms

## Introduction

NZ Windfarms intends to be a long-term owner, operator and developer of wind farm assets, with its principal revenues coming from the sale of sustainably generated electricity. The Company proposes to develop a geographically diverse portfolio of renewable generation that will be owned either wholly by NZ Windfarms or in partnership with others.

NZ Windfarms' core business activities are the identification, development, operation and ownership of wind farms throughout New Zealand and in other markets where wind power is economic. While the operational activities will be centred on wind generation assets owned by the Company, it may explore other forms of generation from renewable resources in the medium to long term.

The Company is committed to building wind farms that, where possible, make use of existing or excess capacity within the local lines and roading networks. These developments provide economic benefits to local communities and assist the efficiency of electricity generation and distribution by providing appropriate levels of generation close to where it is needed. This will result in the Company's wind farms being typically of a small to medium size, often avoiding significant competition for sites. The Company will also consider co-investment with the land owners and the local community to improve the outcomes of any projects.

The Company uses a project management/outourcing structure with a relatively small number of staff, relying instead on expert providers with whom the Company has well developed relationships. These different providers with specialist skills and experience are utilised to complete specific tasks relating to their area of expertise. This allows NZ Windfarms to respond quickly and apply the appropriate level of resource to each task as it is required.

## Approach to the Development of Wind Farms

The Company's portfolio of generation assets will generally be built on the concept of distributed generation, rather than competing directly with generators in building large-scale wind farms.

NZ Windfarms expects it will operate a greater number of smaller wind farms, but it may participate as a partner in selected larger projects.

NZ Windfarms has developed a number of relatively low impact, low cost techniques to carry out the evaluation of nominated sites. In particular, the use of smaller turbines (of the 0.5 MW to 1.5 MW capacity rating) enables NZ Windfarms to select more complex terrain that transporters and cranes required to assemble larger capacity turbines could find difficult to access.

The construction practices adopted for installing smaller turbines generally involve smaller access roads, reduced

foundation weights and lower overall site costs. This assists the Company with maintaining a competitive capital cost per MW of capacity installed since NZ Windfarms expects that only 10 percent of soil (per MW installed) needs to be shifted relative to larger turbine projects. Minimising site infrastructure spend enables the Company to maximise spending on generation assets.

The Company believes that its approach to site selection and construction, and its choice of turbine, will lead to significantly lower overall environmental impact in terms of visual impact, earthworks on-site, transportation of turbine components and machinery, and noise produced by the wind farm in operation.

The Company expects these factors to improve resource consent outcomes and reduce compliance costs.

The other key operational area for the Company is the management of wind farm assets, be they owned in whole, or in part, by the Company. Presently, NZ Windfarms manages the Te Rere Hau Wind Farm on behalf of the Te Rere Hau Joint Venture pursuant to the Management Services Agreement to contract (as described in Section 14, paragraph 14.17(h) of this Offer Document). NZ Windfarms' intention is to hold management contracts on future wind farms.

## Te Rere Hau Wind Farm

### Overview

NZ Windfarms has a 50 percent interest in the Te Rere Hau Wind Farm, which lies on the western slopes of the Tararua Ranges near Palmerston North, through a joint venture with Babcock & Brown Windpower and N.P. Power. NZ Windfarms' interest is held by its wholly owned subsidiary NZWL-TRH Limited.

When complete, the Te Rere Hau Wind Farm will have generation capacity of 48.5 MW, comprising 97 0.5MW turbines, and generate enough electricity for approximately 18,000 homes based on NZ Windfarms' assessment of average household electricity usage (8,500 kWh per annum) and an estimate of the annual output of the Te Rere Hau Wind Farm when fully operational (160 GWh per annum). The project has been awarded a maximum of 519,000 emission reduction units by the Crown.

The carbon credits are awarded as payment for reducing the amount of coal and gas powered electricity generation taking place between 1 January 2008 and 31 December 2012 (the first commitment period of the Kyoto Protocol). In order to receive these credits, a carbon calculation is made each year whereby the amount of electricity generated by the Te Rere Hau Wind Farm is converted into an equivalent amount of carbon. Subtracted from this is the carbon which was expended to build the turbines (i.e. steel, concrete and diesel) with the net amount being the credits available to the Company. These credits can be sold to create an additional form of revenue for the



Company. Carbon credit sales made by other New Zealand companies have been in the range of NZ\$10 - NZ\$15 per tonne. No allowance for carbon credit revenue has been made in Section 7 "Prospective Financial Information" of this Offer Document. NZ Windfarms has assessed that the carbon debt for the Stage One turbines was repaid within five weeks of commencing operation.

The Te Rere Hau Joint Venture holds an interest over the land by way of an easement which creates rights to occupy the land owned by Aeolian Property Company Limited. That company is partly owned by Mr Geoff Henderson and associated parties. Mr Henderson is the original founder of Windflow Technology, and Windflow Technology is a shareholder of NZ Windfarms. Commercial arrangements exist between the Te Rere Hau Joint Venture and Aeolian Property Company Limited and these include payment based on a set royalty and 1 to 2 percent of revenue generated from the site, consistent with market practice. The right for the Te Rere Hau Joint Venture to occupy the site is summarised in Section 14, paragraphs 14.17(b) and (c) of this Offer Document by reference to the Wind Rights Agreement with Aeolian Property Company Limited and the Easement granted by Aeolian Property Company Limited.

#### *Stage of Development*

Stage One has been generating electricity since the site was officially opened by the Prime Minister Rt. Hon Helen Clark in September 2006. The site is connected to the local PowerCo Limited network. Currently, the five turbines are each operating to a maximum of 200 kW of generation capacity, due to constraints on the local network connection. This situation will continue until the full electrical connection is commissioned in conjunction with the installation of the next 14 turbines.

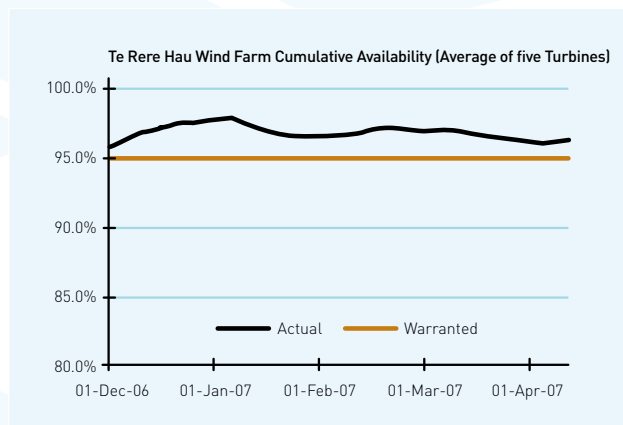
In order to export the electricity generated from the fully developed Te Rere Hau Wind Farm, the Te Rere Hau Joint Venture has entered into an agreement with Tararua Windpower Limited, a wholly owned subsidiary of TrustPower Limited, which owns and operates the Tararua Wind Farm located approximately four kilometres further north along the same ridge. The agreement provides for the construction, operation and maintenance of the substation and grid augmentation facilities on a pro rata shared cost basis with Tararua Windpower Limited who will also use the facilities for its neighbouring wind farm. The Te Rere Hau Wind Farm will be connected to TrustPower Limited's grid injection point enabling it to deliver electricity directly into the national grid. The Te Rere Hau Joint Venture will also need to prove compliance with the Electricity Governance Rules to TransPower Limited before it will be able to export via this new connection. Formal approval is anticipated to occur by the first quarter of 2008.

Roading for stage two of the Te Rere Hau Wind Farm (providing access to a further 30 turbine locations) has recently been completed and a further 14 Windflow 500 turbines have been ordered for delivery in the summer of 2007-08. The Company's objective is that all remaining stages of the Te Rere Hau Wind Farm will be completed by the end of 2009.

#### *Operational Experience from Stage One*

The average performance of the Windflow 500 turbines to date has been to performance specification both in terms of their availability, which is running above the 95 percent level warranted by Windflow Technology (see graph below), and generation performance which is within three percent of theoretical levels. Post installation sound monitoring undertaken by the Te Rere Hau Joint Venture has demonstrated that Stage One has complied with all resource consent noise conditions.

Wind speeds on the site have also been to expectation. Since commissioning in September 2006, the turbines have generated power 86 percent of the time.



#### **Te Rere Hau Joint Venture Ownership**

In August 2006, NZ Windfarms, N.P. Power and Babcock & Brown Windpower reached agreement on the Te Rere Hau Joint Venture for the Te Rere Hau Wind Farm project (as signalled in the NZ Windfarms' 2005 prospectus). The NZ Windfarms Shareholders voted to approve the Te Rere Hau Joint Venture at the Annual General Meeting on 15th September 2006.

NZ Windfarms now holds its interest in the Te Rere Hau Joint Venture through its wholly owned subsidiary, NZWL-TRH Limited.

#### *Babcock & Brown Windpower*

Babcock & Brown Windpower is a wholly-owned subsidiary of Babcock & Brown Limited (ASX Code: BNB), a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown has a long history of experience in the renewable energy field and extensive experience in the wind energy sector, having arranged financing for over 3000MW of wind energy projects and companies for nearly 20 years, with an estimated value over US\$3 billion.

Babcock & Brown's roles have included acting as an advisor/arranger of limited recourse project financing, arranging equity placements, lease advisor, project developer, principal equity investor and fund manager for wind energy projects situated in Europe, North America, Australia and New Zealand. Babcock & Brown has developed specialist local expertise and extensive experience in the wind energy sector in each of these regions.

In New Zealand, Babcock & Brown Infrastructure Limited, a member of the Babcock & Brown group of managed funds, owns PowerCo Limited. PowerCo Limited is New Zealand's second largest electricity and gas distribution business with over 400,000 connections across a service area of over 39,000 square kilometres.

#### *N.P. Power*

N.P. Power is the Australian arm of National Power, a private employee-owned company that develops, owns or operates small and medium-sized generation facilities in the United States and Australia. N.P. Power is a specialist in renewable energy.

#### **Maungatua**

NZ Windfarms has a 16 percent stake in Windpower Maungatua Limited, which has entered into an option to acquire certain development rights to a wind farm site at Maungatua in Otago. If testing and feasibility studies are successful, the Maungatua site will be NZ Windfarms' second wind farm investment with a capacity of approximately 20 MW. Assuming that the feasibility studies which are currently in progress at the site are positive, it is anticipated the project will commence the resource consent process in the second half of 2007.

NZ Windfarms expects to provide a substantial proportion of the development funding for the project which will lead to a higher percentage shareholding in Windpower Maungatua Limited over time. Formal agreements will need to be entered into with the other shareholders of Windpower Maungatua Limited regarding ongoing contributions and shareholding levels.

#### **Other Potential Wind Farm Developments**

Presently, NZ Windfarms has approximately 75 MW of wind generation capacity under investigation across six sites. These sites are located in areas with established meteorological data confirming a high quality wind resource and are located in the lower North Island upper South Island and lower South Island. The indicative development cost for each project in the table below is based on an indicative development cost (turbine plus installation) of \$2 million per MW installed. These sites are at various stages of investigation and decisions on whether to proceed with specific sites will only be undertaken once sufficient testing and feasibility studies have taken place.

NZ Windfarms' project development pipeline:

Project	Size	Indicative Development Cost	Status
1	10 MW	\$20 million	Option Agreements in place, feasibility complete Option Agreements in place, monitoring wind resource Feasibility in progress Feasibility in progress Awaiting feasibility Awaiting feasibility
2	5 MW	\$10 million	
3	5 MW	\$10 million	
4	20 MW	\$40 million	
5	20 MW	\$40 million	
6	15 MW	\$30 million	
<b>75 MW</b>			

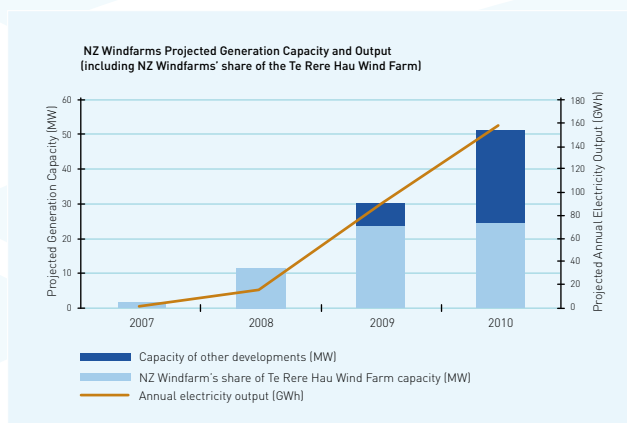
Potential sites are sourced by NZ Windfarms through a number of different methods and many are referred to the Company via its network of suppliers and consultants and others from direct contact with the land owners. The identification and evaluation of potential sites is a critical part of the Company's business. Wind farms need more than a windy site with adequate wind speeds to be profitable. Other considerations are an evaluation of construction access, the proximity to a suitable electrical connection and consenting issues. These matters all need to be considered before development work can commence. NZ Windfarms uses a number of different assessment techniques including computer modelling, GPS surveys, wind monitoring masts, site visits and stakeholder consultation in order to evaluate the potential of different locations.

The most profitable wind farms are projects which deliver the lowest cost of generation over the life of the project (i.e. the Long Run Marginal Cost). The Long Run Marginal Cost incorporates the capital cost of the development, the ongoing operational costs and the project life time. In the high speed wind environment of New Zealand, turbines face difficult and testing operational conditions. NZ Windfarms' believes that some of the European manufactured turbines record operating hours at a much faster rate in New Zealand wind conditions than contemplated by their design lives based on European wind conditions. The Long Run Marginal Cost of wind generation is higher for turbines with shorter project lives than for turbines with longer project lives, which are able to spread the capital cost over a greater operating life.

NZ Windfarms' medium term focus is on the development of opportunities in New Zealand. However, in the longer term NZ Windfarms will give consideration to value adding projects offshore, particularly in the Pacific Islands and North America, where higher electricity prices are available in good wind generating areas.

## NZ Windfarms Projected Generation Capacity and Output

NZ Windfarms' projected generation capacity and annual electricity output for the four financial years ending 30 June 2010 are set out in the graph below.



The Company is projecting its share of generation capacity at the Te Rere Hau Wind Farm to increase by 10MW in 2008. By 2010, the Company's total generation capacity is expected to be approximately 50MW based on its share of the completed Te Rere Hau Wind Farm and an additional 26MW of capacity added from other wind farm developments. The Company's total electricity output is expected to reach approximately 159 GWh per annum by 2010. These assumptions have been determined by the Company in a manner consistent with the Company's general and specific assumptions in Section 7 "Prospective Financial Information" and should be read in conjunction with Section 9 "Trade Factors and Risks" of this Offer Document.

### Turbine Supply and Selection

Wind energy has been outlined by the Government as the preferred resource for new electricity generation facilities. As projects in the current pipeline are developed, turbine supply is expected to continue tightening as the demand for turbines continues to outstrip supply.

Hence, the Company has maintained its strong strategic relationship with Windflow Technology, the New Zealand-based turbine design and manufacturing company that is supplying turbines for the Te Rere Hau Wind Farm. This potentially alleviates NZ Windfarms from turbine supply constraints that face other wind farm developers globally.

The high wind speeds and complex terrain of some New Zealand wind farm sites can create challenges for turbines designed for more benign environments. Some of the factors the Company has taken into account in selecting Windflow Technology's turbines for the Te Rere Hau Wind Farm are:

- The turbine has been specifically designed for New Zealand conditions.
- The turbine is a two bladed machine, making it lighter and smaller than three bladed machines (the typical design for 0.5 MW capacity).
- The turbine's torque limiting gearbox system reduces twisting forces on the turbine shaft and gearbox. In addition, the constant output speed allows the turbine to use a standard synchronous generator.

- A synchronous generator enables much simpler connection to electrical network or often allows a connection to be made where other turbine designs cannot be connected.
- In locations where reactive power has a value, NZ Windfarms can sell both real and reactive power, the latter being available at any time (even when there is no wind). This in turn improves the carbon yield for the wind farm.
- The sale of ancillary services such as the sale of reactive power to local lines companies (typically) can provide additional revenues for the Company.

For further information on the technical capability of the turbines refer to Section 10 "Technology Report" of this Offer Document. This report identifies certain issues with the turbines. In the view of NZ Windfarms these issues have been addressed.

The Company entered into the Turbine Purchase Agreement with Windflow Technology for the supply of Windflow 500 turbines for the Te Rere Hau Wind Farm. This agreement was transferred to the Te Rere Hau Joint Venture which is now committed to purchasing a further 92 turbines, subject to the turbines continuing to meet their contractual levels of performance and the other terms of the agreement. The contract also contains a five year warranty provision and a five year repair and maintenance arrangement at commercial terms with Windflow Technology. A description of the Turbine Purchase Agreement is contained in Section 14, paragraph 14.17(d) of this Offer Document.

With each new project the Company will determine the most appropriate turbine make and model for that wind farm site. A Board subcommittee, the Procurement Committee, will be established to oversee this procurement of turbines and is expected to comprise three NZ Windfarms directors that are independent of Windflow Technology. NZ Windfarms has a preferred supplier/preferred customer arrangement with Windflow Technology for the supply of turbines to 2010 and the Procurement Committee will have regard to these arrangements in making any decision regarding the purchase of turbines.

### Hedging Strategy

New Zealand's demand for electricity is predicted to continue to rise over the medium to long term. A significant proportion of New Zealand's existing large-scale generation facilities are nearing the end of their life cycle. As a result, electricity supply appears likely to trail demand growth in the short to medium term.

Currently the price of electricity is largely driven by gas prices, which are expected to rise as gas reserves (such as Maui) start to decline.

Although wind levels on an annual basis are not as variable as annual rainfall, wind generation occurs only when the wind is blowing sufficiently and cannot be stored. This means not all price risk can be removed through normal hedging strategies.

For all these reasons the Board does not intend to hedge the Company's exposure to wholesale electricity prices during the development phase. This increases NZ Windfarms' exposure to expected rises in electricity price movements due to increased demand, Government policies on greenhouse gas emissions, higher gas prices

and dry years. This strategy also increases NZ Windfarms' exposure to both positive and negative spot pricing outcomes.

#### **Capital Structure and Dividend Policy**

The Company intends to fund its share of the Te Rere Hau Wind Farm development costs and the development costs of new wind farms from the proceeds of the Offer. This provides increased financial flexibility for the Company during the development phase and in periods of low wholesale electricity prices.

Over the long term, as the Company transforms into a utility type investment, use of term debt will be considered to lower the cost of capital of the business and improve shareholder returns.

No dividends are expected to be paid in the financial years ending 30 June 2007 and 30 June 2008. The Company's intended dividend policy is to pay 50 percent of the Operating Free Cash Flow earned from the sale of electricity to shareholders from the financial year ending 30 June 2009 onwards. The Directors retain the right to adjust the dividend policy should it be in the interests of the Company to do so.

#### **Investment of Funds Pending Development**

Prior to the deployment of funds into new wind farm projects and other uses (described in Section 1 "Description of the Offer" of this Offer Document), the Company will invest funds in short-term cash securities in the Company's name with major registered New Zealand banks.

#### **Development and Other Risks**

NZ Windfarms faces a number of different types of risks that individually, or in combination, may strain the financial resources of the Company and/or delay its wind farm development activities and consequently delay or diminish the financial returns expected from these wind farm development activities. This strain or delay may be significant. Investors should carefully read Section 9 "Trade Factors and Risks" of this Offer Document before deciding to invest in NZ Windfarms.





## Section 6: Board and Senior Management



The Board of NZ Windfarms is responsible for the strategic direction of the Company, compliance with NZSX Listing Rules, and ensuring the Company reaches performance targets properly managed to protect and enhance Shareholders' interests. Some of the key responsibilities of the Board include:

- Develop the strategic direction of the Company, in conjunction with the Company's senior management team.
- Monitor the Company's operational and financial performance and achievement of strategic goals
- Ensure the Company develops effective policies and procedures concerning disclosure of important information to the market and Shareholders.
- Ensuring the Company's compliance with financial reporting standards, NZ's regulatory environment and Listing Rules.

The Board has adopted what it believes are appropriate corporate governance policies and procedures, which are reviewed regularly to ensure that the Company's responsibilities and obligations are met. The principal corporate governance policies concern:

- The appointment and retirement of Directors.
- The composition and performance of the Board.
- Directors' access to independent professional advice.
- The Constitution and operation of Board committees, comprising Directors, and in some cases, representatives of senior management. The Board has formally constituted an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee.
- On completion of the Offer, the Board will formally constitute a Procurement Committee.

The Board currently comprises five Directors, all of whom are non-executive, and three of whom are independent (as defined in the NZSX Listing Rules).

The Board of NZ Windfarms formally meets not less than 11 times during the financial year and holds additional meetings to consider strategic issues facing the Company.

The Directors and senior management details in this Section are current as at the date of this Offer Document.



# Directors

## **Derek Walker, Non Executive Chairman, Independent**

Derek has an Honours degree in electrical engineering and is a member of the Institute of Professional Engineers from New Zealand. He also holds a Bachelor of Business Studies degree with a major in marketing and is a member of the Institute of Directors in New Zealand. Derek is presently a professional company director and business consultant with previous experience in a variety of senior management positions to Chief Executive level. His association with wind farms began in 1998 with the building of the Tararua Wind Farm when he was Chief Executive Officer of CentralPower Limited, which funded and built the farm (it has since been sold to TrustPower Limited). Derek is presently a director of a number of other companies including Third Bearing Limited, Palmerston North Airport Limited, Quotable Value Limited, The Bio-Commerce Centre Limited and several private companies. Derek is a trustee of the Central Energy Trust.

## **Vicki Buck, Non-Executive Deputy Chair, Independent**

Vicki has a Masters degree in political science and an honorary Doctorate in Commerce. She was Mayor of Christchurch from 1989 until she stood down in 1998. Vicki is heavily involved in renewable energy companies and is a director of Aquaflow Bionomic Corporation Limited, Celsius Limited and a number of other companies. She is a former director of Windflow Technology, the Reserve Bank, Christchurch City Holdings Limited and was a member of the Prime Minister's Science and Innovation Advisory Council. She chairs the NZ Learning Discovery Trust which has established two new state schools in Christchurch based on discovery learning.

## **Juliet McKee, Non Executive Chair Audit & Risk, Independent**

Juliet has a Bachelor of Arts degree in economics and is an Accredited Fellow of the Institute of Directors in New Zealand. Her previous board experience covers a range of organisations including private companies, state owned enterprises, statutory bodies, not-for-profit organisations and school boards. Juliet is a former Chairman of the Wellington branch of the Institute of Directors and a former member of the New Zealand Institute of Directors Council. Juliet's primary focus is economic and strategic planning and advising on corporate governance structures, both in New Zealand and offshore (Asia, Africa, Middle East and the Pacific). Juliet was appointed as an Honorary Fellow to the School of Government at Victoria University of Wellington in 2004. She was awarded the Commonwealth Medal in 1990 for services to the Community and the Queen's Service Order for public services in 1996. Juliet is Chair of the Company's Audit & Risk Committee.

## **Barrie Leay, Non Executive Director**

Barrie was, until mid-1997, Executive Director of the Electricity Supply Association of New Zealand. Subsequently, he was elected as the founder Chairman of the Asia-Pacific Economic Cooperation Energy Business Network in the Asia Pacific region, where he has been a leading figure in the reforms of electricity industries and the establishment of competitive electricity markets in New Zealand and other Asia-Pacific Economic Cooperation economies. Barrie is currently Chairman of Windflow Technology Limited and is a director of Aquaflow Bionomic Corporation Limited, Bio Refineries Limited, ThePacific.net Limited, Ecodyne Limited, ASCE Corporation Limited, Suntech Power Limited and several other companies.

## **Keith McConnell, Non Executive Director**

Keith has a Commerce degree in accounting and marketing. Keith served as Chief Executive Officer of a number of commercial entities over the last 20 years including John Edmond Limited, Donaghy Downs Pty Limited, The Power Company Limited, United Electricity Limited, and Paykel Limited. During his tenure with The Power Company Limited, Keith sponsored a wind testing programme at three sites in Southland, one of which was the White Hills site, the location of Meridian's new wind farm. Keith now works from Auckland as a company director and business advisory consultant.

## **Additional Director Appointments**

The subscription agreement between NZ Windfarms and Vector Limited (described in more detail in Section 14, paragraph 14.17(l) of this Offer Document) requires NZ Windfarms, so long as Vector Limited holds at least 15% of the Shares, to appoint two directors to the Board. The appointments will remain in place until NZ Windfarms' next annual meeting, where the Vector Limited nominated directors will be entitled to seek re-election by Shareholders.

## **Senior Management**

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### **Chris Freear, Chief Executive Officer**

Chris is a double graduate with degrees in engineering and management science. He has worked in the energy industry for the majority of a career spanning a dozen different roles covering everything from energy efficiency to LPG, natural gas to business development, engineering design, project and key account management. Prior to joining Windflow Technology in 2003, Chris managed his own consulting company where he continued his work in the sustainability and energy efficiency arenas. Chris was appointed Chief Executive Officer of NZ Windfarms shortly after the Company's formation in June 2004. Since this time he has seen NZ Windfarms grow to become the second largest publicly owned operator of wind farm assets in New Zealand. Chris has also been a director of the New Zealand Wind Energy Association since 2004 and chairs the Little River Railtrail Charitable Trust.

### **Andrew McCarthy, Projects Manager**

Andrew has an environmental engineering degree with first class honours and an MBA with Distinction. He has a background in environmental monitoring, resource consent procurement and compliance, civil works contract design, preparation and supervision. He joined NZ Windfarms in May 2006 as Projects Manager where he is responsible for managing the construction process for the Te Rere Hau Wind Farm and business analysis. Andrew is also a Chartered Professional Engineer and a member of the Institute of Professional Engineers of New Zealand (IPENZ).

## NZ Windfarms' Share Option Scheme

NZ Windfarms proposes to adopt the NZ Windfarms' Share Option Scheme for individuals identified below who hold key executive and non-executive positions with the Company. The NZ Windfarms' Share Option Scheme is intended to create an incentive for, and enable the Company to retain, these key persons by conferring on them the right to participate in the equity of the Company.

The NZ Windfarms' Share Option Scheme provides for the issue of options in the Company, which when exercised will entitle the holder of the options to be issued one Share in the Company per option. The maximum number of options available will be not more than two percent of the issued Shares of the Company from time to time.

The issue of the options to Directors is conditional upon the successful completion of the Offer (which requires the approval of Shareholders) and is subject to the approval of Shareholders at a Special General Meeting.

The NZ Windfarms' Share Option Scheme will provide for the initial issue of options to the Directors named below.

• Derek Walker - Chairman of the Board	100,000
• Vicki Buck – Director	100,000
• Juliet McKee – Director	100,000
• Barrie Leay – Director	100,000
• Keith McConnell - Director	100,000

The Company is also proposing to issue 250,000 options to Mr Chris Freear. No Shareholder approval is required for that issue.

The price payable by the option holder on exercise of the options is \$1.10 per share, being the Issue Price of the Shares in the Offer. The options can be exercised in the period from 1 July 2010 to 30 June 2012. An employee will lose his or her rights to exercise options if the employee's employment is terminated. A Director will lose his or her rights if the Director ceases to be a director because he or she is disqualified from holding the office of director pursuant to the Companies Act. However, if an employee or Director ceases to be entitled to exercise options in the circumstances referred to above, the Board may exercise a discretion to permit the options to continue. The options may only be exercised if the Company's share price at the time of exercise meets specified growth targets, and any other pre-conditions to the exercise of the options being satisfied. The growth targets include that the Company's share price increases by ten percent per annum (on a compounding benchmark basis), but adjusted for part years and dividends declared but unpaid. The options will also be able to be exercised at any time if there is a change of control of NZ Windfarms. A change of control will occur if a person, or group of associated persons, acquires 50 percent or more of the shares carrying votes in NZ Windfarms.

The securities (comprising options) to be issued under the NZ Windfarms' Share Option Scheme are not issued pursuant to this Offer Document. They are issued pursuant to the rules of the NZ Windfarms' Share Option Scheme and a separate prospectus to be registered under applicable laws. The other terms of the NZ Windfarms' Share Option Scheme are outlined in the rules of the NZ Windfarms' Share Option Scheme, details of which are available by contacting:

Mr Chris Freear  
Chief Executive Officer  
NZ Windfarms Limited  
level 5, 315 Manchester Street  
Christchurch  
Phone: 03 943 5410  
Fax: 03 943 5411

# SECTION 7: Prospective Financial Information

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## Introduction and Basis of Preparation

The prospective financial information included in this Section 7 is the consolidated group position of NZ Windfarms and includes a prospective consolidated balance sheet, a prospective consolidated income statement, a prospective consolidated statement of changes in equity and a prospective consolidated statement of cash flows. Also included are assumptions for the prospective financial information.

The prospective financial information covers the best estimate scenario of NZ Windfarms' activities based on a number of assumptions detailed later in this Section 7.

**The Board expects actual results will vary from the prospective financial information results due to the non-occurrence of anticipated events or alternatively events occurring that were not anticipated, and the variations may be material. Furthermore, various risk factors and the management of those risks (see Section 9 "Trade Factors and Risks" of this Offer Document) may influence the success of NZ Windfarms' business.**

The prospective financial information was prepared and authorised by the Directors as at 7 May 2007 for use in this Offer Document. Actual results to 31 December 2006 have been included in this prospective financial information.

A description of NZ Windfarms' operations and activities is contained in Section 5 "About NZ Windfarms" of this Offer Document.

This current prospective financial information has been prepared for the purposes of this Offer Document and is an update of the previous prospective financial information incorporated in the NZ Windfarms' 2005 Prospectus. There is no present intention to update this current prospective financial information. The information may not be appropriate for purposes other than for use in this Offer Document. NZ Windfarms will report actual financial results against prospective financial information in accordance with Financial Reporting Standards and regulation 23A of the Securities Regulations 1983.



## Consolidated Prospective Balance Sheet

As at	30 June 2007 NZ IFRS NZ\$'000	30 June 2008 NZ IFRS NZ\$'000
<b>Assets</b>		
<b>Non-current</b>		
Property, plant and equipment	6,436	39,518
Investments	5	5
Intangible assets	292	288
	<b>6,733</b>	<b>39,811</b>
<b>Current</b>		
Trade and other Receivables	143	812
Income Tax	33	-
Cash and cash equivalents	71,390	42,408
	<b>71,566</b>	<b>43,220</b>
<b>Total assets</b>	<b>78,299</b>	<b>83,031</b>
<b>Equity</b>		
<b>Equity attributable to shareholders</b>		
Share capital	77,978	77,978
Share options issued	26	61
Retained earnings	(82)	2,057
<b>Total equity</b>	<b>77,922</b>	<b>80,096</b>
<b>Liabilities</b>		
<b>Non-current</b>		
Deferred tax	90	791
	90	791
<b>Current</b>		
Trade payables and accruals	106	128
Income tax	-	470
Retentions	181	1,546
	287	2,144
<b>Total liabilities</b>	<b>377</b>	<b>2,935</b>
<b>Total equity and liabilities</b>	<b>78,299</b>	<b>83,031</b>

## Consolidated Prospective Income Statement

For the period	12 mths to 30 June 2007 NZ IFRS NZ\$'000	12 mths to 30 June 2008 NZ IFRS NZ\$'000
Electricity Sales	103	1,139
Other Income	240	240
<b>Total income</b>	<b>343</b>	<b>1,379</b>
Audit fees	12	15
Directors fees	117	202
Employment expenses	337	604
Lease and rental expenses	57	95
Other operating expenses	566	787
<b>Operating expenses (excluding depreciation and amortisation)</b>	<b>1,089</b>	<b>1,703</b>
<b>Earnings before interest, tax, depreciation and amortisation</b>	<b>(746)</b>	<b>(324)</b>
Amortisation of intangible assets	(8)	(4)
Depreciation	(70)	(411)
<b>Earnings before interest and tax</b>	<b>(824)</b>	<b>(739)</b>
Interest income	390	4,087
Interest expense	(66)	(38)
Gain on transfer of assets to JV	1,081	-
Loss on recognition of property for resale at fair value	(43)	-
<b>Result for year</b>	<b>539</b>	<b>3,310</b>
Taxation	104	1,171
<b>Net result for year</b>	<b>435</b>	<b>2,139</b>

## Consolidated Prospective Statement of Changes in Equity

For the period	12 mths to 30 June 2007 NZ IFRS NZ\$'000	12 mths to 30 June 2008 NZ IFRS NZ\$'000
<b>Equity at beginning of year</b>	3,995	77,922
Net result for the period	435	2,139
<b>Total recognised income and expense for the period</b>	<b>435</b>	<b>2,139</b>
Issue of ordinary shares	73,466	-
Issue of share options	26	35
<b>Equity at end of period</b>	<b>77,922</b>	<b>80,096</b>
<b>Represented by:</b>		
Share capital	77,978	77,978
Issue of share options	26	61
Retained earnings	(82)	2,057
<b>Total equity</b>	<b>77,922</b>	<b>80,096</b>

## Consolidated Prospective Statement of Cash Flows

For the period	12 mths to 30 June 2007 NZ IFRS NZ\$'000	12 mths to 30 June 2008 NZ IFRS NZ\$'000
<b>Operating activities</b>		
<i>Cash was received from:</i>		
Trading Revenue	404	1,380
Interest received	396	4,087
	<b>800</b>	<b>5,467</b>
<i>Cash was applied to:</i>		
Interest paid	48	38
RWT paid	6	-
Payments to suppliers and employees	1,029	2,043
	<b>1,083</b>	<b>2,081</b>
<b>Net cash inflow (outflow) from operating activities</b>	<b>(283)</b>	<b>3,386</b>
<b>Investing activities</b>		
<i>Cash was provided from:</i>		
Transfer of Assets to JV	2,443	-
Sale of fixed assets	674	-
	<b>3,117</b>	<b>-</b>
<i>Cash was applied to:</i>		
Purchase of fixed assets	7,503	32,368
Interest capitalised during windfarm construction	<b>7,503</b>	<b>32,368</b>
<b>Net cash inflow (outflow) from investing activities</b>	<b>(4,386)</b>	<b>(32,368)</b>
<b>Financing activities</b>		
<i>Cash was provided from:</i>		
Issue of ordinary shares	78,738	-
Half share of capital contribution in JV	1,493	-
	<b>80,231</b>	<b>-</b>
<i>Cash was applied to:</i>		
Issue costs of equity	5,262	-
Purchase of investments	5	-
Repay Windflow Technology loan	869	-
	<b>6,136</b>	<b>-</b>
<b>Net cash inflow (outflow) from financing activities</b>	<b>74,095</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents	69,426	(28,982)
Cash and cash equivalents, beginning of year	1,964	71,390
<b>Cash and cash equivalents, end of year</b>	<b>71,390</b>	<b>42,408</b>
<b>Cash and cash equivalents</b>		
Bank account	71,390	42,408
<b>Ending cash and cash equivalents carried forward</b>	<b>71,390</b>	<b>42,408</b>

## Assumptions to the Prospective Financial Information

The prospective financial information covers the years ending 30 June 2007 and 30 June 2008 and is based on events and conditions existing at the date of this Offer Document. The prospective financial information complies with the requirements of FRS 42 and assumes the following.

### A. General Assumptions

#### 1. Reporting Entity

The prospective financial statements are for the economic entity comprising NZ Windfarms and its wholly owned subsidiary NZWL-TRH Limited. NZWL-TRH Limited holds a 50 percent interest in the Te Rere Hau Joint Venture.

#### 2. Economic Environment

There will be no material change in the general economic environments of New Zealand.

#### 3. Legislative and Regulatory Environment

There will be no material change in the legislative or regulatory environments in which the Company operates.

#### 4. Industry Conditions

There will be no material changes to competitive activity, industry structure, general industry conditions or the employee and independent contractor environments in the markets in which the Company operates.

#### 5. Competitive Environment

There will be no material change to the competitive markets in which the Company operates, nor any change in competitor activity. No new entrants will materially change the competitive environment.

#### 6. Taxation

There will be no change to the New Zealand corporate tax rate of 33 percent.

#### 7. Technology

There will be no significant technical problems that would cause delays in the Company's construction program or turbine performance during the prospective period.

#### 8. Key Personnel and Consultants

During the prospective period, all key personnel and consultants will remain in the employment of, or be available to, the Company and following the Offer the management team will be strengthened as the Company requirements increase.

#### 9. Key Customers and Suppliers

Existing contractual, business and operational relationships with key customers and suppliers are assumed to continue throughout the periods covered by the prospective financial information.

### B. Specific Assumptions

#### 1. Subscribed Funds and Capital

The prospective financial information includes the following capital raising assumptions:

- The Company will complete the \$75 million equity capital raising in June 2007.
- The consideration for the Shares shall be \$1.10 per Share.
- The Shares Offered will be taken up in full.
- The Company will pay costs directly attributable to the Offer of \$5.3 million and this will be accounted for as a reduction in equity.

This Offer Document offers new Shares and the proceeds of the Offer are to be used in the funding of contributions to the Te Rere Hau Joint Venture and the development of further wind farms. NZ Windfarms' prospective financial information sets out its 50 percent share of intellectual property, tangible assets and share of net income or loss from the Te Rere Hau Joint Venture. The prospective financial information also includes additional activities involved with anticipated prospecting for new wind farm opportunities by NZ Windfarms.

The prospective financial information also includes 3.4 million Shares issued during September 2006. This was the result of share options from the 2005 capital raising being exercised and converted to Shares at \$1.10 per Share.

Share issues may only be made in accordance with the relevant provisions of the Companies Act, Securities Act 1978 and Listing Rules. The prospective capital structure is included as an input to the prospective financial information and to illustrate how the structure could feasibly evolve.

#### 2 Te Rere Hau Joint Venture

On 6 October 2006 NZ Windfarms executed the Joint Venture Agreement with N.P. Power, Babcock & Brown Windpower and their special purpose company NPBB Pty Limited. The purpose of the Te Rere Hau Joint Venture is to develop and operate the Te Rere Hau Wind Farm. As a result NZ Windfarms has a 50 percent share of the Te Rere Hau Wind Farm. The nature of this transaction is described in Section 11 "Historical Financial Information" of this Offer Document.

NZWL-TRH Limited was incorporated on 4 December 2006 for the purpose of holding NZ Windfarms' interest in the Te Rere Hau Joint Venture. For the purposes of clause 11(2) of the Securities Regulations 1983 there is no prior accounting period information and the consolidated accounting position is reflected in this prospective financial information.



### 3 Issue Costs of Equity

Capital raising issue expenses are estimated to amount to \$5.3 million including audit, legal, printing, document preparation, travel, marketing, NZX costs, underwriting, lead management and brokerage costs.

### 4 Projected Generation Capacity and Output

Planned completion of installed turbines (in MW) is:

	12 months to 30 June 2007 Prospective	12 months to 30 June 2008 Prospective
<b>Incremental Installations (MW)</b>		
Te Rere Hau		
Joint Venture - 50%	-	10.00
<b>Cumulative Installed (MW)</b>		
Te Rere Hau		
Joint Venture - 50%	1.25	11.25
<b>Electricity Output (GWh)</b>		
Te Rere Hau		
Joint Venture - 50%	2.47	16.57

### 5 Construction Costs

Construction costs have been based on quotes and estimates as gathered by NZ Windfarms' management based on proven experience encountered in the construction of Stage One. The planned capital expenditure is:

	12 months to 30 June 2007 Prospective NZIFRS NZ\$'000	12 months to 30 June 2008 Prospective NZIFRS NZ\$'000
Fixed asset additions	5,040	33,492

The prospective cash flow statement to 30 June 2007 incorporates a cash flow for fixed asset addition of \$7,503,000. The difference to the above figure reflects the settlement of the Te Rere Hau Joint Venture transaction relating to the joint venture establishment.

The above construction costs include the Company's progress payments on stages three and four of the Te Rere Hau Joint Venture and progress payments on turbines for a second wind farm.

The majority of the projected capital expenditure relates to the cost of turbines. The projected cost of turbines is based on the Turbine Purchase Agreement with Windflow Technology as set out in Section 14, paragraph 14.17(d).

Five turbines have been commissioned at April 2007. The project assumes that 14 more turbines will be commissioned by January 2008 and the cost per turbine has been set at \$787,500 (excluding GST) under the Turbine Purchase Agreement. A further 26 turbines are projected to be commissioned by 30 June 2008. The cost of these turbines has not yet been fixed and has been assumed to be \$760,000 (excluding GST) per turbine in the prospective financial information. The lower price of future turbines is based on the assumption that savings will be made by Windflow Technology moving from a batch production model to a continuous model and that this will result in a lower

turbine cost to the Company.

### 6 Windflow Technology Loan

It is assumed that the loan received from Windflow Technology will be fully repaid before 30 June 2007.

### 7 Investments

The prospective financial information for the year ended 30 June 2007 shows the purchase of 16 percent of the issued capital in Windpower Maungatua Limited for \$5,000.

### 8 Power Revenue

Revenue is recognised when power or services are provided to customers. Power revenue is calculated based on an energy price per GWh output generation per turbine. The GWh output per turbine is calculated below and takes into account the availability of turbines assumed to be 98 percent (as some turbines will not be available to produce energy due to regular maintenance or breakdown) and a seven percent loss of power through wake and transmission losses. Average output per turbine is assumed to be 1.91 GWh per turbine over the projection period. The average output per turbine is expected to decline as stages three and four are completed on the lower part of the Te Rere Hau Wind Farm. These stages have lower wind speeds. The average wind speed over the period is assumed to be 10.58 meters per second.

Up until December 2007, power revenue is constrained by the current capacity of the connecting power line to the grid. The prospective financial information assumes that the current line capacity allows approximately 54% of the total maximum power produced to be transmitted and therefore sold. The prospective financial information includes the construction of a power line by December 2008 that will deliver all power produced by the current and future turbines for the remainder of the project.

Energy prices included in the prospective financial information are included at spot market prices. Spot energy prices are based on data from the Ministry of Economic Development Report, New Zealand's Energy Outlook to 2030.

The Board have incorporated a spot power price of 7.40 cents per kilowatt over the period of the prospective financial information based on the Ministry of Economic Development report dated September 2006.

### 9 Management Fee Income

Other income represents management fees received by the Company for the operational management of the Te Rere Hau Joint Venture in accordance with the Management Services Agreement set out in Section 14.17, paragraph 14.17(h). The cost of management fees is capitalised as a cost of construction within the Te Rere Hau Joint Venture. The prospective financial information recognises the Company's 50 percent share on consolidation.

### 10 Line Charges

The prospective financial information includes line charges for power lines to connect the wind farms to the grid. The capital cost of building lines has been

included in the prospective financial information as cost of construction.

Once constructed each new connection will be subject to monthly maintenance and use charges and is included in other operating expenses.

#### **11 Employee Costs**

Employment costs for 2008 incorporate the cost of the Chief Executive Officer, the projects manager, a financial controller, consents planner and various administrative staff.

#### **12 Other Operating Costs**

Other operating costs of the Company are analysed as follows:

- Annual maintenance expenses projected at \$22,720 per MW installed.
- Insurance expenses based on 0.45 percent of the cost of fixed assets.
- Prospecting costs at \$200,000 for 2008
- Compliance and operation monitoring projected at \$8,800 per MW installed.
- Easement costs are calculated as a royalty percentage of gross sales of electricity. The royalty costs are treated as lease payments for the purposes of accounting disclosure.
- The balance of costs is represented by corporate overhead.

#### **13 Operating Free Cash Flows**

The Te Rere Hau Joint Venture will provide 50 percent of its operating cash flows to NZ Windfarms. Operating cash flow is defined as:

- Net cash received from sales of electricity, carbon credits and other income less net cash operating expenses. GST has been taken out of operating cash flow because GST is a timing effect only and has no effect on the cash available to distribute to shareholders. Interest income is excluded from the calculation of operating cash flow.
- The share of net operating cash flow received by NZ Windfarms from the Te Rere Hau Joint Venture is added to the net operating cash flows generated by NZ Windfarms to ascertain total net operating cash flows for the purposes of the dividend policy.

The Company has a dividend policy of paying to Shareholders 50 percent of its Operating Free Cash Flow.

#### **14 Interest Received and Paid**

Assuming the funds from the Offer are fully subscribed, the Company will have surplus funds. The surplus funds are assumed to be placed on deposit with financial institutions which have Standard & Poor's ratings that are investment grade. For the purpose of this prospective financial information, it has been assumed that these surplus funds will return an interest rate of 7.0 percent per annum on funds on deposit.

The Company's 50 percent share of the interest expense incurred in the Te Rere Hau Joint Venture in relation to the Tararua Windpower Limited connection

is included in the prospective financial information. For the purpose of this information, it has been assumed that the interest rate is 4.3 percent per annum.

The Company currently has no overdrawn current account and plans not to have one for the period covered by the prospective financial information.

#### **15 Income Tax Payable**

It is assumed that there will be tax payable as the Company generates interest income on funds invested for the years ended 30 June 2007 and 30 June 2008. Accumulated tax losses will be lost upon shareholding continuity changing with the Offer.

#### **16 Dividends**

Dividends included in the prospective financial information are based on 50 percent of Operating Free Cash Flow as described in paragraph 13 above. Operating Free Cash Flow includes 50 percent of the operating cash flow from the Te Rere Hau Joint Venture. Dividends will be paid only if the opening cash balance is in funds.

No dividends are planned for the period covered by the prospective financial information notwithstanding there will be significant interest income.

#### **17 Taxation Considerations for Shareholders**

To the extent dividends paid by NZ Windfarms to Shareholders have less than the maximum allowable imputation credits attached, those dividends will be subject to resident withholding tax for New Zealand resident Shareholders and non-resident withholding tax for non-resident Shareholders. It is assumed for the period covered by the prospective financial information that the Company will generate taxable income due to receiving interest income.

#### **18 Currency and Inflation**

The financial model has been prepared in New Zealand dollars and by prospective financial information and assumes a general inflation rate of two percent per annum.

#### **19 Share Options**

It is assumed that the issue of options in the Company under the NZ Windfarms' Share Option Scheme will be prior to 30 June 2007. It is proposed to issue options to individuals that hold key executive and non-executive positions with the Company over the period covered by the prospective financial information. The terms of the NZ Windfarms Share Option Scheme are summarised in Section 6 "Board and Senior Management" of this Offer Document. The options have been valued using the Black Scholes model. The financial effect has been incorporated in directors' remuneration and employment expenses.

#### **20 Accounting Policies**

The Company's accounting policies will remain consistent throughout the periods covered by the prospective financial information. It is also assumed there will be no material change in New Zealand GAAP during this period. The Company's existing accounting policies are displayed in the historical financial statements for the period to 31 December 2006 contained in Section 11 "Historical Financial Information" of this Offer Document.

## Sensitivity Analysis

The prospective financial information for the years ending 30 June 2007 and 30 June 2008 is sensitive to variations in certain assumptions used in its preparation. A summary of the likely effect variations to certain assumptions may have on the prospective financial information is detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes but are best estimate based on current information.

Care should be taken in interpreting the information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the impact of which is not reflected in the prospective financial information. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which is not reflected in the prospective financial information.

The factors that NZ Windfarms believes have the most significant impact on projected financial performance are the wholesale power price, wind speed and the availability of turbines to generate electricity. The levels of sensitivity shown in the tables below are, in the Company's view, representative of the level of variability of each of these factors.

### 1. Power Price Sensitivity

The graph in Section 9 "Trade Factors and Risks" of this Offer Document illustrates the variability of power prices over a period of time. In this Section the paragraph "Price Achieved by the Company for the Sale of Electricity" sets out the risks for the Company of movements in the electricity price.

	Base case	-15%	-30%	15%	30%
Electricity wholesale price scenario (c/kWh)	7.40	6.29	5.18	8.51	9.62
Projected annual generation 2008 (GWh)*	16.57	16.57	16.57	16.57	16.57
2008 Gross revenue (excluding interest income)	1,379	1,208	1,037	1,550	1,721
percentage change		-12.4%	-24.8%	12.4%	24.8%
2008 EBITDA	(324)	(492)	(661)	(155)	13
percentage change		-51.9%	-104.0%	52.2%	104.0%

### 2. Wind Speed Sensitivity

Wind is a natural resource and inherently the speed of wind may vary from time to time over any particular wind farm site. Instantaneous windspeed is inherently very variable. In accordance with the The Ministry of Commerce (1993) New Zealand Energy Information Handbook, when summed over climatic seasons or calendar years, records indicate that windspeeds are relatively consistent. The research referred to suggests a 1 in 20 year low for wind energy that is 10% below the long run mean. The initial determination of wind speed for the Te Rere Hau Wind Farm has been determined using data collected from a 45 metre anemometer mast over an 18 month period. This was combined with detailed topographical contour data using a WAsP computer modelling package to predict the wind speed at each turbine location and therefore the projected mean wind speed for the whole development. The assumption below and the sensitivity levels are the average wind speed per annum.

	Base case	-5%	-10%	5%	10%
Windspeed (m/s @ 30 m)	10.58	10.05	9.52	11.11	11.64
Projected annual generation 2008 (GWh)*	16.57	15.17	13.78	17.97	19.37
2008 Gross revenue (excluding interest income)	1,379	1,282	1,185	1,476	1,573
percentage change		-7.0%	-14.1%	7.0%	14.1%
2008 EBITDA	(324)	(419)	(515)	(228)	(133)
percentage change		-29.3%	-59.0%	29.6%	59.0%

### 3. Turbine Availability Sensitivity

The availability of installed turbines on the Te Rere Hau Wind Farm has been above the warranted level of 95% availability. The sensitivity of the projections to a major climatic event that results in low levels of turbine availability has been illustrated by the inclusion of -25% and -50% scenarios below. The paragraphs "Turbine Operating Risk", "Extreme Weather" and "Technology Risks" in Section 9 "Trade Factors and Risks" provide further comments on the risks and mitigating factors relevant to turbine availability.

	Base case	-2%	-4%	-25%	-50%
Turbine availability	98%	96%	94%	74%	49%
Projected annual generation 2008 (GWh)*	16.57	16.24	15.91	12.43	8.29
2008 Gross revenue (excluding interest income)	1,379	1,356	1,333	1,094	809
percentage change		-1.7%	-3.3%	-20.7%	-41.3%
EBITDA	(324)	(346)	(369)	(604)	(885)
percentage change		-6.8%	-13.9%	-86.4%	-173.1%

\* Power revenue is constrained by the capacity size of the grid connecting line. It is projected by December 2007 that a new connecting line will be completed that will transfer all power generated to the grid.

# SECTION 8: Independent Auditor's Report on the Prospective Financial Information



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9 May 2007

**Subject: Independent Auditor's Report for inclusion in the Offer Document**

Dear Directors

We have prepared this report pursuant to clause 42 of the First Schedule of the Securities Regulations 1983 for inclusion in the Offer Document to be dated 9 May 2007.

## **Director's responsibilities**

The Company's Directors are responsible for the preparation and presentation of the prospective financial information of NZ Windfarms Limited and its subsidiary (together "the Group") for the years ending 30 June 2007 and 30 June 2008, including the assumptions on which it is based.

## **Independent Auditor's responsibilities**

We are responsible for reporting in accordance with clause 42 to the First Schedule of the Securities Regulations 1983 on the prospective financial information for the years ending 30 June 2007 and 30 June 2008. We are not the Group's statutory auditors and we have no relationship with or interests in the Company or its subsidiary other than in our capacity as independent auditors of the prospective financial information.

## **Basis of opinion on the prospective financial information**

To meet our reporting responsibilities, we have examined the prospective financial information for the years ending 30 June 2007 and 30 June 2008 to confirm that, so far as the accounting policies and calculations are concerned, the prospective financial information has been properly compiled on the footing of the assumptions made or adopted by the Directors of the Company as set out on pages 32 to 34 of the Offer Document and are presented on a consistent basis with the accounting policies normally adopted by the Group.

## **Unqualified opinion on the prospective financial information**

In our opinion, the prospective financial information for the years ending 30 June 2007 and 30 June 2008 as set out in Section 7 of the Offer Document, so far as the calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the Directors of the Group as set out in Section 7 of the Offer Document and are presented on a consistent basis with the accounting policies normally adopted by the Group.

Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variations could be material. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

We completed our work for the purpose of this report on 9 May 2007 and our unqualified opinion is expressed at that date.

Yours faithfully

Auckland

# SECTION 9: Trade Factors and Risks

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NZ Windfarms is exposed to a number of different types of risks including Company specific and general investment and economic risks. This Section 9 describes the key risks considered by the Directors to be applicable to an investment in NZ Windfarms. However, it is not an exhaustive list of all possible risks associated with an investment in NZ Windfarms. The following risks, either individually or in combination, may strain the financial resources of the Company and/or delay or diminish the financial returns expected from its wind farm development activities. This strain and/or delay may be significant.

## **Company Specific Risks**

### *Price Achieved by the Company for the Sale of Electricity*

The price for the sale of electricity into the New Zealand wholesale market is volatile and it is dependent on the demand for electricity at any given time and the available supply of electricity generation at that time. Supply factors include the operational availability of thermal generation plant and operational and fuel availability of renewable generation. For example, during a low rainfall year hydro-based generation availability will be low, reducing supply and generally increasing wholesale electricity prices.

Wholesale price volatility can be alleviated by the Te Rere Hau Joint Venture entering into fixed price hedging contracts for the sale of electricity, rather than relying on the spot market to set the price. However, it is the Company's intention to remain unhedged due to the variability of wind as an energy source which may lead to revenue variability due to fluctuating wholesale electricity prices.

Currently, New Zealand's demand for electricity is increasing faster than supply so it is likely that electricity offered for sale by the Company will be sold at an economically viable price over the long run. However, if demand was to fall, or there is an increase in cost competitive electricity generation, so that supply exceeds demand, then NZ Windfarms would receive lower prices for the electricity it generates. This would lead to lower revenue and profitability for the Company.

### *Turbine Operating Risk*

Turbine and electricity output and therefore sales revenue is affected by a number of factors. Factors include unplanned maintenance and outages, varying wind speed, and extreme weather or seismic events which may cause damage to equipment or turbines.

Availability and performance of wind turbines to specification is essential for projected wind farm revenues to be achieved. NZ Windfarms has operation and maintenance contracts with Windflow Technology which detail operating standards for the Windflow 500 turbine. The Company also has five year warranty agreements with Windflow Technology.

Despite this, the cost of repairing or replacing damaged assets may be considerable, while repeated or prolonged interruption of turbine performance may result in termination of contracts, substantial litigation and damages or penalties for regulatory or contractual non-compliance, reduced cash flows and increased funding costs.

Wind turbines and associated equipment also require routine maintenance in order to continue to function properly. If the level of maintenance (including capital) expenditure is different from that assumed or contracted for the wind farm project, it will affect the cash flow available from the project which may have a detrimental impact on NZ Windfarms.

### *Grid Connection and Transmission Risk*

Wind farms must be connected to an electricity grid to supply electricity to customers. Electricity connection involves negotiating a connection agreement with an electricity lines company and may involve negotiations with various land owners in order for poles, lines and other distribution equipment to be located on their land. As part of determining the feasibility of a wind farm site, NZ Windfarms includes in its development budget likely expenditure on connection arrangements.

For the Te Rere Hau Wind Farm a connection agreement has been entered into between the Te Rere Hau Joint Venture and Tararua Wind Power Limited (a wholly owned subsidiary of TrustPower Limited), as explained in Section 5 "About NZ Windfarms" of this Offer Document. As noted in Section 5 "About NZ Windfarms" of this Offer Document, the Te Rere Hau Joint Venture will also need to prove compliance with the Electricity Governance Rules to TransPower Limited before it will be able to export electricity via this new connection. Failure to secure approval from TransPower Limited would have a significant detrimental effect on the development and financial returns expected from the Company's share of the Te Rere Hau Wind Farm.

As a generator of electricity, a wind farm is required to meet certain technical specifications in order to be connected to the grid. If the wind farm does not comply with these specifications, or ceases to comply with them, it will not be able to connect to the grid. It can also incur liabilities and penalties for the non-technically compliant transmission of electricity. It may also be at risk of having its connection to the grid terminated unless it rectifies its non-compliance.

If a grid fails, or experiences "down time", the wind farm will not be able to deliver electricity to it. This may cause a loss in revenue for the wind farm (and potentially expose it to non-performance penalties and claims from its customers under power purchase and other agreements). The owners of the grid will not usually compensate energy generators (including wind farms) for lost income due to such down time. In relation to network failures, network



service providers and market operators may benefit from limitations of liability, therefore reducing the quantum of any recovery of damages from them.

#### *Wind and Energy Production Variability*

NZ Windfarms carries out wind speed assessments and engages expert advisors to assess likely energy production before committing to a wind farm development. If assumptions are incorrect then less electricity may be produced from a wind farm and revenue will decrease. The prospective financial information in Section 7 "Prospective Financial Information" of this Offer Document is based on expected wind generation output, which is dependent on a number of factors including availability rates and wind speed. While these factors can be forecast by analysing historical data, there is no guarantee that any particular or minimum levels of energy production will occur.

#### *Extreme Weather*

New Zealand is endowed with a world-class wind resource located in one of the windiest parts of the world<sup>21</sup> and this creates a risk that extreme weather events may damage the turbines themselves or related plant and equipment on a wind farm site. To guard against this risk the Te Rere Hau Joint Venture will arrange insurance where appropriate for the risk and cost involved.

#### *Technology Risks*

The Windflow 500 turbine being used at the Te Rere Hau Wind Farm is relatively new and as such there is a risk of equipment failure for early production runs, and risks associated with the longevity of the operational performance of the Windflow 500 turbine to its specified standards. If the wind turbines do not perform to expectation, NZ Windfarms will suffer lower revenues and adverse financial performance.

The Turbine Purchase Agreement includes five year warranty and performance provisions covering operating availability, power curve, defects and sound levels of the turbines with provisions for liquidated damages in the event of breach. The five Windflow 500 turbines currently installed on Stage One have been operating within their availability, power curve and sound level warranties since September 2006. In the event that the Windflow 500's performance is in breach of its warranty provisions as defined in the Turbine Purchase Agreement, then the Te Rere Hau Joint Venture has the right to cancel the Turbine Purchase Agreement and choose alternative turbines, thus ensuring that its planned development program can continue. However, to use alternative turbines the Te Rere Hau Joint Venture will require an amendment to its Resource Consent for the Te Rere Hau Wind Farm and the Easement.

Windflow Technology is working towards Class 1A design certification for the Windflow 500 turbine. The certification will be in accordance with the International Electrotechnical Committee Standard WT-01.2003. Class 1A is the highest possible class of certification that may be obtained.

#### *Turbine Supply*

The Te Rere Hau Joint Venture has a Turbine Purchase Agreement with Windflow Technology for the Te Rere Hau Wind Farm. In the event that Windflow Technology cannot supply turbines in accordance with the order times in the Turbine Purchase Agreement, then the construction period for the Te Rere Hau Wind Farm will be delayed. The Turbine Purchase Agreement contains various protections for the Te Rere Hau Joint Venture in the event that Windflow Technology cannot deliver turbines in accordance with an agreed delivery schedule. For example, if turbines are not installed and commissioned within 12 months of the relevant batch commissioning date (plus legitimate time extensions) or there is failure of the average turbine to achieve 90 percent availability in the first six month period following commissioning, then the Te Rere Hau Joint Venture has the option of taking full ownership of the turbines and paying for turbines already manufactured and/or supplied, or sending back all non-commissioned turbines and receiving a refund for payments made. Windflow Technology's liability is limited to the amount of the refund it is required to make to the Te Rere Hau Joint Venture. NZ Windfarms will continue to monitor progress with production of the turbines and signal to Windflow Technology its supply needs as early as possible.

There is no certainty that Windflow Technology can achieve cost reductions for manufacture on a continuous model rather than on a batch production model.

Windflow Technology and its sub-suppliers are relatively small companies. As a result, there is a risk that Windflow Technology will not have the financial capacity to stand behind warranties and to take corrective action as necessary. This would have a negative financial impact on NZ Windfarm's financial performance.

A number of large multinational companies manufacture wind turbines, offering NZ Windfarms alternative supply. However, due to strong global demand for turbines, timeframes for major suppliers are up to two years long. Should NZ Windfarms need, or choose, to use alternative suppliers of wind turbines, delays to revenues and increases to capital costs could occur.

#### *Acquiring Wind Farm Sites*

The number of economically sustainable sites in New Zealand is limited. To develop a wind farm, NZ Windfarms must have legal rights to occupy a satisfactory site, either by purchasing the site or being granted an occupancy right, such as under an easement. As sites are acquired by other wind farm operators, it is expected that the price to occupy remaining sites will increase. NZ Windfarms is planning to develop smaller wind farms for regional supply of electricity and these types of developments may not suit other wind farm developers. If so, then NZ Windfarms may be able to secure sites where it is not competing with other developers. However, there is a risk that suitable site procurement cannot be achieved, or that the cost is high. There is also a risk that the Company incurs costs in securing development rights over certain sites, and then

is unable, or decides against, erecting a wind farm on those sites, in which case the costs incurred may not be recovered.

#### *Resource Consents*

Obtaining resource consents is a critical step in establishing new wind farm sites, and consequently the success of NZ Windfarms in gaining resource consent for the Te Rere Hau Wind Farm is highly valued. As part of the resource consent process NZ Windfarms has become familiar with resource consent issues and the Company can use the benefit of this experience for resource consent applications for other sites.

The resource consent process allows the public to object to a wind farm development. Issues such as the noise of the turbines and the location and appearance of the wind farm can be seen as negative factors by the public and may lead to objections. Balancing this is the fact that the resource consent process can take into account national interest factors such as the importance of securing electricity supply from renewable sources. In particular, landowners with land in the immediate vicinity of a proposed wind farm may be more likely to object to the granting of a resource consent. To obtain the support of these landowners, it may be necessary for NZ Windfarms to negotiate a mutually acceptable arrangement where the landowner is paid compensation or NZ Windfarms purchases the landowner's land.

If the terms of a resource consent, including the Resource Consent, are not complied with, the local or regional authority can take enforcement action and this may require amendments to the relevant wind farm proposal. The amendments are likely to involve additional costs being incurred.

Typically a resource consent for a wind farm will allow monitoring of compliance with the consent on a stage by stage basis. If a completed stage does not comply with the conditions of the resource consent then development of the next stage may be delayed while remedial measures are undertaken for the previous stage.

#### *Construction and Contractor Risk*

Any wind farm development is dependent on contractors to complete the site and engineering work. To complete a development on time the contractors must work to construction schedules. Any delays in construction will mean that generation of electricity will be delayed and income will be deferred accordingly. NZ Windfarms will seek to use industry standard engineering and construction contracts where possible to ensure that it has the appropriate legal remedies for any delays that may be caused by contractors.

Additionally, delays to a wind farm development schedule for any reason is likely to defer revenue flows to NZ Windfarms and reduce its financial performance.

#### *Carbon Credit Market*

NZ Windfarms is entitled to be awarded emission reduction units from the Crown if it achieves contracted emission reduction targets under the Carbon Credits Agreement referred to in Section 14, paragraph 14.17(g) of this Offer Document. NZ Windfarms is to make any emission reduction units available to the Te Rere Hau Joint Venture and the units can then be traded in return

for cash. The actual number of emission reduction units that will be available will depend on the performance of the Te Rere Hau Wind Farm, the wind farm meeting the implementation schedule in the Carbon Credits Agreement and operating at the necessary level of availability.

Furthermore, an extension of the milestone dates in the Carbon Credit Agreement needs to be negotiated with the Crown. It is probable that NZ Windfarms will not realise its full allocation of emission reduction units. The ability to trade emission reduction units will depend on New Zealand remaining a party to the Kyoto Protocol and being able to sell the units. There is an emerging international market with liquidity gradually increasing.

#### *Government Policy and Regulation*

A sustained increase in electricity prices for the consumer may put pressure on the New Zealand Government to intervene in the operation of the electricity industry. Potential Government actions include electricity price regulation, Government investment and subsidies of competing electricity generation projects, or changes to the Resource Management Act 1991 to assist the development of large scale projects that can compete with electricity generation from wind farms.

#### *Competition*

NZ Windfarms expects competition from other wind farm sites and electricity generators. New Zealand has a large number of potential wind farm sites, however the wind farm sites are ultimately a finite resource. This could mean that over time the cost of generation rights for remaining unsecured sites are likely to rise, resulting in NZ Windfarms being unable to procure the site if it does not remain economically viable.

Recent attempts to provide more electricity generation through large-scale projects using traditional technologies, such as large thermal or hydro stations, suggests that these types of projects are unlikely to successfully gain resource consent quickly if current planning processes continue. However, if New Zealand's energy needs increase to such an extent that large scale projects are needed as a matter of national importance, it is possible that large energy projects could be undertaken and the extra supply of energy could cause a reduction in the price of electricity.

Due to the requirements of any new large scale projects to obtain the necessary consents, including under the Resource Management Act 1991, and lengthy construction periods, it is not expected that competition from large scale energy projects will arise in the near future.

Competition could also increase the cost of specific wind turbine components or whole units. Pursuant to the Turbine Purchase Agreement, as discussed in Section 14, paragraph 14.17(d) of this Offer Document, NZ Windfarms has a preferred supplier arrangement with Windflow Technology, nevertheless the risk of increased wind turbines prices remains.

#### *Availability of Funds*

The Te Rere Hau Wind Farm is now jointly owned by the Te Rere Hau Joint Venture, comprising NZWL-TRH Limited (being a wholly owned subsidiary of NZ Windfarms) and NPBB Pty Limited. The Te Rere Hau Joint Venture is

summarised in Section 14, paragraph 14.17(e) of this Offer Document. As discussed in that Section, there is a risk that NZWL-TRH Limited's share in the Te Rere Hau Wind Farm will be diluted if it cannot contribute sufficient funds for the development and operation of the wind farm. However, there may not be dilution if the unpaid amounts are less than \$0.10 million or if the default is remedied within 30 days.

#### *Litigation Risks*

As part of its ordinary business operations, NZ Windfarms will enter into substantial contracts with a number of parties, for example, contractors who develop a wind farm and purchasers of electricity. As with any business, there is a risk that disputes may arise under any such contract. Where required, NZ Windfarms will take legal advice before entering into contracts. Currently there is an outstanding adjudication process underway by Concrete Structures (NZ) Limited relating to work at the Te Rere Hau Wind Farm. This is discussed further in Section 14, paragraph 14.18 of this Offer Document.

#### *Development and Expansion Risks*

NZ Windfarms is currently a business with a limited number of staff resources in an early stage of its development. NZ Windfarms plans to manage the development of the Te Rere Hau Wind Farm from its current five turbines to 97 turbines, and increase its portfolio of wind farms. Execution of these plans will require good deployment of resources (human and capital) and strong project management skills.

The Turbine Purchase Agreement contains a provision allowing Windflow Technology to increase the base price of turbines to recover increased costs of components. The price for future turbines could increase, as could the cost of other infrastructure for the Te Rere Hau Wind Farm.

There is a risk that execution of the expansion and development plan does not proceed within budgeted cost and timeframes meaning slower development of wind farms and a delay or reduction in revenues for NZ Windfarms, and a resultant decrease in financial performance.

#### *Key Staff*

NZ Windfarms operates with small staff numbers, although this is expected to change as the Company's business expands. At present NZ Windfarms' operations are dependent on retaining key staff and plans to expand the business will depend on attracting suitably qualified staff.

NZ Windfarms has offered Chief Executive Officer Mr Chris Freear an option package consisting of 250,000 options which are exercisable between June 2010 and June 2012 as noted in Section 6 "Board and Senior Management" of this Offer Document. These options align the interests of the Chief Executive Officer with that of other Shareholders, and assist in the retention by NZ Windfarms of its Chief Executive Officer. Key man insurance of \$0.5 million has been arranged covering the death of Mr Freear. Also,

disability insurance has been arranged in respect of Mr Freear.

#### *Absence of Market for Shares and Volatility of Share Price*

There can be no assurance that the Shares will trade in the public market subsequent to the Offer at or above the Issue Price.

The market price of the Shares following the Offer may be volatile. Factors such as competition, regulatory changes, operating surplus and cash flow, general trends in interest rates, inflation, currencies, New Zealand and international equity markets and the New Zealand economy, as well as other factors, could cause the market price of the Shares to fluctuate. Such fluctuations may have a material adverse effect on the market price of the Shares.

#### *Shares Eligible for Future Sale*

No prediction can be made as to the effect, if any, that future sales of Shares, or the availability of Shares for future sales, will have on the market price of the Shares prevailing from time to time. Sales of substantial numbers of Shares, or the perception that such sales may occur, may adversely affect prevailing market prices of the Shares.

#### *Consequences of Insolvency*

Shareholders will not be liable to pay any money to any person as a result of the insolvency of NZ Windfarms or otherwise. All creditors of NZ Windfarms will rank ahead of the claims of the Shareholders in the event NZ Windfarms is liquidated. After all such creditors have been paid, the remaining assets will be available for distribution between the Shareholders in NZ Windfarms. NZ Windfarms may issue shares that rank on the liquidation of NZ Windfarms ahead of holders of the Shares. No such shares have been issued. No other person currently ranks equally with, or behind, Shareholders of NZ Windfarms.

### **General Business Risks**

#### *Economic Conditions*

NZ Windfarms' business is dependent on the sale of electricity to, ultimately, electricity retailers. New Zealand's general economic conditions will influence the ability of end-users of electricity to pay an adequate price. Therefore, factors such as the cost of turbines, consumer and producer demand, inflation and Government policy will influence the economy and affect the results of NZ Windfarms. However, as the demand for energy from renewal energy sources grows, NZ Windfarms considers that favourable conditions will exist for the sale of its electricity for the foreseeable future.

#### *Interest Rates*

Although the Company has no debt at present, a significant increase in interest rates may have an adverse effect on NZ Windfarms' financial performance and adversely impact its ability to borrow sufficient sums to fund growth in the future.

#### *Borrowing Facilities*

At the date of this Offer Document, NZ Windfarms does not have any borrowings except the loan from Windflow Technology as described in Section 14, paragraph 14.17(j) of this Offer Document. If it does incur borrowings, the

Company is exposed to the risk that it may, at some stage in the future, be unable to meet its obligations to its lenders. Any consequential restrictive actions of lenders or loss of borrowing facilities would have a material adverse impact on the Company's financial position and performance. The Company's continued ability to satisfy its obligations under its financing arrangements will depend on its financial performance.

The Company aims to mitigate the impact of adverse fluctuations in interest rates on any borrowings through the use of interest rate hedging as part of its treasury policy.

#### *Taxation Rates*

The Company's financial performance is exposed to changes in the taxation laws in New Zealand. Any change to the rate of company income tax has the potential to affect shareholder returns. Changes to the rates of income tax applying to shareholders, or the basis of taxing shareholders, may affect after tax shareholder returns.

#### *Forward Looking Statements*

Certain statements in the Offer Document constitute forward-looking statements and prospective financial information, including the assumptions described in Section 7 "Prospective Financial Information" of this Offer Document. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of the Company, or industry performance, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, among other things, general economic and business conditions, regulatory risk, power purchase arrangements, failure to acquire new wind farm sites, and other factors described in this Offer Document.

Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. In addition, under no circumstances should the inclusion of such forward-looking statements in this Offer Document be regarded as a representation or warranty by the Company, its Directors or any other person with respect to the achievement of the results set out in such statements, or that the underlying assumption will in fact be the case.

The Company disclaims any responsibility to update any such risk factors or publicly announce the result of any revisions to any of the forward-looking statements contained in this Offer Document to reflect future developments or events, other than where it is required to do so by the Securities Act 1978, the Securities Regulations 1983 or the NZSX Listing Rules. Factors that could cause such differences include, but are not limited to, those disclosed in this Offer Document.

#### **Subsidiary Companies**

NZ Windfarms may establish subsidiary companies to undertake specific developments. For the Te Rere Hau Joint Venture, the Company has established NZWL-TRH Limited to hold the relevant interest in the wind farm through the Te Rere Hau Joint Venture. The risks identified in this Section 9 will apply to the subsidiaries, including NZWL-TRH Limited.

# Section 10: Technology Report

NZ Windfarms Limited  
PO Box 13-321  
Christchurch  
New Zealand



2 May 2007

Dear Sir

Garrad Hassan and Partners Limited (Garrad Hassan) is a consulting engineering company which was formed in 1984. It specializes in wind energy. Its services cover the full range of engineering disciplines associated with wind energy. It employs 200 people working in 14 countries. It has performed due diligence studies for lenders and investors on some 25% of the world's installed wind energy capacity and has acted in a similar manner for most of the major financial transactions in recent years. It is recognised as the leading consulting engineering company in this sector.

Garrad Hassan has been requested by NZ Windfarms Ltd to provide this letter as a summary of Garrad Hassan Report 11439/BR/01, Issue E, dated April 4th 2006 (the "Review"). We have also prepared a more detailed summary for NZ Windfarms Ltd. Neither this letter nor the more detailed summary contains an update to the Review or to Garrad Hassan's opinion of the Windflow 500 "WF500".

The Review was commissioned by Windflow Technology Ltd in late 2005 particularly to review the reasons for a structural failure of the WF500 which had occurred in March 2005 in an extreme wind shift event and the design changes arising from it. Garrad Hassan considers that the design changes have thoroughly addressed the vulnerability exposed by that event and should minimize the likelihood of a recurrence.

In addition Garrad Hassan was asked to provide a general review of the WF500, and to identify any issues which would need to be addressed by Windflow Technology Ltd before seeking certification of the design to IEC WT-01.

The WF500 design concept is significantly different to that of the main body of turbines being offered on the commercial market. There are three principal features which set this turbine apart from the others:

- It has two blades and a teeter hinge which allows the rotor to execute a "see-saw" motion about the central shaft;
- The gearbox includes an innovative feature which allows some softness in the transmission through use of some hydraulic devices. This feature is known as the torque limiting gearbox;
- It uses a synchronous generator.

Garrad Hassan is familiar with these relatively unusual concepts through the involvement of its staff in the Wind Energy Group MS3 300 kW turbines. These turbines were produced in the UK from 1988-98 and can be considered as the forerunner of the WF500. Garrad Hassan has followed the WF500 design and, in general, it endorses the principles of the design. The WF500 has some significant advantages over the earlier MS3 design which has seen many machine years of service.

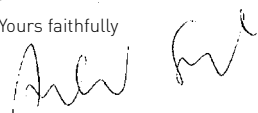
The main structural features of the turbine are considered by Garrad Hassan to be sound in concept and proven in principle but not yet in detail; some risks arise from its limited field experience compared with more orthodox designs. Furthermore Garrad Hassan identified some shortcomings and recommended corrective actions which were detailed in the Review, most of which Windflow has already taken, or was currently taking. In particular Garrad Hassan identified some details of the prototype tower design which needed to be strengthened in fatigue.

In summary, Garrad Hassan's review made numerous recommendations for design improvements. If these are properly acted upon, Garrad Hassan does not believe that there will be any fundamental design risks.

In Garrad Hassan's experience, no matter how carefully the design is made and the prototype manufactured, problems will emerge with the early production series. Garrad Hassan does not, however, anticipate that any such problems would be of a fundamental nature and hence they should be suitable for correction by re-design or by amendments to the manufacturing process.

Garrad Hassan notes that many of the sub-suppliers, and indeed Windflow Technology itself, are small companies and hence their ability to take corrective action at a later date if serial faults occur may be limited. Garrad Hassan expressed particular concern over the supplier of the blades which is a small company partly owned by Windflow Technology. Such a risk is an inherent issue in a start-up manufacturing venture such as this one, and can be partially mitigated by adopting and fully executing the disciplines required for IEC WT-01 Certification, towards which Windflow Technology and its suppliers are working, together with rigorous compliance with quality procedures.

Yours faithfully



Andrew Garrad, Director

Garrad Hassan and Partners Limited  
St Vincent's Works, Silverthorne Lane, Bristol, BS2 0QD, Tel: +44(0)117 972 9900 Fax: +44(0)117 972 9901  
Registered in England 1878456 United Kingdom

*Garrad Hassan and Partners Limited have given and not withdrawn its consent to the distribution of the Offer Document containing the above statements, in the form in which they are included. Garrad Hassan and Partners Limited and its directors are not intended to be a director, officer, an employee of, or professional advisor to NZ Windfarms.*



# Section 11: Historical Financial Information

## Summary of Financial Information

The summary financial information presented has been extracted from the audited financial statements of NZ Windfarms for the years ending 30 June 2005 and 30 June 2006, and unaudited financial statements for the period 1 July 2006 to 31 December 2006. There is no summary financial information for any period prior to the 12 month period to June 30 2005 because the Company did not commence trading during that period.

The latest audited financial statements of NZ Windfarms for the period 1 July 2005 to 30 June 2006 are registered pursuant to the Financial Reporting Act 1993 and may be obtained in the manner set out in Section 13 "Investment Statement - Answers to Important Questions".

The issuing group for the years ended 30 June 2005 and 30 June 2006 comprises only NZ Windfarms. The issuing group for the six months ended 31 December 2006 comprises NZ Windfarms and its wholly-owned subsidiary NZWL-TRH Limited.

## Summary Income Statements for NZ Windfarms

	12 mths to 30 June 2005 Audited NZ GAAP NZ\$'000	12 mths to 30 June 2006 Audited NZ IFRS NZ\$'000	6 mths to 31 Dec 2006 Unaudited NZ IFRS NZ\$'000
Operating revenue	-	11	147
<b>EBITDA</b>	<b>(119)</b>	<b>(462)</b>	<b>(307)</b>
Gain on transfer of asset to JV	-	-	1,081
Depreciation and amortisation	-	(12)	(51)
<b>EBIT</b>	<b>(119)</b>	<b>(474)</b>	<b>723</b>
Interest income	-	117	74
Interest expense	-	(43)	(43)
Net profit (loss) before tax	(119)	(400)	754
Tax expense	-	2	(1)
<b>Net profit (loss) after tax</b>	<b>(119)</b>	<b>(398)</b>	<b>753</b>
Dividend	-	-	-
<b>Surplus (deficit) retained</b>	<b>(119)</b>	<b>(398)</b>	<b>753</b>

## Summary Balance Sheets for NZ Windfarms Limited

	12 mths to 30 June 2005 Audited NZ GAAP NZ\$'000	12 mths to 30 June 2006 Audited NZ IFRS NZ\$'000	6 mths to 31 Dec 2006 Unaudited NZ IFRS NZ\$'000
Intangible assets	1,057	798	294
Fixed assets	-	2,752	4,125
Investments	-	-	-
Deferred tax	-	2	1
Current assets	119	2,183	7,107
<b>Total tangible assets</b>	<b>119</b>	<b>4,937</b>	<b>11,233</b>
<b>Total assets</b>	<b>1,176</b>	<b>5,735</b>	<b>11,527</b>
Current liabilities	448	1,739	3,212
Deferred tax	-	-	-
Term liabilities	-	-	-
Total liabilities	448	1,739	3,212
<b>Total equity</b>	<b>728</b>	<b>3,996</b>	<b>8,315</b>
<b>Total equity and liabilities</b>	<b>1,176</b>	<b>5,735</b>	<b>11,527</b>

## Net Tangible Asset Backing

### 1. Assumptions relating to Net Tangible Asset Backing

	Allotted Shares 30 June 2005	Allotted Shares 30 June 2006	Allotted Shares 31 Dec 2006	After Share Issue 31 Dec 2006
Net tangible assets as at (000's)	\$(329)	\$3,196	\$8,020	\$77,758
Shares on issue (000's)	846	6,978	10,377	78,559
Net tangible assets per share (\$)	(0.39)	0.46	0.77	0.99

Shares on issue are calculated as follows:

	(000's)
Shares as at 31 December 2006	10,377
Shares issued May 2007	68,182
	<u>78,559</u>

The above table assumes that all securities are allocated in accordance with the projections and do not include over subscriptions.

### 2. Net tangible assets are calculated after the deduction of capital raising costs

## Historical Financial Statements

The detailed historical financial statements on the following pages have been derived from the unaudited financial statements of NZ Windfarms for the six months ended 31 December 2006. The group 31 December 2006 financial statements are for the economic activity comprising NZ Windfarms and its wholly-owned subsidiary, NZWL-TRH Limited. NZWL-TRH Limited holds a 50 percent interest in the Te Rere Hau Joint Venture. The figures for 31 December 2005 for the group and the Company are the same because there were no subsidiaries as at 31 December 2005.

### NZ WINDFARMS LIMITED Balance Sheet As at 31 December 2006

Company		Notes	Group		Company	
30 June 2006	As at		31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ IFRS			NZ IFRS	NZ IFRS	NZ IFRS	NZ IFRS
NZ\$			NZ\$	NZ\$	NZ\$	NZ\$
<b>Assets</b>						
<b>Non-current</b>						
2,414,297	Property, plant and equipment	4	2,802,057	1,987	37,613	1,987
338,000	Turbine progress payments		1,323,000	1,260,000	-	1,260,000
798,159	Intangible assets	3	293,720	1,049,162	-	1,049,162
-	Advance - Te Rere Hau Wind Farm Joint Venture	13	-	-	2,976,611	-
2,021	Deferred tax	6	1,363	-	1,363	-
<b>3,552,477</b>			<b>4,420,140</b>	<b>2,311,149</b>	<b>3,015,587</b>	<b>2,311,149</b>
<b>Current</b>						
1,963,557	Cash and cash equivalents		4,724,390	3,923,070	4,724,386	3,923,070
113,222	GST refund		483,961	197,872	300,662	197,872
39,414	Income tax refund		45,002	5,712	45,002	5,712
-	Assets held for resale	5	674,000	-	674,000	-
66,267	Trade and other receivables		1,179,413	41,408	2,275,868	41,408
<b>2,182,460</b>			<b>7,106,766</b>	<b>4,168,062</b>	<b>8,019,918</b>	<b>4,168,062</b>
<b>5,734,937</b>	<b>Total assets</b>		<b>11,526,906</b>	<b>6,479,211</b>	<b>11,035,505</b>	<b>6,479,211</b>
<b>Equity</b>						
<b>Equity attributable to shareholders</b>						
4,512,471	Share capital	7	8,078,349	4,467,381	8,078,349	4,467,381
[516,593]	Retained earnings	7	236,268	[268,724]	1,437,429	[268,724]
<b>3,995,878</b>	<b>Total equity</b>		<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>
<b>Liabilities</b>						
<b>Non-current</b>						
-	Deferred tax	6	-	36	-	36
-			-	36	-	36
<b>Current</b>						
900,504	Trade and other payables	8	2,139,180	1,470,387	650,805	1,470,387
-	Retentions		204,187	-	-	-
838,555	Advance from Windflow Technology	14	868,922	810,131	868,922	810,131
<b>1,739,059</b>			<b>3,212,289</b>	<b>2,280,518</b>	<b>1,519,727</b>	<b>2,280,518</b>
<b>1,739,059</b>	<b>Total liabilities</b>		<b>3,212,289</b>	<b>2,280,554</b>	<b>1,519,727</b>	<b>2,280,554</b>
<b>5,734,937</b>	<b>Total equity and liabilities</b>		<b>11,526,906</b>	<b>6,479,211</b>	<b>11,035,505</b>	<b>6,479,211</b>
0.46	Net tangible assets per security		0.77	0.45	0.77	0.45

Signed for and on behalf of the Board as at 9 March 2007



Director



Director

**NZ WINDFARMS LIMITED**  
**Income Statement**  
**For the six months ended 31 December 2006**

Company 12 months 30 June 2006 NZ IFRS NZ\$	For the period to	Notes	Group		Company	
			6 months 31 Dec 2006 NZ IFRS NZ\$	6 months 31 Dec 2005 NZ IFRS NZ\$	6 months 31 Dec 2006 NZ IFRS NZ\$	6 months 31 Dec 2005 NZ IFRS NZ\$
	<b>Income</b>					
-	Trading revenue		26,943	-	-	-
-	Management Fees		120,000	-	240,000	-
11,802	Sundry income		-	-	-	-
<b>11,802</b>	<b>Total income</b>		<b>146,943</b>	<b>-</b>	<b>240,000</b>	<b>-</b>
10,700	Audit fees		1,625	-	1,625	-
99,000	Directors fees		49,500	50,188	49,500	50,188
117,579	Employment expenses		147,657	54,782	147,657	54,782
12,483	Lease and rental expenses	17	26,388	7,200	16,623	7,200
-	Share of JV Expenses		-	-	23,389	-
234,094	Other operating expenses		228,558	53,060	187,991	53,060
<b>473,856</b>	<b>Operating expenses (excluding depreciation and intangible amortisation)</b>		<b>453,728</b>	<b>165,230</b>	<b>426,785</b>	<b>165,230</b>
<b>(462,054)</b>	<b>Earnings before interest, tax, depreciation and intangible amortisation</b>		<b>(306,785)</b>	<b>(165,230)</b>	<b>(186,785)</b>	<b>(165,230)</b>
11,568	Amortisation of intangible assets	3	5,784	7,548	5,784	7,548
573	Depreciation	4	3,091	90	3,091	90
<b>(474,195)</b>	<b>Earnings before interest and tax</b>		<b>(315,660)</b>	<b>(172,868)</b>	<b>(195,660)</b>	<b>(172,868)</b>
116,753	Interest income	9	73,604	22,834	73,604	22,834
(42,578)	Interest expense	9	(42,725)	(60)	(42,725)	(60)
-	Gain on transfer of assets to JV	13	1,081,161	-	2,162,322	-
-	Loss on recognition of property for resale at fair value	5	(42,861)	-	(42,861)	-
<b>(400,020)</b>	<b>Result for period</b>		<b>753,519</b>	<b>(150,094)</b>	<b>1,954,680</b>	<b>(150,094)</b>
(2,021)	Tax expense, net	10	658	36	658	36
<b>(397,999)</b>	<b>Net result for the period</b>		<b>752,861</b>	<b>(150,130)</b>	<b>1,954,022</b>	<b>(150,130)</b>
	<b>Earnings per share</b>					
(0.06)	Basic	11	0.07	(0.02)	0.19	(0.02)
(0.04)	Diluted	11	0.07	(0.02)	0.19	(0.02)

**NZ WINDFARMS LIMITED**  
**Statement of Changes in Equity**  
**For the six months ended 31 December 2006**

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	For the period to	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ IFRS		NZ IFRS	NZ IFRS	NZ IFRS	NZ IFRS
NZ\$	Notes	NZ\$	NZ\$	NZ\$	NZ\$
727,892	<b>Equity at beginning of period</b>	3,995,878	727,892	3,995,878	727,892
(397,999)	Net result for the period	752,861	(150,130)	1,954,022	(150,130)
<b>329,893</b>	<b>Total recognised income and expense for the period</b>	<b>4,748,739</b>	<b>577,762</b>	<b>5,949,900</b>	<b>577,762</b>
3,665,985	Issue of ordinary shares	3,565,878	3,620,895	3,565,878	3,620,895
-	Dividends	-	-	-	-
<b>3,995,878</b>	<b>Equity at end of period</b>	<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>
<b>Represented by:</b>					
4,512,471	Share capital	8,078,349	4,467,381	8,078,349	4,467,381
(516,593)	Retained earnings	236,268	(268,724)	1,437,429	(268,724)
<b>3,995,878</b>	<b>Total equity</b>	<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>



**NZ WINDFARMS LIMITED**  
**Statement of Cash Flows**  
**For the six months ended 31 December 2006**

Company 12 months 30 June 2006 NZ IFRS NZ\$			Group 6 months 31 Dec 2006 NZ IFRS NZ\$	6 months 31 Dec 2005 NZ IFRS NZ\$	Company 6 months 31 Dec 2006 NZ IFRS NZ\$	6 months 31 Dec 2005 NZ IFRS NZ\$
	For the period to	Notes				
	<b>Operating activities</b>					
	<i>Cash was received from:</i>					
-	Trading revenue		44,171	-	44,171	-
1,307	Sundry income		10,495	-	10,495	-
105,776	Interest received		79,928	9,048	79,928	9,048
<b>107,083</b>			<b>134,594</b>	<b>9,048</b>	<b>134,594</b>	<b>9,048</b>
	<i>Cash was applied to:</i>					
154	Interest paid		25,243	60	25,243	60
39,413	RWT paid		5,588	-	5,588	-
393,781	Payments to suppliers and employees		711,216	111,029	702,262	111,029
<b>433,348</b>			<b>742,047</b>	<b>111,089</b>	<b>733,093</b>	<b>111,089</b>
<b>(326,265)</b>	<b>Net cash inflow (outflow) from operating activities</b>	<b>12</b>	<b>(607,453)</b>	<b>(102,041)</b>	<b>(598,499)</b>	<b>(102,041)</b>
	<b>Investing activities</b>					
	<i>Cash was provided from:</i>					
-	Sale of fixed assets		1,483,726	-	2,967,450	-
-			<b>1,483,726</b>	<b>-</b>	<b>2,967,450</b>	<b>-</b>
	<i>Cash was applied to:</i>					
599,504	Purchase of intangible assets		-	-	-	-
2,023,856	Purchase of fixed assets	<b>4</b>	3,184,747	2,077	3,184,747	2,077
<b>2,623,360</b>			<b>3,184,747</b>	<b>2,077</b>	<b>3,184,747</b>	<b>2,077</b>
<b>(2,623,360)</b>	<b>Net cash inflow (outflow) from investing activities</b>		<b>(1,701,021)</b>	<b>(2,077)</b>	<b>(217,297)</b>	<b>(2,077)</b>
	<b>Financing activities</b>					
	<i>Cash was provided from:</i>					
4,932,795	Issue of ordinary shares	<b>7</b>	3,738,921	4,072,559	3,738,921	4,072,559
-	Half share of capital contributions to JV		1,492,682	-	-	-
401,500	Advances from Windflow Technology	<b>13</b>	-	401,500	-	401,500
<b>5,334,295</b>			<b>5,231,603</b>	<b>4,474,059</b>	<b>3,738,921</b>	<b>4,474,059</b>
	<i>Cash was applied to:</i>					
425,906	Issue costs of equity	<b>7</b>	162,296	451,664	162,296	451,664
<b>425,906</b>			<b>162,296</b>	<b>451,664</b>	<b>162,296</b>	<b>451,664</b>
<b>4,908,389</b>	<b>Net cash inflow (outflow) from financing activities</b>		<b>5,069,307</b>	<b>4,022,395</b>	<b>3,576,625</b>	<b>4,022,395</b>
1,958,764	Net increase/(decrease) in cash and cash equivalents		2,760,833	3,918,277	2,760,829	3,918,277
4,793	Cash and cash equivalents, beginning of year		1,963,557	4,793	1,963,557	4,793
<b>1,963,557</b>	<b>Cash and cash equivalents, end of year</b>		<b>4,724,390</b>	<b>3,923,070</b>	<b>4,724,386</b>	<b>3,923,070</b>
	<b>Cash and cash equivalents</b>					
1,438,792	Term Deposit		3,001,028	2,015,000	3,001,028	2,015,000
524,765	Bank account		1,723,362	1,908,070	1,723,358	1,908,070
<b>1,963,557</b>	<b>Ending cash and cash equivalents carried forward</b>		<b>4,724,390</b>	<b>3,923,070</b>	<b>4,724,386</b>	<b>3,923,070</b>

## 1. Corporate Information

NZ Windfarms is a company registered under the Companies Act 1993 of New Zealand and listed on the NZAX. The Company's registered office is Grant Thornton (Christchurch) Limited, Level 9, 47 Cathedral Square, Christchurch. The Company details are available from the Companies Office website.

Financial statements for the Company (separate financial statements) and consolidated financial statements are presented. The consolidated financial statements of NZ Windfarms as at and for the six months ended 31 December 2006 include the Company and a wholly owned subsidiary NZWL-TRH Limited which holds the Company's 50 percent interest in the Te Rere Hau Wind Farm.

The Company is a profit oriented company that is in the business of development and operation of wind power generation assets for the purpose of generating and selling electricity.

The Company operates solely within New Zealand.

## 2. Statement of Accounting Policies

### Reporting Entity

The Company is an issuer for the purposes of the Financial Reporting Act 1993 and the financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). The financial statements of the Company have been prepared in accordance with the Securities Act 1978, Securities Regulations 1983, the Financial Reporting Act 1993 and in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) as developed and published by the International Accounting Standards Board and adopted as NZ GAAP.

The Company has voluntarily adopted NZ IFRS from 1 July 2005 for reporting actual results.

### Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of the profit and loss and the balance sheet are the historical cost basis except for the following:

- Assets held for resale are measured at fair value less cost of sale.

### Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of profit and loss, balance sheet position and cash flows have been applied.

#### a. Turbine Progress Payments

Turbine progress payments are recorded as progress payments until ownership has transferred to Te Rere Hau Joint Venture. Once the turbines are a complete unit and operating they will then be recognised as property, plant and equipment and depreciated over their useful life. As at 31 December 2006 the Company had a 50 percent share of the Te Rere Hau Joint Venture capital commitment to pay

70% of the balance of the contract for the purchase of 14 turbines.

#### b. Property, Plant and Equipment

Property, plant and equipment are stated at cost and, other than land, are depreciated in equal instalments over their estimated economic lives. Where construction has not been completed on property, plant and equipment depreciation has not been calculated.

The economic lives have been estimated as follows:

Roading	50 years
Foundations	50 years
Electrical	50 years
Buildings	40 years
Turbines	20 years
Office equipment	5 years
Plant and equipment	5 years

All assets are included at acquisition cost less subsequent depreciation.

#### c. Assets held for Resale

An asset is recognised as being held for resale if it is available for sale in its present condition and a sale is highly probable within the next 12 month period. Assets held for resale are measured at the lower of the assets carrying value and fair value less costs to sell.

#### d. Statement of Cash Flows

The statement of cash flows has been prepared using the direct method. Definitions are:

##### 1) Operating Activities

All transactions and other events that are related to the operation of the Company and includes interest expense on funds borrowed.

##### 2) Investing Activities

All transactions relating to the acquisition and disposal of long term assets and other investments not included in cash equivalents.

##### 3) Financing Activities

The change in equity and debt capital structure of the reporting entity and the cost of servicing the equity capital.

##### 4) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, investments in term deposits, bank overdrafts and other highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### e. Accounting for Income Taxes

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable

income for the period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided 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 liabilities are provided in full. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

#### **f. Income and Expense Recognition**

Revenue is recognised upon the delivery of goods or services to customers. Operating expenses are recognised in the income statement upon utilisation of services or at the date of origin. Interest income and expenses are reported on an accruals basis.

#### **g. Equity**

Share capital is determined using the issue price of shares that have been issued. Share capital is recognised as proceeds received, net of direct issue costs. Costs incurred relating to the capital raising process are offset against gross proceeds received from the capital raising process. Brokerage costs have been included in direct issue costs.

Retained earnings include all current and prior period results as disclosed in the income statement.

#### **h. Financial Liabilities and Assets**

The Company's financial liabilities include overdrafts, trade and other payables. These are included in balance sheet line items "bank overdraft" and "trade and other payables".

Trade payables are recognised at their nominal value.

The Company's financial assets, including cash and cash equivalents, are included in the balance sheet. These financial assets are recognised at their nominal value, which is deemed to be equal to fair value.

#### **i. Contingent Assets and Liabilities**

Probable inflows of economic benefits may result from the realisation of carbon credits. These carbon credits and other probable inflows of economic benefits that do not meet the recognition criteria of an asset are considered contingent assets until earned. These are described along with the Company's contingent liabilities in note 15 of this Section 11. The Company has an entitlement to a 50 percent interest in these carbon credits as they are to be transferred to the Te Rere Hau Joint Venture as the emission reduction units arise.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the balance sheet.

#### **j. Goods and Services Tax**

The Company is registered for GST and the financial statements have been prepared on a GST exclusive basis. The balances of GST refunds or payments due are included in the balance sheet.

#### **k. Trade and Other Receivables**

Trade receivables are projected to be due within 30 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure.

The fair value of trade and other receivables is deemed to be a reasonable approximation to the carrying amount and therefore, no writedown has been applied.

#### **l. Intangible Assets**

Intangible assets are recognised if it is probable that expected future economic benefits relating to the intangible assets will accrue to the Company and the cost is able to be reliably measured. Intangible assets included wind rights and are assumed to be amortised evenly over time. The remaining useful life of the wind rights is 68½ years.

#### **m. Development Costs**

Development costs have been capitalised as part of the construction cost of the fixed tangible assets on the basis of the following features:

- Costs incurred allow the development of the Te Rere Hau Wind Farm project.
- Development costs were necessarily incurred to establish the Te Rere Hau Wind Farm project and form the foundation for further development.
- The development costs are recognised on the basis that capital raising has provided funds for the installation of wind turbines on the Te Rere Hau Wind Farm.

#### **n. Impairment**

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the income statement.

**o. Basis of Consolidation for Te Rere Hau Joint Venture**

The Te Rere Hau Joint Venture is an unincorporated entity in which the Company has 50 percent control. It was established by contractual agreement and requires unanimous consent for strategic, financial and operating decisions. The Company's interest in the Te Rere Hau Joint Venture is accounted for using the proportionate method.

The balance sheet on consolidation includes the assets and liabilities of NZ Windfarms and its 50 percent share of the Te Rere Hau Joint Venture on a line by line basis.

The income statement includes the income and expenses of NZ Windfarms and a 50 percent share of the Te Rere Hau Joint Venture on a line by line basis.

The Te Rere Hau Joint Venture Agreement between the two parties ascribed a total value to the intangible assets transferred to the Te Rere Hau Joint Venture. This resulted in an accounting gain to NZ Windfarms. The intangible assets recognised in the Te Rere Hau Joint Venture meet the recognition criteria and impairment test under NZ IAS 38. This evaluation is undertaken on a periodic basis. The 50 percent share of the accounting gain on transfer of the assets to the joint venture has been eliminated on consolidation.

Intra-group balances, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**p. Retentions**

Retention payments due are recognised as liabilities in the balance sheet when the construction of each stage has been completed. In the Te Rere Hau Joint Venture retentions on construction costs of the turbines and civil works for Stage One have been recognised as liabilities. The Company's 50 percent share of these retentions has been recognised on consolidation.

**q. Changes in Accounting Policies**

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

**3. Intangible Assets**

The cost to purchase the initial wind rights from Aeolian Property Company Limited and the project development costs are recognised on the assumption of the following requirements:

- The wind rights are separately identifiable and recognisable from other assets. A specific agreement was entered into for the purchase of the wind rights option for consideration.
- Development costs are actual expenditures, and relate to the development of the Te Rere Hau Wind Farm and have been capitalised as part of fixed assets within the Te Rere Hau Joint Venture.
- The Te Rere Hau Joint Venture has control over the wind rights asset as it has legal rights to the underlying benefits provided by the Wind Rights Agreement.
- The wind rights incurred to date facilitate the construction and operation of a wind farm and will generate probable economic benefits.
- The wind rights are able to be reliably measured in relation to the expenditure incurred.

**NZ Windfarms Limited**  
**Notes to the Financial Statements**  
**For the six months ended 31 December 2006**

Intangible assets are carried at cost less annual amortisation as there is no readily available market for the intangibles concerned.

All amortisation charges are included in "amortisation of intangible assets" in the income statement.

The following amortisation periods and methods for intangible assets are disclosed below:

	<b>Amortisation method</b>	<b>Useful life</b>
Wind rights	Straight line	70 years

Any amortisation on development costs relates to the period to 29 December 2006, when assets were transferred into the Te Rere Hau Joint Venture. After 29 December 2006 development costs have been capitalised as part of cost of construction of the Te Rere Hau Wind Farm.

In assessing the useful life of all intangible assets, reference was made to the underlying expected economic life of the Wind Rights Agreement. This is 70 years. It has been assumed that, although property, plant and equipment have useful lives less than 70 years, appropriate maintenance expenditure will be incurred to extend the economic life of applicable assets to 70 years.

Changes in the net carrying amount of intangible assets are analysed as follows:

<b>Company</b>		<b>Group</b>		<b>Company</b>	
<b>12 months</b>		<b>6 months</b>	<b>6 months</b>	<b>6 months</b>	<b>6 months</b>
<b>30 June 2006</b>	<b>As at</b>	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>
<b>NZ\$</b>		<b>NZ\$</b>	<b>NZ\$</b>	<b>NZ\$</b>	<b>NZ\$</b>
	<b>Wind rights</b>				
600,305	Opening gross carrying amount	600,305	600,305	600,305	600,305
(8,576)	Accumulated amortisation	(12,864)	(4,288)	(12,864)	(4,288)
-	Transfer to JV	(587,441)	-	(587,441)	-
-	Consolidation of half share	293,720	-	-	-
<b>591,729</b>	<b>Closing carrying amount</b>	<b>293,720</b>	<b>596,017</b>	<b>-</b>	<b>596,017</b>
	<b>Resource consent fees</b>				
-	Opening gross carrying amount	-	246,983	-	246,983
-	Accumulated amortisation	-	(1,764)	-	(1,764)
-	<b>Closing carrying amount</b>	<b>-</b>	<b>245,219</b>	<b>-</b>	<b>245,219</b>
	<b>Capitalised development costs</b>				
209,422	Opening gross carrying amount	209,422	209,422	209,422	209,422
(2,992)	Accumulated amortisation	(4,488)	(1,496)	(4,488)	(1,496)
-	Transfer to JV	(204,934)	-	(204,934)	-
-	Consolidation of half share	102,467	-	-	-
-	Reclassified as Property, plant & equipment	(102,467)	-	-	-
<b>206,430</b>	<b>Closing carrying amount</b>	<b>-</b>	<b>207,926</b>	<b>-</b>	<b>207,926</b>
<b>798,159</b>	<b>Total closing carrying amount</b>	<b>293,720</b>	<b>1,049,162</b>	<b>-</b>	<b>1,049,162</b>
	<b>Amortisation expense for the period</b>				
8,576	Wind rights	4,288	4,288	4,288	4,288
-	Resource consent fees	-	1,764	-	1,764
2,992	Capitalised development costs	1,496	1,496	4,488	1,496
<b>11,568</b>		<b>5,784</b>	<b>7,548</b>	<b>8,776</b>	<b>7,548</b>



#### 4. Property, Plant and Equipment

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

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	As at	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
	<b>Office equipment</b>				
-	Opening carrying amount	4,919	-	4,919	-
5,286	Additions	23,617	1,376	23,617	1,376
<b>5,286</b>		<b>28,536</b>	<b>1,376</b>	<b>28,536</b>	<b>1,376</b>
(367)	Depreciation	(1,853)	(90)	(1,853)	(90)
<b>4,919</b>	<b>Closing carrying amount</b>	<b>26,683</b>	<b>1,286</b>	<b>26,683</b>	<b>1,286</b>
	<b>Plant and equipment</b>				
-	Opening carrying amount	12,168	-	12,168	-
12,374	Additions	-	-	-	-
<b>12,374</b>		<b>12,168</b>	-	<b>12,168</b>	-
(206)	Depreciation	(1,238)	-	(1,238)	-
<b>12,168</b>	<b>Closing carrying amount</b>	<b>10,930</b>	-	<b>10,930</b>	-
	<b>Foundations</b>				
-	Opening cost	149,075	-	149,075	-
149,075	Additions	132,571	701	127,090	701
-	Transfer to JV	(276,165)	-	(276,165)	-
-	Consolidation of half share	138,082	-	-	-
<b>149,075</b>		<b>143,563</b>	<b>701</b>	-	<b>701</b>
-	Depreciation	-	-	-	-
<b>149,075</b>	<b>Closing carrying amount</b>	<b>143,563</b>	<b>701</b>	-	<b>701</b>
	<b>Electrical</b>				
-	Opening cost	274,854	-	274,854	-
274,854	Additions	223,989	-	214,039	-
-	Transfer to JV	(488,893)	-	(488,893)	-
-	Consolidation of half share	244,446	-	-	-
<b>274,854</b>		<b>254,396</b>	-	-	-
-	Accumulated depreciation	-	-	-	-
<b>274,854</b>	<b>Closing carrying amount</b>	<b>254,396</b>	-	-	-
	<b>Roading</b>				
-	Opening carrying amount	408,503	-	408,503	-
408,503	Additions	537,394	-	519,465	-
-	Transfer to JV	(927,968)	-	(927,968)	-
-	Consolidation of half share	463,984	-	-	-
<b>408,503</b>		<b>481,913</b>	-	-	-
-	Depreciation	-	-	-	-
<b>408,503</b>	<b>Closing carrying amount</b>	<b>481,913</b>	-	-	-
	<b>Resource consent capital work in progress</b>				
-	Opening carrying amount	246,983	-	246,983	-
246,983	Additions	3,255	-	3,255	-
-	Transfer to JV	(250,238)	-	(250,238)	-
-	Consolidation of half share	125,119	-	-	-
-	Capitalised to Wind Turbines	(6,450)	-	-	-
<b>246,983</b>		<b>118,669</b>	-	-	-
-	Depreciation	-	-	-	-
<b>246,983</b>	<b>Closing carrying amount</b>	<b>118,669</b>	-	-	-
	<b>Wind Turbines</b>				
-	Opening cost	1,317,795	-	1,317,795	-
1,317,795	Additions	2,138,454	-	2,062,896	-
-	Transfer to JV	(3,380,691)	-	(3,380,691)	-
-	Consolidation of half share	1,690,345	-	-	-
<b>1,317,795</b>		<b>1,765,903</b>	-	-	-
-	Accumulated depreciation	-	-	-	-
<b>1,317,795</b>	<b>Closing carrying amount</b>	<b>1,765,903</b>	-	-	-
	<b>Total property plant and equipment</b>				
-	Opening carrying amount	2,414,297	-	2,414,297	-
2,414,870	Additions	3,052,830	2,077	2,950,362	2,077
-	Transfer to JV	(5,323,955)	-	(5,323,955)	-
-	Consolidation of half share	2,661,976	-	-	-
<b>2,414,870</b>		<b>2,805,148</b>	<b>2,077</b>	<b>40,704</b>	<b>2,077</b>
(573)	Depreciation	(3,091)	(90)	(3,091)	(90)
<b>2,414,297</b>	<b>Closing carrying amount</b>	<b>2,802,057</b>	<b>1,987</b>	<b>37,613</b>	<b>1,987</b>

All depreciation charges are included in "depreciation" in the income statement.

## 5. Assets held for Resale

As part of the resource consent process the Company has entered into various put options with owners of land directly adjoining the Te Rere Hau Wind Farm site. These put options allow the land owners a period of time during which they have the option of selling their property at market value to NZ Windfarms. During the period a land owner exercised their option to sell their property to the Company. This land is surplus to the Te Rere Hau Wind Farm requirements and efforts to sell relevant property will commence at the earliest possible stage.

An impairment loss of \$42,861 on the measurement of the assets for resale to the lower of its carrying cost and its fair value less selling costs to sell has been recognised in the income statement.

## 6. Deferred Tax Assets and Liabilities

The movement in deferred tax assets arising from temporary differences during the period is as follows:

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	As at	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
-	Opening balance	2,021	-	2,021	-
	Timing differences tax effect:				
189	Accounting depreciation	1,020	30	1,020	30
(371)	Tax depreciation	(1,207)	(66)	(1,207)	(66)
2,203	Accrued Holiday Pay	(471)	-	(471)	-
<b>2,021</b>	<b>Closing balance</b>	<b>1,363</b>	<b>(36)</b>	<b>1,363</b>	<b>(36)</b>
2,414,297	Accounting fixed assets carrying amount	2,802,057	1,987	37,613	1,987
2,413,746	Taxation fixed assets carrying amount	2,800,940	1,878	36,495	1,878
6,676	Accrued Holiday Pay	5,249	-	5,249	-
(6,125)		(4,132)	109	(4,131)	109
<b>(2,021)</b>	<b>Tax effect at 33%</b>	<b>(1,363)</b>	<b>36</b>	<b>(1,363)</b>	<b>36</b>

Accumulated tax losses have not been recognised as a deferred tax asset.

## 7. Capital and Reserves

### Reconciliation of Movement in Capital and Reserves

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	As at	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
846,486	Opening issued equity	4,512,471	846,486	4,512,471	846,486
	<b>Net proceeds of shares issued &amp; fully paid</b>				
4,072,559	- issued during the period	-	4,072,559	-	4,072,559
(420,324)	- less issue costs	(173,043)	(451,664)	(173,043)	(451,664)
13,750	- options exercised during the period	3,738,921	-	3,738,921	-
<b>4,512,471</b>	<b>Net proceeds of shares issued &amp; fully paid</b>	<b>8,078,349</b>	<b>4,467,381</b>	<b>8,078,349</b>	<b>4,467,381</b>
	<b>Retained earnings</b>				
(118,594)	Opening balance	(516,593)	(118,594)	(516,593)	(118,594)
(397,999)	Net result for the period (after tax)	752,861	(150,130)	1,954,022	(150,130)
<b>(516,593)</b>	<b>Closing retained earnings</b>	<b>236,268</b>	<b>(268,724)</b>	<b>1,437,429</b>	<b>(268,724)</b>
<b>3,995,878</b>	<b>Total equity</b>	<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>

## Share Capital

At 31 December 2006, share capital comprised 10,377,378 Shares (31 December 2005: 6,695,859; 30 June 2006: 6,978,359).

## Share Options

All Shareholders who purchased shares when they were issued on 13 December 2005, were issued a tradable option. The option entitled the holder to subscribe for one Share at an exercise price of \$1.10 per Share. The options were exercisable at any time up to 29 September 2006. During the period to 31 December 2006 3,411,519 Shares were exercised at a price of \$1.10 per Share.

A breakdown of shares issued during the period to 31 December 2006 follows.

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	For the period to	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
846,586	Ordinary shares issued	846,586	846,586	846,586	846,586
2,153,414	Share split	2,153,414	2,153,414	2,153,414	2,153,414
2,898,859	Ordinary shares issued				
	- public \$1.00 / share	2,898,859	2,898,859	2,898,859	2,898,859
1,067,000	Ordinary shares issued				
	- public \$1.10 / share	1,067,000	1,067,000	1,067,000	1,067,000
12,500	Share options exercised				
	- \$1.10 / share	3,411,519	-	3,411,519	-
6,978,359	Total closing shares	10,377,378	6,965,859	10,377,378	6,965,859

All Shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at a Shareholders' meeting of NZ Windfarms. All Shares have no par value.

## Dividends

No dividends are proposed by the Directors for the six months ended 31 December 2006. The Directors propose implementing a dividend policy of distributing 50 percent of available Operating Free Cash Flow once the Te Rere Hau Wind Farm is generating positive operating cash flow for the Te Rere Hau Joint Venture.

## 8. Trade and Other Payables

The fair values of trade and other payables have not been disclosed. Due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	For the period to	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
28,025	Trade payables	85,779	47,887	85,779	47,887
358,059	Trade payables - Windflow Technology Ltd	1,560,181	1,417,500	71,806	1,417,500
288,930	Trade payables - Asset Purchases	61,402	-	61,402	-
209,339	Accrued expenses	8,254	5,000	8,254	5,000
-	Accrued expenses - Asset purchases	397,500	-	397,500	-
16,151	Employee entitlements	26,064	-	26,064	-
900,504	Total closing payables	2,139,180	1,470,387	650,805	1,470,387

## 9. Finance Income and Finance Costs

Finance cost includes all interest-related income and expenses.

## 10. Income Tax Expense

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	For the period to	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
(400,020)	Result for the period before tax	753,519	(150,094)	1,954,680	(150,094)
383,974	Tax loss for period	247,864	142,656	127,864	142,656
(16,046)		1,001,383	(7,438)	2,082,544	(7,438)
(5,295)	<b>Expected tax expense at 33%</b>	330,456	(2,455)	687,240	(2,455)
	Adjustment for non deductible expenses				
-	- JV establishment costs (50%)	12,347	-	12,347	-
-	- impairment of wind rights	-	1,415	-	1,415
-	- impairment of resource consent fees	-	582	-	582
987	- impairment of development costs	494	494	494	494
-	- capital gain on transfer of assets	(356,783)	-	(713,567)	-
2,287	- other non deductible expenses	14,144	-	14,144	-
<b>(2,021)</b>	<b>Prima facie tax at 33%</b>	<b>658</b>	<b>36</b>	<b>658</b>	<b>36</b>
	<b>Represented by:</b>				
(2,021)	Tax effect of deferred tax	658	36	658	36
-	Plus opening carrying amount	(2,021)	-	(2,021)	-
<b>(2,021)</b>	<b>Closing carrying amount</b>	<b>(1,363)</b>	<b>36</b>	<b>(1,363)</b>	<b>36</b>
(1,184)	Tax loss from previous periods	(262,612)	(1,184)	(262,612)	(1,184)
(383,974)	Tax loss for period	(247,864)	(142,656)	(127,864)	(142,656)
122,546	Part year losses to loss of continuity date	-	-	-	-
<b>(262,612)</b>	<b>Tax loss carried forward</b>	<b>(510,476)</b>	<b>(143,840)</b>	<b>(390,476)</b>	<b>(143,840)</b>

Any tax losses carried forward will be forgone if there is a change of shareholding greater than 49%.

## 11. Earnings per Share and Dividends

Both the basic and diluted earnings per share are calculated using the net results attributable to Shareholders as the numerator.

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	As at	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
(397,999)	Earnings (Loss)	752,861	(150,130)	1,954,022	(150,130)
6,978,359	Shares on issue	6,978,359	6,965,859	6,978,359	6,965,859
12,500	Share options exercised - \$1.10 / share	3,399,019	-	3,399,019	-
\$[0.06]	Earnings per share	\$0.07	\$[0.02]	\$0.19	\$[0.02]
<b>Diluted earnings per share</b>					
6,978,359	Shares on issue	10,377,378	6,965,859	10,377,378	6,965,859
3,953,359	Dilution effect of options	-	-	-	-
10,931,718		10,377,378	6,965,859	10,377,378	6,965,859
\$[0.04]	Diluted earnings per share	\$0.07	\$[0.02]	\$0.19	\$[0.02]

## 12. Cash Flow Statement

Company		Group		Company	
12 months		6 months	6 months	6 months	6 months
30 June 2006	For the period to	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
(397,999)	<b>Reported Net Surplus (Loss) after Taxation</b>	752,861	(150,130)	1,954,022	(150,130)
<b>Non Cash Items</b>					
573	Depreciation	3,091	90	3,091	90
11,568	Impairment of intangible assets	5,784	7,548	5,784	7,548
(2,021)	Movement in deferred tax	658	36	658	36
28,424	Interest capitalised on Windflow Technology Loan	30,367	-	30,367	-
-	Impairment of assets held for resale	42,861	-	42,861	-
-	Share of JV loss	-	-	23,389	-
-	Capital gain on transfer of asset to JV	(1,081,161)	-	(2,162,322)	-
(359,455)		(245,539)	(142,456)	(102,150)	(142,456)
<b>Changes in working capital</b>					
861,472	Trade and other payables	564,677	171,354	(923,699)	171,354
(66,267)	Trade and other receivables	(1,113,146)	(41,408)	(2,209,601)	(41,408)
830	GST	(370,739)	(83,820)	(187,440)	(83,820)
(39,413)	Income Tax	(5,588)	(5,711)	(5,588)	(5,711)
756,622		(924,796)	40,415	(3,326,328)	40,415
<b>Items classified as investing of financing</b>					
(729,014)	Working capital related to fixed assets	566,311	-	2,840,726	-
5,582	Working capital related to equity raising	(10,747)	-	(10,747)	-
-	Working capital related to capital contributions	7,318	-	-	-
(326,265)	<b>Net cash flow from operating activities</b>	<b>(607,453)</b>	<b>(102,041)</b>	<b>(598,499)</b>	<b>(102,041)</b>



### 13. Advance Te Rere Hau Wind Farm Joint Venture

The Te Rere Hau Joint Venture Agreement was entered into on the 6th October 2006 and the Te Rere Hau Joint Venture became operational on 29 December 2006.

Stage One costs of construction undertaken by NZ Windfarms Limited were transferred to the Te Rere Hau Joint Venture on 29 December 2006 (\$5,158,194). The Company also transferred all of its intangible assets including resource consent costs, wind rights and entitlement to emission reduction units for an agreed value of \$3,000,000 which was matched by the other Te Rere Hau Joint Venture party in cash. The Company has, as at 31 December 2006, a 50 percent interest in the Te Rere Hau Joint Venture.

The nature of this transaction was as follows:

Assets transferred to Te Rere Hau Joint Venture	5,158,194
Intangible assets	3,000,000
Set up costs related to UJV	52,625
	<u>8,210,819</u>
NZ Windfarms 50 percent share	4,105,409
Less cash received at 31 December 2006	(2,985,364)
Balance owing at 31 December 2006	<u>1,120,045</u>

This balance is included in trade and other receivables. The balance owing was subsequently received in cash after 31 December 2006.

This initial contribution has resulted in a gain on transfer of assets to the Te Rere Hau Joint Venture. This gain is shown in the income statement.

Initial contribution to Te Rere Hau Joint Venture	3,000,000
Less book value of intangible assets	
Resource Consent	250,238
Wind rights	587,441
	<u>2,162,321</u>
Removal of 1/2 share gain on consolidation	(1,081,160)
Gain on transfer of assets to Te Rere Hau Joint Venture	<u>1,081,161</u>

The Company on consolidation recognises 50 percent of the gain on transfer of asset to the Te Rere Hau Joint Venture.

In future, all the income, expenses and capital expenditure related to the Te Rere Hau Wind Farm will be incurred by the Te Rere Hau Joint Venture, and NZWL-TRH Limited has an obligation to meet 50 percent of operating and capital construction commitments and has an entitlement to receive 50 percent of net operating surpluses.

The advance as at 31 December 2006 to the Te Rere Hau Joint Venture is comprised as follows:

Initial contribution to Te Rere Hau Wind Farm Joint Venture	3,000,000
50% of net loss to 31 December 2006	(23,389)
Advance to Te Rere Hau Wind Farm Joint Venture	<u>2,976,611</u>

### 14. Related Party Transactions

The Company's related parties include the Company's supplier of wind turbines, Windflow Technology which holds 29 percent of the shares in the Company as at 31 December 2006, (31 December 2005: 43 percent; 30 June 2006: 43 percent). Neither Windflow Technology nor its subsidiaries took up shares in the public offer dated 13 December 2005.

Contractual terms for the supply of wind turbines have been agreed and priced on an arms length basis between the Company and Windflow Technology and these terms have been novated to the Te Rere Hau Joint Venture. The cost incurred to 31 December 2006 was \$1,397,774 (31 December 2005: \$0; 30 June 2006: \$1,689,187). During the period ended 31 December 2006 the Te Rere Hau Joint Venture confirmed the purchase of 14 turbines from Windflow Technology. The Company's 50 percent share of the remaining capital commitment owing for the turbines at 31 December 2006 was \$3,787,000 (31 December 2005: \$0; 30 June 2006: \$1,512,000).

Windflow Technology has advanced funds to the Company to cover company and wind farm setup costs and public offer expenses. As at 31 December 2006 the amount owed to Windflow Technology was \$868,922 including accrued interest. (31 December 2005: \$810,131; 30 June 2006: \$838,555). The agreement to advance funds requires repayment by 14 December 2007. If the advance is not repaid then NZ Windfarms can elect to either pay additional interest or issue shares at \$1.00 per share up until 14 December 2007. Net interest paid and debited to the loan for the period ended 31 December 2006 was \$30,367 (31 December 2005: \$0; 30 June 2006: \$28,424).

## Management Fees

The Company has been appointed by the Te Rere Hau Joint Venture to manage the construction and on-going operation of the Te Rere Hau Wind Farm. The Company received management fees from the Te Rere Hau Joint Venture. The management fees have been agreed and priced on an arms length basis between the Company and the Te Rere Hau Joint Venture and are subject to the Management Services Agreement. Management fees charged during the period to 31 December 2006 were \$240,000. (31 December 2005: \$0; 30 June 2006: \$0).

The management fees have been capitalised as a cost of construction of fixed assets within the Te Rere Hau Joint Venture.

## Key Management

The key management of the Company is described below.

Key management personnel remuneration is included in the income statement figures. The Chief Executive Officer was paid \$79,541 during the six months to 31 December 2006 (31 December 2005: \$35,877; 30 June 2006: \$70,531). The remuneration packages do not incorporate share based incentives, termination benefits, long term benefits or post employment benefits.

Key related party shareholdings include:

Name of Related Party	Relationship	Number of Shares
Chris Freear and Sharee Freear	Chris Freear: Chief Executive Officer	10,000
Derek and Janice Walker	Derek Walker: Director	10,000
Barrie Leay	Director	20,000
Vicki Buck	Director	16,000
Keith McConnell and John McConnell	Keith McConnell: Director	20,000
Keith McConnell	Director	5,000

Directors' remuneration of \$49,500 was paid and expensed during the period (31 December 2005: 50,188; 30 June 2006: \$99,000).

During the period the following consultancy fees were paid to the the following Board members:

Derek Walker	\$5,000
Keith McConnell	\$1,000

## 15. Contingent assets and other contingent liabilities

### Carbon Credits

Prior to entering the Te Rere Hau Joint Venture, the Company entered into an emission reduction project agreement with the Crown in relation to the Te Rere Hau Wind Farm project. The Te Rere Hau Joint Venture is to have a 50 percent entitlement to any benefits, arising from the agreement. This agreement details completion of minimum milestones and the generation of the following maximum emission reductions. This then invokes the entitlement to emission reduction units saleable on the open market.

The following table details maximum emission reduction unit entitlements as per the agreement with the Crown. Figures below are for the years to 31 December.

Year	Tonnes of carbon dioxide equivalent
2008	103,800
2009	103,800
2010	103,800
2011	103,800
2012	103,800

The Te Rere Hau Joint Venture is unlikely to achieve the entitled maximum emission reduction units in 2008 under the current build program.

An international market for carbon credits is emerging and allows the trading of carbon credits between parties. There is no market for carbon credits within New Zealand at this stage, but the Company expects a market to develop over time. The current international market price of carbon credits ranges from NZ\$10 to NZ\$50 per tonne based on current information. The transfer of intangible assets to the Te Rere Hau Joint Venture has crystallised a capital value for carbon credits. Within the Te Rere Hau Joint Venture the wind farm has started generating electricity and when the abatement period begins from 1 January 2008, emission reduction units, carbon credits and income are expected to be generated. The entitlement to carbon credits assets will be tested for impairment every year.

The consolidated financial statements do not recognise any carbon credit assets as the Company's 50 percent share is reversed on consolidation.

## Resource Consent

As part of the resource consent process the Company has entered into put options with owners of land directly adjoining the Te Rere Hau Wind Farm. These put options allow the land owners a period of time during which they have the option of selling their property at market value to NZ Windfarms. During the period one of these options was exercised (see note 5). The total rateable value of the remaining properties as at September 2006 was \$890,000. NZ Windfarms, if required to purchase these properties, would look to sell them immediately on the open market.

## 16. Capital Commitments

During the period ended 31 December 2006, the Te Rere Hau Joint Venture confirmed the purchase of 14 turbines from Windflow Technology. The Company's remaining 50 percent share of capital payments owing as at 31 December 2006 is \$3,787,000 (31 December 2005: \$3,150,000; 30 June 2006: \$1,512,000).

The Te Rere Hau Joint Venture also confirmed construction contracts for electrical, roading and foundations for the construction of the second batch of 14 turbines. The Company's remaining 50 percent share of capital commitments outstanding as at 31 December 2006 is \$250,000 (31 December 2006: \$485,000; 30 June 2006: \$548,142).

## 17. Operating Leases

The Group's minimum operating lease payments are as follows:

For the period to	Group	
	31 Dec 2006 NZ IFRS NZ\$	31 Dec 2005 NZ IFRS NZ\$
Lease payments expensed during the year	26,388	7,200
<b>Lease commitments:</b>		
Within 1 year	43,114	8,822
1 to 5 years 147,617	147,617	127,414
More than 5 years	1,063,889	2,194,770

The operation of the Te Rere Hau Wind Farm by Te Rere Hau Joint Venture is governed by the Wind Rights Agreement. This agreement provides for an easement to be granted to allow the establishment of a wind turbine generating facility. In exchange for easement access a royalty is payable based on gross revenue from the wind farm and a fixed royalty. The Wind Rights Agreement is for a maximum period of 75 years. The maximum life of royalty payments is 25 years for this note disclosure.

The Company leases office premises. The lease runs for a period of three years with an option to renew the lease after that date for a further three years. Lease payments are reviewed every two years to reflect market rentals.

## 18. Prospective Financial Information

The combined investment statement and prospectus issued 18 October 2005 for NZ Windfarms' initial public offer contained five year prospective financial information figures to 30 June 2010. Annual figures were provided. The financial information in this Section 11 comprises six monthly interim accounts, therefore no comparison to the 2005 figures is made. These comparisons will be undertaken in the annual report to 30 June 2007.

# Section 12: Auditor's Report on Historical Financial Information

## Goldsmith Fox PKF Chartered Accountants

Level 1, 250 Oxford Terrace  
Charles Luney House  
Christchurch  
P O Box 13-141  
64 3 366-6706  
64 3 366-0265  
info@goldfox.co.nz  
www.goldfox.co.nz



9 May 2007  
The Directors  
NZ Windfarms Limited  
Level 5  
315 Manchester Street  
PO Box 13-321  
Christchurch

We have prepared this report as auditors of the summary of financial statements and the financial statements in accordance with clauses 42(1)(g) and 42(3) respectively of the First Schedule of the Securities Regulations 1983 ("the Regulations") for inclusion in the NZ Windfarm's Prospectus contained in the combined Investment Statement and Prospectus dated 9 May 2007 ("the prospectus").

### **The Directors' Responsibilities**

The directors are responsible for the preparation of summary financial statements which comply with clauses 8(2), 8(3) and 11(2) of the Regulations for inclusion in the prospectus. Clause 11(2) only applies to the formation of NZ Windfarms Limited wholly owned subsidiary NZWL-TRH Limited. The directors are also responsible for compliance with clause 22(2) of the Regulations whereby the latest financial statements for the company that have been registered under the Financial Reporting Act 1993 (comprising financial statements for the 12 months ending 30 June 2006) contain the information required by clauses 23 to 38 of the Regulations.

### **Basis of Opinion**

Our audit was conducted in accordance with New Zealand Auditing Standards and involved carrying out procedures to ensure the summary of financial statements is consistent with the full financial reports on which the summary report is based. We also evaluated the overall adequacy of compliance with clauses 22 to 38 of the Regulations.

Other than in our capacity as auditors we have no relationship with or interest in NZ Windfarms Limited.

### **Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion

- The amounts stated pursuant to clauses 8(2) and 8(3) of the First Schedule to the Regulations, being the Summary of Financial Statements in Section 11 of the Offer Document in which the prospectus is contained, have been taken correctly from the audited financial statements for the 12 month periods ended 30 June 2005 and 30 June 2006, and from the unaudited financial statements for the six months period ended 31 December 2006;
- The latest financial statements for the company for the 12 months ending 30 June 2006 that have been registered under the Financial Reporting Act 1993 contain the information required by clauses 23 to 38 of the Regulations.

We have completed our work for the purposes of this report on 3 May 2007.

*Goldsmith Fox PKF*

GOLDSMITH FOX PKF

# Section 13: Investment Statement - Answers to Important Questions

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## What Sort Of Investment Is This?

The securities being offered in this Offer Document are Shares in NZ Windfarms. All Shares offered pursuant to this Offer Document and the current Shares of the Company are ordinary shares of the same class ranking equally with one another, and are otherwise subject to the provisions of the Constitution, the Listing Rules and the Companies Act.

The Shares are to be issued on the terms set out in Section 1 "Description of the Offer" of this Offer Document.

## Who Is Involved In Providing It For me?

The issuer of the Shares is NZ Windfarms. NZ Windfarms' registered office and address for service is:

C/- Grant Thornton (Christchurch) Limited  
9th Floor, Anthony Harper Building  
47 Cathedral Square  
Christchurch

NZ Windfarms' principal place of business is:

Level 5  
315 Manchester Street  
Christchurch

The principal activities of NZ Windfarms are the establishment and operation of the Te Rere Hau Wind Farm and the securing of other wind farm sites, developing the wind farm sites and selling the electricity produced. NZ Windfarms was incorporated on 11 September 2002 and commenced business in the year ending 30 June 2005.

Further details concerning NZ Windfarms' principal activities are set out in Section 5 "About NZ Windfarms" of this Offer Document.

## How Much Do I Pay?

Shares are offered at \$1.10 per Share. The minimum amount of Shares that may be applied for is 3,000, giving a minimum amount that is payable of \$3,300.00 and applications in excess of that amount must be in multiples of 1,000 Shares.

See Section 1 "Description of the Offer" of this Offer Document and the Application Form for details of how to apply for Shares under this Offer Document. Section 1 "Description of the Offer" in this Offer Document includes details of to whom you must pay your subscription money, the place payments are to be made to and when you must make the payments.

Failure to pay the subscription monies in full or part in accordance with this Offer Document, or failure of a cheque to clear, may mean that the application is rejected. Acceptance or rejection of an application is at the complete discretion of NZ Windfarms.

There is no cooling off period in respect of your Application for Shares.

## What Are The Charges?

There are no charges payable by Applicants in respect of applying for the Shares payable to NZ Windfarms, any promoter or any other person or any person associated with any of them. In particular, an Applicant is not required to pay any brokerage fees or costs. NZ Windfarms will pay all costs of the Offer including all legal, accounting, audit, brokerage, lead management, underwriting, NZX, printing and distribution costs. These costs are estimated at \$5.3 million.

## What Returns Will I Get?

The returns from the Shares are in the nature of returns on selling the Shares and receiving dividends (if declared by the Directors) on Shares. Returns on selling the Shares may be higher or lower than the amount paid on original subscription.

The key factors determining returns include the financial performance of NZ Windfarms (subject to applicable taxes, reserves and retentions and the Board's decision in relation to distributions) and the market price of Shares. Other factors include general economic factors, demand for electricity, the costs of acquiring and developing wind farms, the risks described in Section 9 "Trade Factors and Risks" of this Offer Document and in the paragraph under the heading "What Are My Risks?" immediately below.

The dates and frequency of returns payable on selling the Shares are not known. The person legally liable to pay this return is the purchaser of the Shares as the case may be.

The dates and frequency of any payment of dividends on the Shares are not known. NZ Windfarms is legally liable to pay any dividends declared and payable.

Taxes may affect the returns. Dividends will generally be subject to New Zealand withholding tax, non-resident withholding tax and final taxes but the liability in respect of such taxes may be reduced or satisfied to the extent the dividends have imputation credits attached. In some cases, gains on the sale of Shares will be taxable.

Nothing contained in this Offer Document should be construed as a promise of profitability or that any returns will be available. NZ Windfarms can give no assurance about any increase in the value of the Shares, the level of dividends (if any) or the level of imputation credits.

No amount of returns (whether by way of dividend or any other return) are promised or guaranteed by NZ Windfarms or any other person.

Investors are recommended to seek their own financial and tax advice because an individual investor's own circumstances are likely to influence the level of returns to that investor.



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## What Are My Risks?

The principal risks to holders of Shares are an inability to recover some or all of their investment and/or a failure by NZ Windfarms to pay dividends. These situations could occur for a number of reasons including:

- The money paid for the Shares may not be recovered in full on selling the Shares.
- Holders of Shares being unable to sell the Shares.
- NZ Windfarms being placed in receivership, liquidation or statutory management or the Company being dissolved in accordance with the dissolution provisions in the Companies Act.
- NZ Windfarms being insolvent or having insufficient funds to pay a dividend in accordance with the dividend policy of paying out 50 percent of Operating Free Cash Flow.

**NZ Windfarms' performance is central to whether any of the above situations could arise. The performance of NZ Windfarms may be affected by the risks set out in Section 9 "Trade Factors and Risks" of this Offer Document. Investors should consider those risks carefully prior to making a decision to apply for Shares.**

Holders of Shares will not be liable to pay any additional money (in excess of the Issue Price) to any person in the event of insolvency of NZ Windfarms. All claims of holders of Shares rank equally between themselves in the liquidation or dissolution of NZ Windfarms, but those claims rank behind the claims of all creditors of the Company.

Any investment involves risk that the investor's and the issuer's expectations will not accord with actual experience. For example:

- A possible downturn in economic conditions will cause the market for the Shares, and the market in which NZ Windfarms operates, to be less favourable than expected.
- There is no guarantee that the price of the Shares will increase and it is possible that the price will decrease below the Issue Price. It is expected that the transfer of NZ Windfarms' NZX listing from the NZAX to the NZSX will assist in developing an active market.
- The assumptions in Section 7 "Prospective Financial Information" of this Offer Document may prove to be incorrect in a manner that adversely affects the share price of the Shares, the ability to sell the Shares or the dividends that may be payable on the Shares.

Investors should be aware that their shareholding in NZ Windfarms is likely to be diluted as a result of any further Shares being issued by NZ Windfarms in the future.

## Can The Investment Be Altered?

The terms of the Offer are as set out in this Offer Document. The terms can be amended by an amendment to this Offer Document registered at the Companies Office and subject to approval by NZX and compliance with applicable laws.

The rights attaching to the Shares are governed by NZ Windfarms' Constitution and the Companies Act. The Constitution can only be amended by a special resolution of shareholders, or in certain circumstances, by court order.

Section 117 of the Companies Act 1993 restricts NZ Windfarms' ability to take action affecting Shareholders' rights without following the required process. Under certain circumstances a Shareholder, whose rights are affected by a special resolution approving a change in shareholder rights, may require NZ Windfarms to repurchase the Shareholder's Shares.

The Listing Rules also affect Shareholder rights.

## How Do I Cash In My Investment?

Holders of Shares may sell their Shares subject to compliance with the Constitution, the Takeovers Code, the Listing Rules, and other applicable securities laws and regulations. There is an established market for the sale of shares on the NZSX and, upon the Shares becoming listed on the NZSX, there will be an established market for the sale of the Shares. Until the Shares are listed on the NZSX, there is an established market for the sale of the Shares on the NZAX. However, as explained in Section 9 "Trade Factors and Risks" of this Offer Document, there is no guarantee that an investor may sell their Shares at a price higher than the Issue Price.

No charges are payable by Shareholders to NZ Windfarms on the sale of Shares. Shareholders may have to pay brokerage for on market sales.

Applicants should not attempt to sell Shares until they receive a FASTER statement showing whether, and how many, Shares have been Allotted to them. NZ Windfarms does not accept any liability or responsibility for dealings in Shares.

Shares may be cancelled by NZ Windfarms under a share buy-back or other form of capital reconstruction. Subject to this, and the right to sell Shares discussed above, no person has any right to terminate, cancel, surrender or otherwise make or obtain payment of the returns from the Shares, other than as referred to under the question "What Returns Will I Get?" above in this Section 13.

### **Who Do I Contact With Enquiries About My Investment?**

Enquiries about the Shares can be made to:

Mr Chris Freear  
Chief Executive Officer  
NZ Windfarms Limited  
Level 5, 315 Manchester Street  
Christchurch  
Phone: 03 943 5410  
Fax: 03 943 5411

### **Is There Anyone To Whom I Can Complain If I Have Problems With The Investment?**

Complaints about the Shares should be referred to:

Mr Chris Freear  
Chief Executive Officer  
NZ Windfarms Limited  
Level 5, 315 Manchester Street  
Christchurch  
Phone: 03 943 5410  
Fax: 03 943 5411

There is no ombudsman for this type of investment and therefore no complaints can be made to an ombudsman.

### **What Other Information Can I Obtain About This Investment?**

Other information about NZ Windfarms is contained in this Offer Document and most recent annual financial statements of the Company. Copies of these can be obtained free of charge by contacting:

Mr Chris Freear  
Chief Executive Officer  
NZ Windfarms Limited  
Level 5, 315 Manchester Street  
Christchurch  
Phone: 03 943 5410  
Fax: 03 943 5411  
and at [www.nzwindfarms.co.nz](http://www.nzwindfarms.co.nz)

This Offer Document and other documents of or relating to NZ Windfarms are filed on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz) under NZ Windfarms Limited (Company number 1231708) and are available for public inspection. Where relevant documents are not available on the website a request for documents can be made by contacting the Companies Office Contact Centre by telephone on 0508 266 726 during usual business hours. A fee may be payable for searching documents online or requesting documents from the Companies Office Contact Centre.

### *Annual information*

Holders of Shares will receive an annual report of NZ Windfarms, incorporating the most recent audited financial statements, in accordance with the requirements of the Companies Act and the Listing Rules.

### *On request information*

The following information is available from NZ Windfarms on request in accordance with the contact details below (together with any other information required to be made available on request by statute or by the Listing Rules):

- Copies of the material contracts referred to in Section 14 "Statutory Information" of this Offer Document.
- A copy of the most recent annual report of NZ Windfarms.
- A copy of the most recent financial statements of NZ Windfarms.
- A copy of this Offer Document.

These documents are available by contacting:

Mr Chris Freear  
Chief Executive Officer  
NZ Windfarms Limited  
Level 5, 315 Manchester Street  
Christchurch  
Phone: 03 943 5410  
Fax: 03 943 5411

NZ Windfarms is entitled to charge a fee for the provision of copies of such information of up to 20 cents per page.

The information required to be made available under Sections 215 and 216 of the Companies Act and Section 52 of the Securities Act 1978 may also be obtained on request to the Registry at:

Link Market Services Limited  
138 Tancred Street  
P O Box 384  
Ashburton

If copies are made, a fee of up to 20 cents per page may apply.

Shareholders have the right to access and correct personal information that NZ Windfarms or the Registrar holds about them under the Privacy Act 1993. NZ Windfarms and the Registrar are collecting information under this Offer from Applicants for the purpose of administering the Company, managing the relationship with its Shareholders and sending Shareholders future information about the Company.

# Section 14: Statutory Information

This section of this Offer Document sets out or refers to the information required to be disclosed in a Prospectus by Schedule 1 to the Securities Regulations 1983 and the information is set out in the same order listed in Schedule 1.

## 14.1 Main Terms of Offer

The main terms of the Offer are set out in Section 1 "Description of the Offer" of this Offer Document.

## 14.2 Name and Address of the Offeror

The Shares being offered under the Offer are ordinary shares in NZ Windfarms rather than "previously allotted securities" as defined in section 6 of the Securities Act 1978. Accordingly, clause 2 of Schedule 1 to the Securities Regulations 1983 does not apply and no disclosures are required under clause 2 of Schedule 1 to the Securities Regulations 1983.

## 14.3 Details of Incorporation of the Issuer

NZ Windfarms was incorporated under the Companies Act on 11 September 2002 under registered number 1231708. The public file relating to the incorporation of NZ Windfarms can be accessed via the internet at [www.companies.govt.nz](http://www.companies.govt.nz) under the records of NZ Windfarms. Where relevant documents are not available on the website a request for documents can be made by contacting the Companies Office Contact Centre by telephone on 0508 266 726 during usual business hours. A fee may be payable for searching documents online or requesting documents from the Companies Office Contact Centre.

## 14.4 Principal Subsidiaries of the Issuer

NZWL-TRH Limited is the only subsidiary of the Company. It was incorporated on 4 December 2006 for the purpose of holding NZ Windfarms' share in the Te Rere Hau Joint Venture. NZWL-TRH Limited's address of its registered office is the same as NZ Windfarms' address (see page 62). All the issued capital of NZWL-TRH Limited is held by NZ Windfarms.

## 14.5 Directorate and Advisors

The name and address of every Director of NZ Windfarms can be found in the Directory on page 83.

The technical and professional qualifications of every Director can be found in Section 6 "Board and Senior Management" of this Offer Document.

The names and addresses of NZ Windfarms' auditors, securities registrar, bankers, sharebrokers and solicitors who have been involved in the preparation of the registered Prospectus contained in this Offer Document can be found in the Directory on page 83.

Garrad Hassan and Partners Limited, an international consulting engineering company that specialises in wind energy, has provided an expert's report in Section 10 "Technology Report" of this Offer Document. Garrad Hassan and Partners Limited's address can be found in the Directory on page 83.

The Offer is underwritten and the name and address of the Underwriter can be found in the Directory on page 83.

## 14.5A Restriction on Directors' Powers

The Companies Act contains provisions restricting the powers of the Directors. Such restrictions are common to all companies incorporated under the Companies Act. For example, the Directors must not allow NZ Windfarms to enter into any major transaction (as defined in the Companies Act) without the prior approval of a special resolution of shareholders.

Further restrictions are imposed on the Directors by certain provisions of the NZAX Listing Rules and the Constitution of NZ Windfarms. Such restrictions are common to any NZAX listed company.

Some restrictions on the Directors' powers imposed by the Companies Act and NZAX Listing Rules are set out below:

- (a) Shares and other securities may only be issued by the Directors in accordance with the requirements of the Constitution and the NZAX Listing Rules.
- (b) NZ Windfarms may only carry out share repurchases and redemptions and the giving of financial assistance for the purchase of shares in accordance with the restrictions in the Constitution and the NZAX Listing Rules.
- (c) The rights of security holders cannot be altered unless NZ Windfarms has complied with the Constitution, NZAX Listing Rules and Companies Act.
- (d) NZ Windfarms must not enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of the Company, or to be held by the Company, which would change the essential nature of the business of NZ Windfarms, or in respect of which the gross value is in excess of 50 percent of the average market capitalisation (as defined in the NZAX Listing Rules) of NZ Windfarms, without the prior approval of an ordinary resolution of shareholders.
- (e) NZ Windfarms must not enter into a material transaction (as defined in the NZAX Listing Rules and the Constitution) if a related party (as defined in the NZAX Listing Rules and the Constitution) is, or is likely to become, a direct or indirect party to the material transaction, or to at least one of a related series of transactions of which the material transaction forms part, or enter guarantees or similar material transactions, where a related party is or is likely to become a direct or indirect beneficiary of such guarantees or other transactions, without the prior approval of an ordinary resolution of Shareholders. This does not apply to employment agreements with non-directors and other exceptions stated in the NZAX Listing Rules and Constitution.
- (f) The Directors may not delegate powers conferred on the Board by the sections listed in Schedule 2 to the Companies Act.

Upon the transfer of NZ Windfarms' Shares from the NZAX listing to the NZSX listing, it will be necessary for NZ Windfarms to adopt a constitution that complies with the NZSX Listing Rules. The adoption of the new constitution is intended to be approved by way of special resolution at the Special General Meeting of Shareholders to take place on 28 May 2007. The material changes to the constitution are:

- (a) NZ Windfarms must, for so long as it remains listed on the NZSX market, comply with the NZSX Listing Rules.
- (b) The proposed constitution incorporates various NZSX Listing Rules, either by setting out the relevant rule or incorporating it by reference.
- (c) Employee share issues may now only be made so long as the issue represents less than three percent of Shares on issue during the preceding 12 months (in aggregate at the time of issue). The current threshold is five percent.
- (d) The requirements relating to shareholder approval of material transactions with related parties will remain (see paragraph 14.5A (e) immediately above), however, there are some differences. Under the NZSX Listing Rules a material transaction with a related party which has a value less than \$250,000, or an employment agreement with a person that is not a Director, will be able to be entered into without the Shareholders passing an ordinary resolution. The materiality thresholds as to what constitutes a material transaction will decrease from 10 percent of average market capitalisation of NZ Windfarms to five percent, except in the case of service contracts where the threshold will decrease from 1.5 percent of average market capitalisation to 0.5 percent.
- (e) Under the terms of the subscription agreement with Vector Limited (see paragraph 14.17(l) of this Section) NZ Windfarms will not be able to issue Equity Securities (as defined in the NZSX Listing Rules) in the manner prohibited by the terms of the subscription agreement.
- (f) The quorum required for a meeting of Shareholders is proposed to be changed. The existing constitution requires a quorum of 10 Shareholders to be present (either personally, by proxy or by postal vote) who together hold 25% of the total votes of all Shareholders. The 25% requirement will be removed if the new constitution is adopted.

#### 14.6 Substantial Security Holders of the Issuer

The names of the registered holders of the ten largest holdings of equity securities (comprising the Shares) on 4 May 2007, and the amount of their respective holdings are set out below:

Shareholder	No. of Shares Held
Windflow Technology Limited	3,000,000
Anthony John & Deirdre Patricia Anselmi & Ross Michael Alleman	400,000
Delane Wycoff	140,718
David Walter Iles	122,000
Fitzallan Holdings Limited	100,000
Investment Custodial Services Limited	100,000
FNZ Custodians Limited	84,819
Caroline Claire Stockdale	84,000
Ian Allan & Stephanie Frances Cowan	80,000
Angus Robert Kennedy and Emma Napier	80,000
Ralph Silvester	80,000
Chris Marshall & William Parsons	70,000
Reda Holdings Limited	70,000
Garry Robert Carleton & Clare Margaret Carleton	60,000
John Terrence and Patricia Mary Gribben & Owens Nominees Limited	60,000
Anthony George & Dorothy Lynette Mallard	60,000
Marian Whitney Melhuish	60,000

None of the persons listed above undertake any liability in respect of the securities being offered under the Offer.

#### 14.7 Description of Activities of Issuing Group

NZ Windfarms and its wholly owned subsidiary, NWL-TRH Limited's, principal business activities are described in the Section 5 "About NZ Windfarms" of this Offer Document. As at the date of registration of this Offer Document, NZ Windfarms' only fixed assets comprise its interest in the five turbines already installed and operating at the Te Rere Hau Wind Farm. As at the date of this Offer Document \$315,000 plus GST has been retained by the Te Rere Hau Joint Venture for the five turbines and represents the balance of the retention entitled to made for 12 months pending certain warranty compliance by the turbines. The interest in the five turbines is held through NZWL-TRH Limited's 50 percent interest in the Te Rere Hau Joint Venture.

#### 14.8 Summary of Financial Statements

Financial statements in summary form are set out in Section 11 "Historical Financial Statements" of this Offer Document.

#### 14.9 Prospects and Forecasts

Sections 5 "About NZ Windfarms" and 7 "Prospective Financial Information" of this Offer Document contain statements as to the trading prospects of NZ Windfarms, together with any relevant material information and Section 9 "Trade Factors and Risks" contains a description of all special trade factors and risk factors that are not mentioned elsewhere in this Offer Document and are not likely to be known or anticipated by the general public and which could materially affect the prospects of the issuing group.

By way of summary, NZ Windfarms' and NWL-TRH Limited's trading prospects are dependent on renewable energy ventures, such as the development and operation of wind farms, being able to supply electricity in a manner that is competitively priced when compared with other supplies of electricity, and other wind farms.

NZ Windfarms, through its wholly owned subsidiary NZWL-TRH Limited, intends to complete the development of the Te Rere Hau Wind Farm as part of the Te Rere Hau Joint Venture. NZ Windfarms proposes to investigate

other possible wind farm sites and develop those sites if feasibility studies are successful. NZ Windfarms and NZWL-TRH Limited's trading prospects will require the raising of sufficient capital to fund projects and acquire rights to suitable wind farm sites.

The proposed use of the proceeds of this Offer is set out in Section 1 "Description of the Offer" of this Offer Document.

#### **14.10 Provisions Relating to Initial Flotations**

The Offer is a subsequent public offer following NZ Windfarms' initial public offer in 2005. Accordingly, no disclosures are required for the purposes of clause 10 of Schedule 1 to the Securities Regulations 1983.

#### **14.11 Acquisition of Business or Subsidiary**

In the two years preceding the date of registration of the prospectus contained in this Offer Document, NZ Windfarms established NZWL-TRH Limited. Details of that company and a brief description of its business are set out or referred to in paragraph 14.4 above. NZ Windfarms' investment in the subsidiary is approximately \$5.5 million, comprising money paid for the issue of shares to NZ Windfarms and loans made to the subsidiary.

#### **14.12 Securities Paid Up Otherwise than in Cash**

On incorporation of NZ Windfarms, Windflow Technology was issued with 100 Shares as fully paid up shares.

NZ Windfarms issued 846,486 Shares to Windflow Technology with effect on 30 June 2005. Those Shares were fully paid up in non-cash consideration, being in satisfaction of a loan of approximately \$0.85 million from Windflow Technology to NZ Windfarms to enable NZ Windfarms to purchase assets including the rights to develop the Te Rere Hau Wind Farm as now contained in the Wind Rights Agreement (discussed in this Section, paragraph 14.17 (b) below), Resource Consent costs and intellectual property.

On 25 August 2005 NZ Windfarms carried out a share subdivision in respect of all 846,586 Shares on issue prior to the subdivision. The 846,586 Shares were subdivided into three million Shares. No consideration is required for share subdivisions. NZ Windfarms considered at that time that the value of its assets was at least \$3 million (including intangible assets such as carbon credits), equating to a value per Share on issue of at least \$1.00.

NZWL-TRH Limited has not issued any equity or participatory securities to any person at any time other than NZ Windfarms (being a member of the issuing group) and no such securities have been subscribed for or allotted except to NZ Windfarms.

#### **14.13 Options to Subscribe for Securities of the Issuing Group**

Options to subscribe for securities in NZ Windfarms were issued as part of the Company's initial public offer in 2005. The options were exercised or otherwise expired on 29 September 2006. No options to subscribe for securities are currently available to any person except the options that will be available under the NZ Windfarms' Share Option Scheme described in Section 6 "Board and Senior Management" of this Offer Document.

NZWL-TRH Limited has not granted, and does not propose to grant, any option to subscribe for securities.

#### **14.14 Appointment and Retirement of Directors**

The appointment of the original Directors of NZ Windfarms were ratified by resolution, and the two Directors who stood down by rotation stood for re-election in 2006 and were re-appointed to the Board at the NZ Windfarms Annual Shareholders' Meeting on 15 September 2006 in accordance with Sections 153 and 155 of the Companies Act, the Constitution and the NZAX Listing Rules.

At least one third of the Directors (or if the number is not a multiple of three, then the number nearest to one third) must retire from office at each annual meeting, but they shall be eligible for re-election. The Directors to retire are those who have been longest in office since they were last elected or deemed elected.

There is no retirement age for Directors. A Director can appoint and remove an alternate director to act in his or her place.

#### **14.15 Directors' Interests**

NZ Windfarms currently has no executive Directors.

Each Director of NZ Windfarms is entitled, subject to Shareholder approval under the Listing Rules, to participate in the NZ Windfarms' Share Option Scheme described in Section 6 "Board and Senior Management" of this Offer Document in consideration of each Director carrying out his or her responsibilities as a Director of NZ Windfarms. The total number of options available to each of the Directors is 100,000.

NZ Windfarms may make a payment to a Director or former Director, or his or her dependants, by way of a lump sum or pension, upon or in connection with the retirement or cessation of office of that Director, only if the amount of the payment, or the method of calculation of the amount of that payment is authorised by an ordinary resolution of the Shareholders. No such payment has been authorised at the date of this Offer Document.

Mr Barrie Leay and Mr Keith McConnell, directors of NZ Windfarms, are also directors of Windflow Technology, a substantial shareholder of NZ Windfarms. NZ Windfarms has entered into material transactions with Windflow Technology. Details of those transactions are set out in this Section, paragraph 14.17 below.

NZ Windfarms, as purchaser, entered into an agreement for sale and purchase dated 17 November 2006 with Mr Christopher Boyle and Mr Derek Walker as trustees of The Boyle Family Trust, as vendor, for the purchase of 631 Pahiatua Track, Palmerston North (comprised in certificate of title WN53B/232, Wellington Registry). The agreement was entered into as a result of the Boyle Family Trust exercising a put option requiring NZ Windfarms to purchase the relevant land. The put option agreement was entered into on 7 February 2005. Mr Walker is interested in the transaction because he is Chairman of the Board of NZ Windfarms and a trustee of the Boyle Family Trust. The consideration payable pursuant to the agreement was \$795,000 inclusive of GST. Settlement of this contract occurred on 12 March 2007 and NZ Windfarms now owns this property. NZ Windfarms agreed to purchase the property in consideration of the landowners withdrawing opposition to the Te Rere Hau Wind Farm and not making



any further objections to the wind farm.

NZ Windfarms entered into an unconditional contract to sell the same property to Mr Mark Pugin for \$600,000 inclusive of GST. The contract for sale to Mr Pugin was only conditional upon Mr Pugin entering into an unconditional contract for the sale of his property at 271 State Highway 56, Palmerston North (comprised in certificate of title WN17C/464, Wellington Registry) for a price and on terms and conditions acceptable to him. As at the date for satisfaction of this condition, Mr Pugin had been unable to find a new purchaser for his property. NZ Windfarms considered 271 State Highway 56 would be easier to sell than 631 Pahiatua Track, therefore NZ Windfarms entered into a conditional contract to purchase Mr Pugin's property at a purchase price of \$425,000 inclusive of GST. Both the contract for the purchase of 271 State Highway 56 from Mr Pugin and the contract for the sale of 631 Pahiatua Track to Mr Pugin settled on 27 April 2007. In respect of the property at 631 Pahiatua Track, Mr Walker has been a Director of NZ Windfarms since 1 March 2004. His interest in the property was as an independent trustee and he had no beneficial interest in the trust property. The cost of the property to the landowners was \$52,200 including GST. Mr Boyle was the original proprietor of the land when a title was issued for it on 12 March 1998, and the property was purchased by the trust in the names of Mr Boyle and Mr Walker jointly on 15 August 2003. Mr Walker declared his interest and removed himself from all negotiations, discussions and decisions concerning the transaction.

Apart from the transactions referred to above, NZ Windfarms has not entered into any material transactions with any Director or other person described in clause 15(4) of Schedule 1 to the Securities Regulations 1983, and is not currently planning to do so.

#### **14.16 Promoters' Interests**

There are no promoters of the Offer

#### **14.17 Material Contracts**

##### *(a) Summary of Material Contracts*

NZ Windfarms has been established to own and operate wind farms and the first of these is the Te Rere Hau Wind Farm. The land upon which the wind farm is located is owned by Aeolian Property Company Limited and initially Windflow Technology had an option to develop and operate a wind farm under a wind rights option agreement

Windflow Technology formed NZ Windfarms in 2002 and transferred the development rights to NZ Windfarms. NZ Windfarms and Windflow Technology then entered into the Turbine Purchase Agreement to secure to NZ Windfarms a supply of Windflow 500 turbines for installation at the Te Rere Hau Wind Farm.

In 2006 NZ Windfarms transferred the Te Rere Hau Wind Farm to the Te Rere Hau Joint Venture. NZ Windfarms, as an original party to the Te Rere Hau Joint Venture arrangements, took a one-half share (as a tenant in common) in the Te Rere Hau Wind Farm. The other Te Rere Hau Joint Venture party is NPBB Pty Limited. Further details on the other Te Rere Hau Joint Venture party can be found in Section 5 "About NZ Windfarms" of this Offer Document. Various contracts relating to the wind farm, such as the Wind Rights Agreement and the Turbine Purchase Agreement, were transferred by NZ Windfarms

to the Te Rere Hau Joint Venture. On 31 January 2007 NZ Windfarms' share in the Te Rere Hau Joint Venture was assigned to its wholly owned subsidiary, NZWL-TRH Limited.

##### *(b) Wind Rights Agreement*

NZ Windfarms originally obtained its right to develop the Te Rere Hau Wind Farm from the owner of the land (Aeolian Property Company Limited) under the Wind Rights Agreement dated 6 September 2006. However, as part of the negotiations for the Te Rere Hau Joint Venture a new Wind Rights Agreement was entered into on 14 December 2006 by Aeolian Property Company Limited and NZ Windfarms. The development rights for the Te Rere Hau Wind Farm are now contained in that agreement. NZ Windfarms transferred the development rights to the Te Rere Hau Joint Venture by entering into a novation agreement dated 22 December 2006 between Aeolian Property Company Limited, NZ Windfarms, NZ Windfarms and NPBB Pty Limited (comprising the parties to the Te Rere Hau Joint Venture), Babcock & Brown Windpower and N.P. Power. NZ Windfarms paid \$0.6 million to purchase the development rights. Windflow Technology has originally acquired those rights for \$1.2 million under a previous wind rights option agreement, however NZ Windfarms only paid \$0.6 million because various items of intellectual property were not transferred to NZ Windfarms.

In return for the wind farm development rights the Te Rere Hau Joint Venture pays Aeolian Property Company Limited a royalty. The royalty amounts are calculated in accordance with formulae set out in the Wind Rights Agreement and are summarised below. For an initial three year period the Te Rere Hau Joint Venture must pay the greater of \$7,500 (being the current minimum royalty) and two percent of gross sales of electricity for the first seven MW of electricity generated and one percent of gross sales of electricity thereafter. For the remainder of the initial term (expiring on 24 August 2030) the royalty shall be the greater of the revised minimum royalty (see below) and two percent of the gross sales of electricity for the first seven MW of electricity generated plus additional amounts varying from one percent of gross sales of electricity to two percent depending on factors such as the availability of the turbines and the actual average power price for the relevant period expressed on a cents/kilowatt hour basis. The minimum royalty is \$7,500 per annum to 31 December 2007, \$15,000 per annum from 31 December 2007, \$30,000 per annum from 31 December 2009 and thereafter is increased by \$10,000 annually until \$100,000 per annum. GST will be payable by the Te Rere Hau Joint Venture on the royalty payments referred to above. The term "gross sales of electricity" used above is defined in the Wind Rights Agreement. Royalty payments are calculated for each year beginning on 1 July and ending on 30 June.

The wind rights granted under the Wind Rights Agreement are initially for a term of 25 years commencing on 25 August 2005 and with five rights of renewal of ten years each, giving a maximum term of 75 years. Royalty percentages are reviewed upon the exercise of a right of renewal.

If there is a default by the Te Rere Hau Joint Venture under the Wind Rights Agreement and Aeolian Property Company Limited has a right to terminate the agreement, then before using the site for an alternative use not involving

wind power generation, Aeolian Property Company Limited must first offer the Te Rere Hau Joint Venture the opportunity to continue wind generation on the site, provided the return to Aeolian Property Company Limited is the same as its proposed alternative use. If, following such a default, Aeolian Property Company Limited wishes to sell the land and receives an offer from a third party, then the Te Rere Hau Joint Venture has a right of first refusal to purchase the land on the same terms.

Mr Geoffrey Henderson and his related interests hold 34 percent of the shares in Aeolian Property Company Limited. Mr Henderson is also a shareholder in Windflow Technology and he is a director of both Aeolian Property Company Limited and Windflow Technology. Aeolian Property Company Limited holds shares in Windflow Technology.

#### *(c) Easement*

NZ Windfarms currently holds a registered interest by way of easement over the land upon which the Te Rere Hau Wind Farm is located. The Easement is dated 6 March 2006 and creates formal rights to occupy the land and is granted by the landowner, Aeolian Property Company Limited. The Easement is registered at Land Information New Zealand under number 6888949.1 (Wellington Registry).

NZ Windfarms transferred the Easement to the Te Rere Hau Joint Venture by entering into a novation agreement dated 22 December 2006 between Aeolian Property Company Limited, NZ Windfarms, NZ Windfarms and NPBB Pty Limited, Babcock & Brown Windpower and N.P. Power.

The Easement requires that the Te Rere Hau Wind Farm be developed and operated as authorised by the Resource Consent. The Resource Consent requires that the Windflow 500 turbine be used. In the event that the Te Rere Hau Joint Venture terminated the Turbine Purchase Agreement (see paragraph (d) immediately below) and wished to use an alternative turbine, the Resource Consent would need to be amended. Aeolian Property Company Limited has agreed in the novation of the Wind Rights Agreement (see paragraph (b) above) that alternative turbines can be used in these circumstances, however, note that Aeolian Property Company Limited may elect to sell the relevant land to NZ Windfarms under the put option agreement referred to in paragraph (i) below.

The Easement is currently being replaced by a new version that will have the Te Rere Hau Joint Venture parties as the holder of the Easement. The replacement Easement will also be registered at Land Information New Zealand.

#### *(d) Turbine Purchase Agreement*

NZ Windfarms and Windflow Technology entered into an agreement dated 12 October 2005 for the sale and purchase of up to 97 Windflow 500 turbines from Windflow Technology to NZ Windfarms. The agreement requires NZ Windfarms to purchase the turbines for the Te Rere Hau Wind Farm from Windflow Technology, unless the agreement has been terminated due to a material breach by Windflow Technology. The price of turbines paid to Windflow Technology was \$0.63 million plus GST per turbine for the first five turbines contained in Stage One. Windflow Technology has advised NZ Windfarms that the cost of the turbines for Stage One to Windflow

Technology resulted in a loss although at the date of this Offer Document the amount of the loss has not been finally determined. The price of turbines for the second order of 14 turbines is \$0.79 million plus GST per turbine and Windflow Technology has advised NZ Windfarms that the cost to Windflow Technology to produce those turbines is likely to be between \$0.79 million and \$0.80 million plus GST. The final costs Windflow Technology will incur are not known at the date of this Offer Document. The price for subsequent orders is not precisely known as the price will depend on various cost increases of manufacturing and components, although NZ Windfarms expects costs to decrease if Windflow Technology can manufacture on a continuous model, rather than on a batch production model.

The Turbine Purchase Agreement contains details of when batches of turbines are expected to be ordered, subject to NZ Windfarms raising sufficient capital. The last order of turbines (comprising a batch of 31 turbines) is anticipated to be ordered in the first quarter of 2008.

The Turbine Purchase Agreement includes warranty and performance provisions covering operating availability, power curve, defects and sound levels of the turbines. The agreement also provides for maintenance by Windflow Technology of the turbines.

The Turbine Purchase Agreement was transferred to the Te Rere Hau Joint Venture under a novation agreement dated 22 December 2006 between Windflow Technology, NZ Windfarms, NZ Windfarms and NPBB Pty Limited, Babcock & Brown Windpower and N.P. Power.

#### *(e) Te Rere Hau Joint Venture Agreement*

The Te Rere Hau Joint Venture Agreement is dated 6 October 2006 and is between NZ Windfarms, NPBB Pty Limited, Babcock & Brown Windpower and N.P. Power. NPBB Pty Limited and NZ Windfarms are the two parties that formed the Te Rere Hau Joint Venture. Babcock & Brown Windpower and N.P. Power, as the owners of NPBB Pty Limited, guarantee the performance of its Te Rere Hau Joint Venture obligations. NZ Windfarms' share in the Te Rere Hau Joint Venture was assigned to its wholly owned subsidiary, NZWL-TRH Limited, on 31 January 2007 (see paragraph (f) below).

The Te Rere Hau Joint Venture Agreement establishes an unincorporated joint venture. All joint venture assets are to be held by NZWL-TRH Limited and NPBB Pty Limited as tenants in common in equal shares, subject to adjustment in accordance with the terms of the Te Rere Hau Joint Venture Agreement as discussed below.

Under the terms of the Te Rere Hau Joint Venture Agreement NPBB Pty Limited has contributed the sum of \$3.0 million as an initial payment to reimburse NZ Windfarms for its contribution to Stage One of the Te Rere Hau Wind Farm plus an additional \$1.1 million comprising NPBB Pty Limited's contribution to various costs for Stage One.

The parties to the Te Rere Hau Joint Venture are to make equal contributions to the ordering of batches of turbines, however NPBB Pty Limited does not have to participate in the ordering of batch 2b (comprising 14 turbines) if the Windflow 500 turbine has not received certification in accordance with the Class 1A Design Certification of the International Electrotechnical Committee Standard

WT:01:2003. NPBB Pty Limited, being an Australian company, may apply to the New Zealand Overseas Investment Office for consent to invest further in the Te Rere Hau Joint Venture if it believes its total investment in the Te Rere Hau Wind Farm may exceed \$100 million. An investment to that level would only occur if NPBB Pty Limited had to complete the development on its own, say if NZ Windfarms was unable to contribute sufficient capital to the project. If NPBB Pty Limited decides to seek the consent of the Overseas Investment Office it can delay its contributions to the Te Rere Hau Joint Venture until the consent is granted.

Except for those matters, it is intended that both parties will jointly contribute matching funds to the Te Rere Hau Wind Farm. If NZ Windfarms does not have sufficient funds from capital raisings, NPBB Pty Limited may elect to order the relevant batch of turbines. In those circumstances NZ Windfarms' interest in the Te Rere Hau Joint Venture can be diluted if the unpaid amounts exceed \$0.1 million and within 30 days it does not pay the defaulted amount. If a party defaults in its obligations then, provided various thresholds and days of grace have passed (for example, if there is a payment default a party has 12 months to remedy the default and the party's share in the Te Rere Hau Joint Venture must be below 25 percent for three consecutive calendar months), then the non-defaulting party can require the defaulting party to sell the relevant share in the Te Rere Hau Joint Venture. The defaulting party has the right to specify the sale price, however, if the non-defaulting party disagrees with that price, the price can be determined by an independently qualified person jointly appointed by the parties. The price so determined must be the fair value of the share of the Te Rere Hau Joint Venture in accordance with the net present value of the assets held by the Te Rere Hau Joint Venture on the basis that the Te Rere Hau Wind Farm is a going concern.

The Te Rere Hau Joint Venture is managed by a management committee. NZ Windfarms and NPBB Pty Limited will both have two members on the committee with equal voting rights, although voting rights may be diluted if a party is in default.

NPBB Pty Limited undertook a complete technical due diligence of the Te Rere Hau Wind Farm site and the Windflow 500 turbine prior to committing to the Te Rere Hau Joint Venture.

Under the Te Rere Hau Joint Venture Agreement all the material contracts listed above have transferred to the Te Rere Hau Joint Venture so that the Te Rere Hau Joint Venture will have all the rights to develop and operate the Te Rere Hau Wind Farm and order turbines from Windflow Technology.

Each party's share in the Te Rere Hau Joint Venture cannot be transferred to a third party unless the other party is offered the share first. If the party does not wish to purchase the share then it can be sold to a third party. The remaining party can stop the sale unless the third party is of good standing and has a strong financial position to be able to perform its obligations under the Te Rere Hau Joint Venture Agreement.

#### *(f) Assignment of Share of Te Rere Hau Joint Venture*

NZ Windfarms and its wholly owned subsidiary, NZWL-TRH

Limited, have entered into an agreement dated 29 January 2007 assigning NZ Windfarms' interest in the Te Rere Hau Joint Venture and the material contracts referred to above to NZWL-TRH Limited. NZ Windfarms has invested \$5.53 million in NZWL-TRH Limited to permit it to purchase the relevant share in the Te Rere Hau Joint Venture. The assignment took effect on 31 January 2007.

#### *(g) Carbon Credits Agreement*

NZ Windfarms and Her Majesty the Queen in right of New Zealand (the Crown) entered into an agreement dated 29 March 2004, subsequently amended on 15 April 2005, under which the Crown has agreed to allocate "Emission Reduction Units" to NZ Windfarms as NZ Windfarms fulfils the conditions of the Carbon Credits Agreement.

The main condition is for NZ Windfarms to establish and operate the Te Rere Hau Wind Farm in order to achieve emission reductions during 2008 to 2012.

The number of emission reduction units that will be awarded to NZ Windfarms is capped at 519,000, however the actual number will depend on the performance of the Te Rere Hau Wind Farm, whether the wind farm meets the implementation schedule in the Carbon Credits Agreement and is operating at the necessary level of availability. Furthermore, an extension of the milestone dates in the Carbon Credits Agreement needs to be negotiated with the Crown before the emission units will be available. Delays in construction or lower than expected output will result in a reduction in the number of emission reduction units allocated. It is probable that NZ Windfarms will not realise its full allocation of emission reduction units.

There are certain risks associated with the Carbon Credits Agreement in general, as set out in Section 9 "Trade Factors and Risks" of this Offer Document.

NZ Windfarms is currently negotiating with the Crown to have the Carbon Credits Agreement transferred to the Te Rere Hau Joint Venture. In the meantime, NZ Windfarms must make the benefit of the Carbon Credits Agreement available to the Te Rere Hau Joint Venture and when the emission reduction units are available these must be transferred to the Te Rere Hau Joint Venture. These matters are contained in an agreement dated 22 December 2006 between NZ Windfarms and, as parties to the Te Rere Hau Joint Venture, NZ Windfarms and NPBB Pty Limited.

#### *(h) Management Services Agreement*

The Management Services Agreement is dated 22 December 2006 and is between NZ Windfarms and, as parties to the Te Rere Hau Joint Venture, NZ Windfarms and NPBB Pty Limited. Under the Management Services Agreement NZ Windfarms is appointed the manager of the Te Rere Hau Wind Farm. NZ Windfarms receives a fee for its services and the projected amount of the fee is included in Section 7 "Prospective Financial Information" of this Offer Document.

#### *(i) Put Option Agreement*

This agreement is dated 22 December 2006 and is between NZ Windfarms and Aeolian Property Company Limited. The agreement allows Aeolian Property Company Limited to require NZ Windfarms to purchase the land (a "put option") upon which the Te Rere Hau Wind Farm is located. Aeolian Property Company Limited required the put option agreement before it gave its consent to the Te Rere Hau

Joint Venture taking over the wind farm development and operation. Aeolian Property Company Limited cannot exercise the put option until the earlier of 30 June 2009 or six months after a notice is served by any party under the Turbine Purchase Agreement (see paragraph (d) above) requiring certain breaches of that agreement to be determined by arbitration. The price that NZ Windfarms must pay is calculated by reference to the current market value of the land excluding any wind farm development rights (such as the Resource Consent) plus an amount calculated by reference to the royalty payments Aeolian Property Company Limited will forego (but discounted to the net present value) and an amount to reflect the total term the wind rights would have been available under the Wind Rights Agreement (see paragraph (b) above).

*(j) Funding Arrangement*

NZ Windfarms has a loan outstanding to Windflow Technology and the amount outstanding at 31 December 2006 was \$0.87 million including accrued interest. The amount outstanding at the date of this Offer Document is \$0.55 million. The loan is expected to be repaid in June 2007. If it is not repaid by 14 December 2007 then NZ Windfarms can elect to either pay additional interest or issue shares at \$1.00 per share up until 14 December 2007. NZ Windfarms expects to be able to repay the loan in full from the proceeds of this Offer, particularly as the Offer is underwritten in accordance with the terms of the Underwriting Agreement referred to in paragraph (k) below.

The loan was originally documented in an agreement dated 24 February 2005. The loan was extended by agreement dated 22 July 2005 and again by agreement dated 12 October 2005.

*(k) Underwriting Agreement*

An Underwriting Agreement dated 9 May 2007 between NZ Windfarms, ABN AMRO Equity Capital Markets Australia Limited and N M Rothschild & Sons Limited under which the Underwriter agrees to underwrite the issue of 68,181,819 Shares under the Offer for a fee of 1.5% of the Underwritten Amount. The Underwriting Agreement contains typical termination rights which can be exercised by the Underwriter. If Applications under the Offer total less than Underwritten Amount, under the terms of the Underwriting Agreement, the Underwriter may be required to subscribe for that number of Shares equal to the shortfall (i.e. the difference between the total value of Applications received and the Underwritten Amount).

*(l) Subscription Agreement*

A subscription agreement dated 27 April 2007 has been entered into between NZ Windfarms and Vector Limited. Under the subscription agreement Vector Limited has agreed to subscribe for such number of Shares in the Offer so as to give Vector Limited a 19.99% shareholding in NZ Windfarms. The subscription agreement is subject to various conditions, including that the Shareholders in NZ Windfarms approve NZ Windfarms entering into the subscription agreement and Vector Limited's approval of the new constitution of NZ Windfarms required for the transfer of listing to the NZSX, and the Underwriting Agreement not having been terminated by the Underwriter (see paragraph (k) above).

Under the subscription agreement Vector Limited will subscribe for Shares on the same terms as set out in this

Offer Document, including at the Issue Price. However, the subscription agreement contains terms that only apply to Vector Limited, as follows:

- (i) NZ Windfarms is to undertake a further public capital raising of \$25 million (or such other amount agreed in writing between Vector Limited and NZ Windfarms). The further public offer is to occur no later than 27 April 2010, subject to various conditions. If a further public offer occurs Vector Limited has agreed to subscribe for 19.99% of the Shares offered, provided various conditions have been satisfied as disclosed in the subscription agreement.
- (ii) For so long as Vector Limited holds at least 15% of the Shares it shall be entitled to require NZ Windfarms to appoint two directors nominated by Vector Limited to the Board. The appointments will remain in place until NZ Windfarms' next annual meeting, where the Vector Limited nominated directors will be entitled to seek re-election by shareholders.
- (iii) NZ Windfarms may not raise further capital by the issue of Shares or other Equity Securities (as defined in the NZSX Listing Rules) prior to 27 April 2010, except:
  - Under NZSX Listing Rule 7.3.1(a), unless approved by a special resolution of holders of each class of Equity Securities whose rights or entitlements may be affected by that issue.
  - Under NZSX Listing Rule 7.3.4 (which permits certain pro rata offers and offers not exceeding \$5,000 made, in each case, to existing holders).
  - Under NZSX Listing Rule 7.3.6 (which relates to certain employee share issues), provided the issue and employee share scheme are approved by special resolution of holders of each class of Equity Securities whose rights or entitlements may be affected by that issue.
  - For the purpose of the NZ Windfarms' Share Option Scheme described in Section 6 "Board and Senior Management" of this Offer Document.

NZWL-TRH Limited has not entered into any material contracts that require disclosure under clause 17 of Schedule 1 to the Securities Regulations 1983, except its acquisition of a share in the Te Rere Hau Joint Venture and the various Te Rere Hau Joint Venture contracts and as described in paragraph (f) above in this Section.

## 14.18 Pending Proceedings

There are no legal proceedings or arbitrations pending against NZ Windfarms or NZWL-TRH Limited at the date of this Offer Document except as disclosed below.

Concrete Structures (NZ) Limited was engaged by NZ Windfarms to construct the roading and turbine foundations for Stage One at the Te Rere Hau Wind Farm. The contract price was \$0.74 million plus GST and Concrete Structures (NZ) Limited has been paid in full. Concrete Structures (NZ) Limited has alleged that a further \$0.63 million (including GST) plus interest is payable under the contract. The basis of its claim is that it completed additional work to the value of \$0.63 million (including GST) and the sum is payable in addition to the base price in the contract. NZ Windfarms is disputing that any additional amounts are payable because it has paid all the payments



certified as payable by the engineer under the contract. The adjudication concerns whether the engineer should have certified additional payments for other work not included in the original specifications. The matter is being determined by an adjudicator in accordance with the Construction Contracts Act 2002. If either NZ Windfarms or Concrete Structures (NZ) Limited disagree with the adjudicator's findings they may seek redress through the Courts.

#### **14.19 Issue Expenses**

The issue expenses for the Offer are estimated at \$5.3 million. The amount includes allowances for legal fees, accounting and audit fees, NZX listing and transfer fees, registry expenses, brokerage, lead management fees, underwriting costs, advertising and marketing expenses, printing and distribution costs of the Offer Document and marketing advisor fees.

Fees payable by NZ Windfarms to the Joint Lead Managers (including brokerage fees) and the Underwriter are set out on page 8.

#### **14.20 Restrictions on Issuing Group**

There are no restrictions on NZ Windfarms' or NZWL-TRH Limited's ability to make a distribution or borrow money resulting from any undertaking given, or contract or deed entered into, apart from restrictions in the Constitution, the NZAX Listing Rules and, upon transfer of NZ Windfarms' listing to the NZSX, the NZSX Listing Rules.

#### **14.21 Other Terms of Offer and Securities**

All of the terms of the Offer, and all the terms of the Shares being offered, are set out in this Offer Document, except for those implied by law or set out in a document that:

- Is registered with a public official.
- Is available for public inspection.
- Is referred to in this Offer Document.

#### **14.22 Financial Statements**

The unaudited interim financial statements of NZ Windfarms for the six month period ended 31 December 2006 are set out in Section 11 "Historical Financial Information" of this Offer Document.

The latest audited financial statements for NZ Windfarms have been registered under the Financial Reporting Act 1993 and are for the period 1 July 2005 to 30 June 2006.

#### **14.23 Places of Inspection of Documents**

During the currency of this Offer Document, copies of the Constitution of NZ Windfarms and the material contracts described under paragraph 14.17 "Material Contracts" in this Section 14 may be inspected without a fee at the office of NZ Windfarms at Level 5, 315 Manchester Street, Christchurch between 9 am and 5 pm on working days (as defined in the Companies Act).

For convenience, a copy of this Offer Document and NZ Windfarms' Constitution is available for downloading from the Company's website: [www.nzwindfarms.co.nz](http://www.nzwindfarms.co.nz).

These documents may also be inspected on the public file for NZ Windfarms by accessing the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz). Where relevant documents are not available on the website a request for the documents can be made by contacting the Companies

Office Contact Centre by telephone on 0508 266 726. A fee may be payable for searching documents online or requesting documents through the Companies Office Contact Centre.

#### **14.24 Other Material Matters**

There are no other material matters relating to this Offer except those that have been set out elsewhere in this Offer Document or in the financial statements referred to in paragraph 14.22 and contracts entered into by NZ Windfarms or NZWL-TRH Limited in the ordinary course of its business.

#### **14.25 Directors' Statement**

The Directors, after due enquiry by them in relation to the period between 31 December 2006 and the date of registration of this Prospectus, are of the opinion that no circumstances have arisen that materially adversely affect the trading or profitability of NZ Windfarms or NZWL-TRH Limited, or the value of their respective assets, or the ability of NZ Windfarms or NZWL-TRH Limited to pay their respective liabilities due within the next 12 months.

#### **14.26 Auditors' Reports**

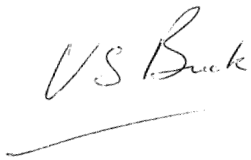
There are two auditors reports set out in this Offer Document. The first is by PricewaterhouseCoopers (set out in Section 8 "Independent Auditor's Report on the Prospective Financial Information" of this Offer Document) and relates only to the prospective financial information on pages 27 to 35. PricewaterhouseCoopers' report is issued pursuant to clause 42 (2) of Schedule 1 to the Securities Regulations 1983.

The second auditor's report is by NZ Windfarms' auditors Goldsmith Fox PKF and is set out in Section 12 "Auditor's Report on Historical Financial Information" of this Offer Document. That report relates to the summary of financial information contained in Section 11 "Historical Financial Information" of this Offer Document and to compliance with the clauses 22 to 38 of Schedule 1 to the Securities Regulations 1983 of the financial statements for the 12 months ending 30 June 2006 and as referred to in this Offer Document. The report is issued pursuant to clauses 42 (1) and (3) of Schedule 1 to the Securities Regulations 1983.

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This Offer Document has been signed as follows:

Signed by each Director of the Company (or by his or her agent authorised in writing):



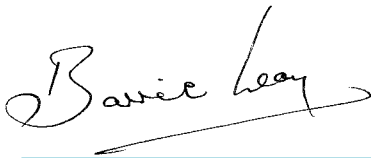
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Vicki Susan Buck



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Juliet Broad McKee



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Peter Barry Leay



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Keith James McConnell



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Derek Neil Walker



# Glossary

**\$, NZD or NZ\$** means New Zealand Dollar;

**ABN AMRO Craigs** means ABN AMRO Craigs Limited;

**ABN AMRO Rothschild** means the equity capital markets joint venture between ABN AMRO Equity Capital Markets Australia Limited (ABN 17 000 757 111) and Rothschild Australia Limited (ABN 61 008 591 768), acting through their agent ABN AMRO Securities NZ Limited;

**Allotment** means the allotting of Shares to applicants whose application has been accepted by NZ Windfarms and **Allotted** shall be construed accordingly;

**Application** means an application for Shares in the Offer;

**Application Form** means the application form contained in this Offer Document;

**Applicant** means a person who submits an Application Form under the Offer;

**Babcock & Brown** means Babcock & Brown Limited;

**Babcock & Brown Windpower** means Babcock & Brown Windpower Pty Limited, a subsidiary of Babcock & Brown Limited;

**Board** means the board of Directors of NZ Windfarms;

**Business Day** means a day on which the NZSX and NZAX are open for trading;

**Carbon Credits Agreement** means the agreement providing for the transfer of emission reduction units to NZ Windfarms on the Te Rere Hau Wind Farm achieving agreed emission reduction targets according to an agreed timetable. The agreement is described in Section 14, paragraph 14.17 (g) of this Offer Document;

**Closing Date** means 1 June 2007;

**Company** means NZ Windfarms Limited;

**Companies Act** means Companies Act 1993;

**Constitution** means the constitution of NZ Windfarms as amended from time to time. The constitution sets out various rules and procedures for the governing of NZ Windfarms. Upon NZ Windfarms transferring its listing to the NZSX, a new constitution will include the changes referred to in Section 14, paragraph 14.5A of this Offer Document;

**CSN** means Common Shareholder Number;

**Directors** means the directors of NZ Windfarms Limited;

**Easement** means the easement giving the Te Rere Hau Joint Venture a right to occupy the land where the Te Rere Hau Wind Farm is located. This is described in Section 14, paragraph 14.17 (c) of this Offer Document;

**EBIT** means net surplus before interest, tax and non-operating revenue;

**EBITDA** means EBIT before depreciation and amortisation;

**FIN** means FASTER identification number;

**Firm Allocation** means a binding commitment pursuant to which the entity accepting a Firm Allocation is bound to submit a valid Application or Applications which in aggregate equals the amount of the Firm Allocation, or if the entity is an NZX Firm to submit valid Application by clients bearing the stamp of the NZX Firm or intermediary for their amount of the Firm Allocation, or failing that, submit a valid Application for any shortfall as principal;

**GST** means goods and services tax in accordance with the Goods and Services Tax Act 1985 (as amended from time to time);

**GW** means gigawatt, a unit of power that equals one thousand megawatts (see MW);

**GWh** means gigawatt hour, a unit of power that equals one thousand megawatts (see MW) over an hour, being the typical measure by which electricity generation output is measured;

**Institutional Investor** means an entity whose principal business is the investment of money or who habitually invests money, or whose Application is more than \$1 million;

**Issue Price** means \$1.10 per Share;

**Joint Lead Managers** means ABN AMRO Craigs and ABN AMRO Rothschild;

**Joint Organising Participants** means ABN AMRO Craigs and ABN AMRO Securities NZ Limited;

**kW** means a kilowatt, a unit of power that equals one thousand watts ;

**kWh** means a kilowatt hour, a unit of power that equals one thousand watts over an hour, being the typical measure by which residential electricity is sold;

**Kyoto Protocol** means an agreement on global warming reached by the United Nations Conference on Climate Change in Kyoto, Japan, in 1997;

**Listing Rules** means the NZAX Listing Rules or the NZSX Listing Rules, as the case may be. At the date of this Offer Document the NZAX Listing Rules applies to NZ Windfarms. In the event that NZ Windfarms transfers its NZX listing from the NZAX market, the NZSX Listing Rules will apply to the Company;

**Management Services Agreement** means the agreement under which the Te Rere Hau Joint Venture appoints NZ Windfarms the manager of the Te Rere Hau Wind Farm. The agreement is described in Section 14, paragraph 14.17(h) of this Offer Document;

**MW** means megawatt, a unit of power that equals one thousand kilowatts (see kW), being the typical measure by which electricity generation capacity is measured;

**MWh** means a megawatt hour, which is equal to one thousand kilowatt hours over an hour (see kWh);

**N.P. Power** means N.P. Power Pty Limited, a subsidiary of National Power Pty Limited;

**NPAT** means net profit after tax;

**NZAX** means the New Zealand Alternative Market operated by NZX;

**NZAX Listing Rules** means the listing rules applying to the NZAX market (or any market in substitution for that market) in force from time to time;

**NZSX** means the New Zealand Stock Market operated by NZX;

**NZSX Listing Rules** means the listing rules applying to the NZSX market (or any market in substitution for that market) in force from time to time;

**NZ Windfarms** means NZ Windfarms Limited;

**NZ Windfarms Shareholder** means a shareholder in NZ Windfarms from time to time;

**NZ Windfarms' Share Option Scheme** means the NZ Windfarms' 2007 Share Option Scheme;

**NZX** means New Zealand Exchange Limited;

**NZX Firms** means sharebroking firms authorised to trade shares on the NZX;

**Offer** means the offer of Shares under this Offer Document and Offered shall have a corresponding meaning;

**Offer Document** means this combined investment statement and prospectus dated 9 May 2007 for the purposes of the Securities Act 1978 and Securities Regulations 1983;

**Opening Date** means 14 May 2007 or such other date as the Company determines;

**Operating Free Cash Flow** means NZ Windfarms' revenue less operating expenses (excluding depreciation and impairment of intangibles), interest, expense and tax, as determined by the Board from time to time;

**Primary Market Participant** means any company, firm, organisation or corporation designated as a Primary Market Participant from time to time by the NZX pursuant to the NZX Participant Rules;

**Record Date** means 11 May 2007;

**Registrar** means Link Market Services Limited, whose address is in the Directory on page 83;

**Resource Consent** means the resource consent granted by the Palmerston North City 18 (reference number 201516) to construct and operate the Te Rere Hau Wind Farm and pursuant to an Environment Court consent order dated 30 May 2005;

**Section** means a section of this Offer Document;

**Shareholders** means shareholders in NZ Windfarms from time to time;

**Shareholder Priority Pool** means the pool of up to 5,000,000 Shares reserved for allocations to NZ Windfarms Shareholders who have an entitlement, right or obligation relating to existing Shares at the Record Date;

**Shares** means ordinary shares of NZ Windfarms Limited;

**Stage One** means the first five wind turbines at the Te Rere Hau Wind Farm;

**Te Rere Hau Joint Venture** means the joint venture established by NZ Windfarms and NPBB Pty Limited to develop and operate the Te Rere Hau Wind Farm;

**Te Rere Hau Joint Venture Agreement** the agreement dated 6 October 2006 between NZ Windfarms, NPBB Pty Limited, Babcock & Brown Windpower and N.P. Power providing for the establishment and operation of the Joint Venture. The agreement is described in Section 14, paragraph 14.17 (e) of this Offer Document;

**Te Rere Hau Wind Farm** means the wind farm at the site known as Te Rere Hau off the Pahiatua Track between Palmerston North and Pahiatua, Manawatu;

**Turbine Purchase Agreement** means the agreement under which the Te Rere Hau Joint Venture is to purchase from Windflow Technology the Windflow 500 turbines for the Te Rere Hau Wind Farm. The agreement is described in Section 14, paragraph 14.17(d) of this Offer Document;

**Underwriter** means ABN AMRO Equity Capital Markets Australia Limited (ABN 17 000 757 111) and N M Rothschild & Sons Limited (ARBN 121 247 345);

**Underwriting Agreement** means the agreement under which the Underwriter agrees to underwrite the Offer. The agreement is described in Section 14, paragraph 14.17(k) of this Offer Document;

**Underwritten Amount** means \$75 million;

**Wind Rights Agreement** means the agreement granting the Te Rere Hau Joint Venture the right to develop and operate the Te Rere Hau Wind Farm. The agreement is described in Section 14, paragraph 14.17 (b) of this Offer Document; and

**Windflow Technology** means Windflow Technology Limited, a company that specialises in the design and manufacture of wind turbines.

# Application Forms, Instructions and Conditions of Application

Applications for Shares must be made on the application forms contained with the Offer Document. Read the Offer Document carefully before applying for Shares.

## Choose the correct application form

Type of Application	Application Form
If you have obtained a Firm Allocation of Shares from an NZX Firm	Complete the <b>"Application Form - Firm Allocation"</b> . Applications must be stamped by NZX Firm.
If you are applying for Shares from the Shareholder Priority Pool	Complete the <b>"Application Form - Shareholder Priority"</b> . Include your holder number (CSN) that corresponds to your NZ Windfarms shareholding.

## Completing an Application Form

List your full name, contact address and telephone details.

Note that ONLY LEGAL ENTITIES are allowed to hold Shares. Applicants must be in the name(s) of natural persons, companies or other legal entities acceptable to NZ Windfarms. At least one full given name and surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms or registrable names below.

Type of Investor	Instruction	Correct Form
INDIVIDUAL	Use given name in full, not initials.	John Joseph Jones
COMPANY	Use company title, not abbreviations.	Jones Limited
TRUSTS	Do not use the name of the trust, use the trustee(s) personal names. All trustees must apply as joint applicants.	Susan Jones & John Jones / Susan Jones Family Trust A/C
DECEASED ESTATES	Do not use the names of the deceased person, use executor(s) personal names.	Michael Jones Estate, John Jones (as executor and trustee) A/C
PARTNERSHIPS	Do not use the names of partnerships, use partner(s) personal names.	John Jones & Michael Jones / John Jones & Son A/C
CLUBS/UNINCORPORATED BODIES	Do not use names of clubs etc, use office bearer(s) personal names.	Susan Jones / Community Tennis Association A/C
SUPERANNUATION FUNDS	Do not use name of fund, use name of trustee.	John Jones Limited / Superannuation Fund A/C

Enter your Inland Revenue Department number. If it is a joint application, only one Inland Revenue Department number is required.

Applications must be for a minimum of 3,000 Shares and thereafter in multiples of 1,000. Payment is required in full on application.

Sign and date the Application Form. Each Applicant must sign the Application Form. Companies must sign by authorised signatories of the Company. The Applicant only should sign the Application Form unless another person has been duly appointed as the attorney or agent of the Applicant. If an attorney or agent signs, he/she must complete the relevant section on the bottom of the Application Form and enclose his/her power of attorney.

The completed Application Form, together with a cheque for the full amount applied for, should be mailed or delivered to the NZX Firm whose stamp appears on the Application Form, or the Joint Lead Managers, in time to be received by the Registrar by no later than 5pm on 1 June 2007.

Cheques should be made out to **"NZ Windfarms Limited Share Offer"** and crossed **"Not Transferable"**.

## Terms and Conditions of Applications

This Application constitutes an irrevocable offer by you to acquire the Shares specified in this Application Form, or such lesser number of Shares as NZ Windfarms Limited may determine, on the terms and conditions set out in the Offer Document and this Application Form.

Applicants applying for Shares pursuant to a Firm Allocation obtained from a NZX Firm will not be scaled by NZ Windfarms. However, such applicants may be scaled by the NZX Firm from which they received the Firm Allocation.

If the aggregate number of Shares applied for from the Shareholder Priority Pool exceeds the number of Shares available in the pool offered then NZ Windfarms Shareholders applying for Shares from the Shareholder Priority Pool may be allocated fewer Shares than the number for which they applied. In such circumstances, the number of Shares allocated to you will be determined by NZ Windfarms Limited in consultation with the Joint Lead Managers. No reasons will be given regarding the level of allocations.

NZ Windfarms Limited reserves the right to decline any application in whole or in part, without giving any reason. Money received in respect of applications which are declined in whole or in part will be refunded in whole or in part (as the case may be) within five Business Days after closing of the Offer.

FASTER statements for the Shares will be dispatched as soon as is practicable after allocation, but in any event not later than five Business Days after the Closing Date.

If an Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may be treated as invalid. NZ Windfarms Limited's decision as to whether to treat an Application as valid, and how to construe, amend or complete it, shall be final.

NZ Windfarms Limited's decision on the number of Shares to be allocated to an Applicant shall also be final. Applicants will not, however, be treated as having offered to purchase more than the number of Shares indicated on their Application Form. Application money will be banked upon acceptance of the Application. If application money is paid by a cheque that does not clear, that application may be rejected or the allocation made to the applicant may be cancelled.

No interest will be paid by on any application monies received or on any applications monies that are refunded.

Expressions defined in the Offer Document have the same meanings in the Application Forms. The Application Forms are governed by New Zealand law. Personal information provided by you will be held by NZ Windfarms Limited or the Registrar, at the addresses shown in the Directory of the Offer Document or at such other place as is notified upon request. This information will be used for the purpose of managing your investment. Under the Privacy Act 1993, you have the right to access and correct any personal information held about you.

By signing (or authorising your attorney to sign) an Application Form you acknowledge that the Application Form was distributed to you with a copy of the Offer Document.









# Application Form — Firm Allocation

## For Ordinary Shares in NZ Windfarms Limited

This Application Form constitutes an Offer to purchase the Shares pursuant to the Offer Document dated 9 May 2007. The full amount of the purchase price for the Shares is due upon Application. The closing date for the Offer is 5.00pm, 1 June 2007.

Primary Participant Stamp

Advisor's Code

FOR INSTRUCTIONS ON HOW TO COMPLETE AND DELIVER THIS FORM PLEASE REFER TO THE APPLICATION INSTRUCTIONS IN THE OFFER DOCUMENT

### Investor Details (Block Letters Please)

Title:	<input type="text"/>	First Name(s):	<input type="text"/>	Surname:	<input type="text"/>	IRD No.:	<input type="text"/>
Title:	<input type="text"/>	First Name(s):	<input type="text"/>	Surname:	<input type="text"/>	IRD No.:	<input type="text"/>
Title:	<input type="text"/>	First Name(s):	<input type="text"/>	Surname:	<input type="text"/>	IRD No.:	<input type="text"/>
Corporate name:	<input type="text"/>					IRD No.:	<input type="text"/>
Number and Street:	<input type="text"/>				Suburb:	<input type="text"/>	
City:	<input type="text"/>				Post code:	<input type="text"/>	
Telephone Number (compulsory):	<input type="text"/>			Mobile Phone:	<input type="text"/>		
Email (optional):	<input type="text"/>						

### Shares Applied For

The minimum application is for 3,000 Shares, thereafter in multiples of 1,000 Shares. Shares will be issued at an Issue Price of \$1.10 per Share.

**Firm Allocation Shares applied for:**  Shares at \$1.10 per share \$

Cheques must be payable to "NZ Windfarms Limited Share Offer", drawn on a registered New Zealand bank and should be crossed "Not Transferable".

### Common Shareholder Number

If you currently have a Common Shareholder Number (CSN), please insert here:

### Dividend Payments: Please tick the appropriate box to select the method of payment

- ☐ Pay by cheque to the postal address above OR
- ☐ Direct credit to my New Zealand dollar bank account as detailed below OR

Bank	Branch	Account No	Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

- ☐ Direct credit to my Cash Management Account

Name of NZX Firm where Cash Management account held:

Cash Management account number:

### Declaration and Signature

- (1) I/We hereby apply for the value of fully paid ordinary shares shown above and agree to purchase such Shares on the terms and conditions set out in the Offer Document dated 9 May 2007 and this Application Form.
- (2) I/We agree to be bound by the Constitution of NZ Windfarms Limited (as amended from time to time).
- (3) All details and statements made by me/us are complete and accurate and this Application complies with the terms of the Offer Document dated 9 May 2007.
- (4) I/We represent that I am/we are not, as a result of the law of any place, a person to whom the Offer Document should not be given.
- (5) I/We declare that all the details and statements made by me/us in this Application Form are complete and accurate.

Signature:  Date:

Signature:  Date:

Signature:  Date:



**Certificate of Non-Revocation of Power of Attorney** - Complete this section if you are acting on behalf of someone for whom you have Power of Attorney

I, \_\_\_\_\_ (Name of Attorney)

Of \_\_\_\_\_ (Address and Occupation of Attorney)

HEREBY CERTIFY:

1. THAT, by a Power of Attorney dated the \_\_\_\_\_ day of \_\_\_\_\_ ('Donor') appointed me his/her/its Attorney on the terms and conditions set out in the Power of Attorney.
2. THAT I have executed the Application for Shares printed on this Application Form under the Power of Attorney and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney by the death, liquidation or dissolution of the Donor or otherwise.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2007

Signature of Attorney \_\_\_\_\_

**Certificate of Non-Revocation of Agency** - Complete this section if you are acting as agent for someone

I, \_\_\_\_\_ (Name of Agent)

Of \_\_\_\_\_ (Address and Occupation of Agent)

HEREBY CERTIFY:

1. THAT, by an Agreement dated the \_\_\_\_\_ day of \_\_\_\_\_ ('Donor') appointed me his/her/its Agent on the terms and conditions set out in the Agreement (the "Appointment").
2. THAT I have executed the Application for Shares printed on this Application Form under the Appointment and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Appointment by the death, liquidation or dissolution of the Donor or otherwise.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2007

Signature of Agent \_\_\_\_\_

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### Terms and Conditions of Application

This Application constitutes an irrevocable offer by the Applicant to acquire the value of Shares specified in the Application Form on the terms and conditions set out in this Offer Document and this Application Form.

Applications that are the subject of Firm Allocations from an NZX Firm will not be scaled by the Joint Lead Managers or the Company. Applications that are subject of Firm Allocations must bear the stamp of the NZX Firm from where the Firm Allocation was obtained.

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Money received in respect of Applications which are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted within five business days after allocation of Shares to successful Applicants or after an Application has been declined (as applicable). No interest will be paid on any application monies received or refunded.

Shareholding statements will be dispatched as soon as is practicable after allocation, but in any event not later than five Business Days from the Closing Date. Applicants should not attempt to sell their shareholdings until they have received their shareholding statements.

If this Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The Company's decision as to whether to treat an Application as valid, and how to construe, amend or complete it, shall be final.

Application money will be banked upon receipt into an account. Interest earned on that account will be paid to the Company. If application money is paid by a cheque which does not clear, that Application may be rejected or an allocation made to the Applicant may be cancelled.

Expressions defined in the Offer Document have the same meanings in this Application Form. This Application Form is governed by New Zealand law. Personal information provided by you will be held by NZ Windfarms or the Share Registrar, at the addresses shown in the Directory of the Offer Document or at such other place as is notified upon request. This information will be used for the purpose of administering the Company, managing the relationship with its Shareholders and sending Shareholders future information about the Company. Under the Privacy Act 1993, you have the right to access and correct any personal information held about you.

# Application Form — Shareholder Priority

## For Ordinary Shares in NZ Windfarms Limited

This Application Form constitutes an Offer to purchase the Shares pursuant to the Offer Document dated 9 May 2007. The full amount of the purchase price for the Shares is due upon Application. The closing date for the Offer is 5.00pm, 1 June 2007.

Primary Participant Stamp

Advisor's Code

FOR INSTRUCTIONS ON HOW TO COMPLETE AND DELIVER THIS FORM PLEASE REFER TO THE APPLICATION INSTRUCTIONS IN THE OFFER DOCUMENT

### Investor Details (Block Letters Please)

Title:	<input type="text"/>	First Name(s):	<input type="text"/>	Surname:	<input type="text"/>	IRD No.:	<input type="text"/>
Title:	<input type="text"/>	First Name(s):	<input type="text"/>	Surname:	<input type="text"/>	IRD No.:	<input type="text"/>
Title:	<input type="text"/>	First Name(s):	<input type="text"/>	Surname:	<input type="text"/>	IRD No.:	<input type="text"/>
Corporate name:	<input type="text"/>					IRD No.:	<input type="text"/>
Number and Street:	<input type="text"/>				Suburb:	<input type="text"/>	
City:	<input type="text"/>				Post code:	<input type="text"/>	
Telephone Number (compulsory):	<input type="text"/>			Mobile Phone:	<input type="text"/>		
Email (optional):	<input type="text"/>						

### Shares Applied For

The minimum application is for 3,000 Shares, thereafter in multiples of 1,000 Shares. Shares will be issued at an Issue Price of \$1.10 per Share.

**Shareholder Priority Pool Shares applied for:**  Shares at \$1.10 \$ per share \$

Cheques must be payable to **"NZ Windfarms Limited Share Offer"**, drawn on a registered New Zealand bank and should be crossed **"Not Transferable"**.

\*Applications for Shares from the Shareholder Priority Pool must be in the same name as the person who has the entitlement, right or obligation relating to existing shares of NZ Windfarms Shares on the Record Date, with the holders corresponding CSN entered below.

### Common Shareholder Number

If you currently have a Common Shareholder Number (CSN), please insert here:

### Dividend Payments: Please tick the appropriate box to select the method of payment

- ☐ Pay by cheque to the postal address above OR
- ☐ Direct credit to my New Zealand dollar bank account as detailed below OR

Bank	Branch	Account No	Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

- ☐ Direct credit to my Cash Management Account

Name of NZX Firm where Cash Management account held:

Cash Management account number:

### Declaration and Signature

- (1) I/We hereby apply for the value of fully paid ordinary shares shown above and agree to purchase such Shares on the terms and conditions set out in the Offer Document dated 9 May 2007 and this Application Form.
- (2) I/We agree to be bound by the Constitution of NZ Windfarms Limited (as amended from time to time).
- (3) All details and statements made by me/us are complete and accurate and this Application complies with the terms of the Offer Document dated 9 May 2007.
- (4) I/We represent that I am/we are not, as a result of the law of any place, a person to whom the Offer Document should not be given.
- (5) I/We declare that all the details and statements made by me/us in this Application Form are complete and accurate.

Signature:  Date:

Signature:  Date:

**Certificate of Non-Revocation of Power of Attorney** - Complete this section if you are acting on behalf of someone for whom you have Power of Attorney

I, \_\_\_\_\_ (Name of Attorney)

Of \_\_\_\_\_ (Address and Occupation of Attorney)

HEREBY CERTIFY:

1. THAT, by a Power of Attorney dated the \_\_\_\_\_ day of \_\_\_\_\_ ('Donor') appointed me his/her/its Attorney on the terms and conditions set out in the Power of Attorney.
2. THAT I have executed the Application for Shares printed on this Application Form under the Power of Attorney and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney by the death, liquidation or dissolution of the Donor or otherwise.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2007

Signature of Attorney \_\_\_\_\_

**Certificate of Non-Revocation of Agency** - Complete this section if you are acting as agent for someone

I, \_\_\_\_\_ (Name of Agent)

Of \_\_\_\_\_ (Address and Occupation of Agent)

HEREBY CERTIFY:

1. THAT, by an Agreement dated the \_\_\_\_\_ day of \_\_\_\_\_ ('Donor') appointed me his/her/its Agent on the terms and conditions set out in the Agreement (the "Appointment").
2. THAT I have executed the Application for Shares printed on this Application Form under the Appointment and pursuant to the powers thereby conferred on me.
3. THAT at the date of this certificate I have not received any notice or information of the revocation of that Appointment by the death, liquidation or dissolution of the Donor or otherwise.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2007

Signature of Agent \_\_\_\_\_

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### Terms and Conditions of Application

This Application constitutes an irrevocable offer by the Applicant to acquire the value of Shares specified in the Application Form on the terms and conditions set out in this Offer Document and this Application Form.

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Money received in respect of Applications which are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted within five business days after allocation of Shares to successful Applicants or after an Application has been declined (as applicable). No interest will be paid on any application monies received or refunded.

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# Directory

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**Registered Office of NZ Windfarms Limited**

C/- Grant Thornton (Christchurch) Limited  
9th Floor, Anthony Harper Building  
47 Cathedral Square  
CHRISTCHURCH

**Directors**

Derek Neil Walker of Palmerston North (Chairman)  
Vicki Susan Buck of Christchurch  
Juliet Mary Broad McKee of Wellington  
Peter Barrie Leay of Nelson  
Keith James McConnell of Auckland

Each of the Directors is contactable through the principal place of business of the Company at Level 5, 315 Manchester Street, Christchurch.

**Registrar**

Link Market Services Limited  
PO Box 384  
ASHBURTON  
Telephone: 03 308 8887  
Facsimile: 03 308 1311

**Joint Lead Manager and Joint Organising Participant**

ABN AMRO Craigs Limited  
ABN AMRO Craigs House  
158 Cameron Road  
P O Box 13155  
TAURANGA  
Telephone: 0800 272 442 or  
07 577 6049  
Facsimile: 07 928 6443

**Joint Lead Manager**

ABN AMRO Rothschild  
Level 32, Vero Centre  
48 Shortland Street  
P O Box 3464  
AUCKLAND  
Telephone: 09 358 7500  
Facsimile: 09 358 3716

**Joint Organising Participant**

ABN AMRO Securities NZ Limited  
Level 32, Vero Centre  
48 Shortland Street  
P O Box 3464  
AUCKLAND  
Telephone: 09 358 7500

Facsimile: 09 358 3716

**Underwriter**

ABN AMRO Equity Capital Markets Australia Limited  
(ABN 17 000 757 111) and N M Rothschild & Sons Limited  
(ARBN 121 247 345)  
Level 32, Vero Centre  
48 Shortland Street  
P O Box 3464  
AUCKLAND  
Telephone: 09 358 7500  
Facsimile: 09 358 3716

**Solicitors to NZ Windfarms Limited**

Anthony Harper  
Anthony Harper Building  
47 Cathedral Square  
CHRISTCHURCH

**Solicitors to the Underwriter**

Chapman Tripp Sheffield Young  
Level 35, 23-29 Albert Street  
P O Box 2206  
AUCKLAND

**Auditor to NZ Windfarms Limited and for the purposes of the audit report on the summary of financial information and compliance with clauses 22 to 38 of Schedule 1 to the Securities Regulations 1983 of the financial statements for the 12 months ending 30 June 2006**

Goldsmith Fox PKF  
Level 1  
250 Oxford Street Terrace  
CHRISTCHURCH

**Auditor to NZ Windfarms Limited for the purposes of the prospective financial information**

PricewaterhouseCoopers  
PricewaterhouseCoopers Tower  
188 Quay Street  
AUCKLAND

**Technology Report**

Garrad Hassan and Partners Limited  
St Vincent's Works  
Silverthorne Lane  
Bristol  
BS2 0QD  
United Kingdom

# Notes

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