

## **NZX Announcement**

18 December 2009

For release 12.45pm Friday 18 December 2009

# **ANNUAL MEETING**

**18<sup>th</sup> December 2009**

## **Annual Meeting Script**

### **1. Chairman's address**

Before we commence the formal part of the meeting, I would like to make a few introductory remarks and provide you with a brief overview of the financial year that finished on 30 June 2009 and events that have occurred since that date.

At last year's meeting I said that our two key objectives (as outlined in the 2007 prospectus) were to utilise the proceeds of the offer to fund our share of the cost of completing the Te Rere Hau wind farm and to set up a pipeline of opportunities to develop new wind farms.

Following the successful capital raising in June 2007, the Company secured the financial resources to progress with its share of the Te Rere Hau project and to accelerate the sourcing and consenting of further projects.

This financial year saw substantial progress on the construction of the Te Rere Hau project. By the end of the financial year all of stage 2 of the project had been completed and 13 turbines from stage 3 had also been commissioned, resulting in a total of 46 turbines being fully commissioned.

During the financial year the opportunity arose for us to purchase the other 50% share of the Te Rere Hau joint venture from NPBB (the company owned by Babcock and Brown and National Power). This site in comparison with others, offered a superior wind resource, certainty of consent, access and power connection. It was in essence a much better business case than any other site we had looked at.

This was subsequently purchased at a discount to book value and provided a \$3.6 m capital gain, which was recorded in the financial year.

The purchase of the NPBB share means that NZ Windfarms has full control of the project and access to all the future cash flows from it. This resulted in our total focus on maximising the value of that investment. We also recognised that the Company needed to raise additional funds to complete the project. We assessed the options for doing this and were well advanced with plans to go to our shareholders for additional capital when our turbine supplier

Windflow Technology advised us that none of the turbines already supplied to the project nor any of the remaining turbines to be supplied would comply with the design submitted by Windflow for IEC Class 1A certification.

At last year's shareholder meeting I reported that we viewed IEC certification of the Windflow 500 turbine as one of the key mitigations for the risks associated with implementation of the Windflow turbine design. I said that it was therefore disappointing that Windflow Technology had not yet obtained IEC certification for the turbine. We also reported that when we placed the orders for stage 3 and stage 4 turbines that the Board had done so after receiving positive progress reports from Windflow on the certification process and expected timing of certification. The continued delays in this process has been a source of frustration and disappointment to this Board. As of today, IEC certification still has not been obtained.

We learnt in the middle of this year that none of our turbines would be of the design submitted by Windflow Technology IEC Class 1A Certification and that to incorporate all the design changes in some earlier turbines would require a fundamental refit of those turbines and the potential cost to bring all supplied and to be supplied turbines could be as high as \$24 million.

This information meant that the NZ Windfarms Board had no option but to get a third party assessment so that we understood the impact and risks of not having these design changes incorporated into our turbines, and whether any mitigating actions needed to be taken either with the turbines already supplied or with those that were still to be supplied. This was to ensure that we were

getting machines that would not fail under expected maximum loads, or that would not require additional maintenance or refitting during their life. This is a project that is expected to have at least a 20 year life, and the life and operating cost of the turbines is fundamental to the economics of the project. Our continuous disclosure obligations also meant that the Board had no option but to make a market announcement on the issue.

Resolving this matter has not been easy - it has proven, and continues to prove, challenging to sort out, and has been very time consuming.

However, the Company has made progress on resolving this issue with Windflow Technology. In November we were provided with a copy of a report by a Consultant, engaged by Windflow Technology, into the significance of the design modifications. The findings have been reported by Windflow Technology and that announcement was attached to the newsletter that you received with the Notice of Meeting.

Windflow Technology's announcement on the Consultant's findings said that as part of the process of seeking to obtain IEC Certification Windflow Technology has made various design changes to the Windflow 500 wind turbine generator and that seventeen of these changes affect matters relevant to IEC certification. Some of these changes, but not all, have been incorporated progressively into turbines supplied to New Zealand Windfarms for the Te Rere Hau wind farm.

Windflow Technology's announcement of the Consultant's findings said that the Consultant has provided a report of the assessed significance through

calculation of the 17 design changes, and in particular whether by not incorporating them there is a materially increased risk the turbines will not operate properly at Te Rere Hau.

We had Parsons Brinkerhoff, our independent expert, review the consultant's report and provide their opinion on the report, and provide advice to us on the process and quantum of remediation actions that should be required.

In our view, the Consultant's report has confirmed that the Board's decision to disclose this matter to the market and to delay the capital raising until it obtained a clearer understanding of the implications of not receiving IEC Certified turbines from Windflow Technology was appropriate.

Due to the uncertainty of the implications of not having certified turbines and the potential large cost of bringing turbines to that standard, we started offsetting our potential claim against Windflow Technology from Windflow Technology invoices. This resulted in us withholding significant amounts from Windflow Technology. Since receiving the Consultant's Report, we have recommenced paying Windflow Technology invoices except that we continue to offset the amount the Independent Consultant has estimated as the total liability that would arise if all the identified issues resulted in a requirement to repair. We are currently working with Windflow Technology to agree how the identified issues are going to be addressed.

Separate to the above design issues, a more recent problem has been experienced with overheating of generator assemblies within the turbines installed at Te Rere Hau. In this regard, Windflow Technology has started a

project to retrofit cooling fans to the generator assemblies and replace generators where necessary to resolve this issue, which manifests itself when the turbines are operating for sustained periods at high output. Until the retrofits are complete our turbines were de-rated to 400kW rating (maximum 500kW) on 23 November to protect against further overheating incidents. This is expected to result in around a 10% reduction in wind farm output during this December and January while the retrofitting occurs. We are closely monitoring the effectiveness of the solution we have been provided by the manufacturer.

### Eastern Extension

The Company has applied for a resource consent to build turbines in the Te Rere Hau Eastern Extension area adjoining the current site. The Resource Consent application was heard during October and early November, the hearing has been closed by the Commissioner and his decision is expected by 11 January 2010 which would result in the appeal period closing around 3 February 2010. The consent, if successful, will allow us to locate up to 56 turbines on the Extension area, although the immediate plans are limited to locating the 32 Batch 4 turbines there.

There is considerable benefit in locating the Batch 4 turbines in the Extension area rather than on the remaining consented sites in the existing farm, due to the far better wind resource on the Eastern Extension. Consented sites in good wind locations situated close to transmission will become increasingly

valuable as it becomes harder and harder to find sites that meet these key criteria.

As turbine performance issues get resolved, we expect to see the wind farm availability improve and exceed the warranted level of 95% from the 92.7% reported for the calendar year to the end of October.

### Capital Raising

We decided that we could not progress the capital raising until we had made progress on clarifying the IEC certification issue.

After considering various options, the independent directors resolved to seek short term funding support from cornerstone shareholder Vector to provide a short term funding facility to meet funding requirements until a capital raising could proceed. This has been negotiated on an arms length basis and on commercial terms. The independent directors had sought and been given independent advice that the facility is on market terms and represents “fair value” to shareholders. Simon Mackenzie and Michael Stiasny, being the Vector representatives on the Board, were not involved in any negotiations with respect to the bridging loan.

As announced on 16 December 2009 NZ Windfarms has entered into a bridging Loan Facility Agreement with Vector for up to \$6.5m which will ensure that the Company has sufficient funds until the capital raising is completed. The term of the loan facility will not run beyond 30 May 2010,

and it is expected that the loan facility will be fully repaid from the proceeds of the capital raising.

Shareholders will be kept informed of the structure and timing of the capital raising as they are finalised.

### **Future Prospects**

Our priority remains the completion of the Te Rere Hau project. Provided we receive a favourable Resource Consent for the Eastern Extension it is anticipated all 97 turbines will be installed and operating by the end of 2010.

The last year has been challenging but your Board remains comfortable that the actions that it has taken in respect of the turbines supplied and to be supplied, and the decision to delay the capital raising until the implications of not receiving IEC certified turbines and the decision on the resource consent application is obtained, are in the best interest of the Company and shareholders.

Despite all these issues we need to recognise that we do now have a 65 turbine, 32 megawatt windfarm operating. While not yet at warranted availability, (92.7% year to date versus the warranted level of 95%), we expect this to be achieved as the causes of downtime are identified and rectified. Our expected average energy yield from these completed turbines is 95 GWh.

The coming year will focus on resolving the outstanding issues with Windflow Technology and completing construction of Stage 4 of Te Rere Hau and maximising the value of the completed wind farm.

I would like to thank the directors, management, staff and advisors who continue to put in a tremendous amount of effort to get the Company into a position from which it can move forward.

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