

Chairmans Address to NZ Windfarms AGM

26 September 2018

Good Morning Ladies and Gentlemen and Welcome to the AGM of New Zealand Windfarms. You will be aware that I assumed the role of chairman of the company at the beginning of June this year upon the resignation as chair and subsequent resignation as a director of Rodger Kerr-Newell.

As stated in the annual report, the year has produced good progress for New Zealand Windfarms. Much of the restructuring we have discussed previously has now been achieved. A great deal of rationalisation and cost removal has taken place and many of the changes we required have been completed. We have undertaken a number of initiatives to manage risk and have a hedging programme in place to help manage our revenue.

A great deal of work is being undertaken on our operating regime to seek to curtail output in periods of low revenue and poor wind conditions to reduce wear on our turbines and thus reduce operating costs. Our intention is to operate only when our equipment is profitable and to minimise unprofitable operation. This inevitably has an impact on our revenue, but the board has taken the view that adding revenue at an unprofitable operating cost is inappropriate. This work needs a lot of input from staff as in the past the data that relates production and operating costs to revenue has not been used in a way that assists efficient operation. It will take some time before these data are fully proven, but we are pleased with progress to date.

During the year our largest shareholder, Vector, sold its entire 22% shareholding in the company. This was done without any warning or notice to the directors and had an immediate negative impact on share price. It also had an impact on the financial statements as it resulted in us losing our shareholding continuity and with that a large amount of tax losses.

Since its inception, the company had been depreciating plant at the maximum rate allowed under tax rules which had resulted in accumulated tax losses of around \$70 million being accounted for. The tax benefit of these losses was around \$20 million which was treated as an asset by the company. Given its performance, in my opinion it was

questionable whether losses of this magnitude would be utilised by the company within a reasonable timeframe. The result of the loss of these accumulated tax losses was to turn a pre tax profit of \$780,000 into an after tax loss of \$14.747 Million. The losses forfeited were \$58 million , but the carry forward balance is now a much more manageable \$20.4 million. NZ Windfarms will not be a taxpayer in the foreseeable future. The changes have no cash flow impact.

Given that we are now approaching a steady state of operation, a number of matters become clear. By carefully managing our costs and our fleet, the company is in a position to produce a profit in the long term. Unfortunately we still face two formidable obstacles. The first is that we are unable to manage our revenue effectively. We remain exposed to a completely unsatisfactory and poorly designed wholesale market where our own healthy production drives down our revenue by oversupplying the market. The second is that we are at the mercy of the elements. Windflow is unpredictable. It is interesting that when the company first started operations, it assumed that it could achieve 160 GWH of production per year. This was later changed to 140 GWH and then to 130 GWH. Whilst we have occasionally operated at an annual rate close to this, it has never been achieved over a full year, so this year we again reduced it to 120 GWH, production we did not achieve this in 2018. The production reality is that it is only by putting our plant at risk that we can achieve these higher numbers.

There are only a small number of solutions to these conundrums. One is adding an alternative fuel source to mitigate production intermittancy, either through acquiring additional plant or repowering some or all of our existing site to increase our production flexibility. Another is trying to control revenue through linking into a retail environment. As the directors have considered these options, the same impediments emerge. The first is that all options in the electricity industry are expensive. In our opinion shareholders are unlikely to fondly view a request for more money when the company has so far failed to consistently produce a profit and returns for investors. We also accept that we are a small operator in a volume business. We see very clearly that all of the new entrants into the retail business find it a very difficult business. The customers they attract are the most likely to leave again and are the most price sensitive. They also tend to represent the highest credit risk. Further, without a consistent source of electricity supply, we

would be re-exposing ourselves to the wholesale market, but this time as a buyer of electricity at times when we can not produce it

We have reached the point where it is clear that the company can consistently produce a modest profit and a modest cash flow, but is never going to be a major player in the industry. We do however have some major and attractive assets. We are now profitable. We have a good location. We have good resource consents. Since improving our behaviour towards our neighbours we generally have a good relationship with them. In order to fully utilise these assets, we are of the view that a significant capital infusion would be necessary. In my opinion trying to impliment a major project by share placement creates excessive risk for existing shareholders.

As a result of our assessment we are announcing today that the board has commenced a strategic review of our operations to assess the capital structures of the companyas well as evaluating a number of options available to us. As highlighted in my previous comments we have made good progress over the past year and we believe that the company is in good health and is benefiting from the operational improvements implimented. We intend to consider the full range of options available to us to maximise shareholder value and will update to shareholders in due course. The Board is currently considering proposals from parties who can act as financial advisers and assist NZ Windfarms in this financial review. We will finalise an appointment in the coming days.

As these processes are intensive and can be expensive in the short term, no announcement about a dividend is being made at this time. Further details about advisers, actions and a dividend will be made in due course.

Whatever happens our intention is to provide shareholders with choices about their shareholding. We will continue to develop data associated with our curtailment regime and manage our fleet and our costs in the best interests of the company and its shareholders.

Stuart Bauld
Chairman.