NZ WINDFARMS LIMITED
ANNUAL MEETING
26 SEPTEMBER 2017

CHIEF EXECUTIVE OFFICER'S PRESENTATION

NZ Windfarms has made good progress this year in addressing a range of issues, and the initiatives undertaken position the company particularly well for 2018.

Operating performance throughout the 2017 financial year has remained strong, with turbine availability at 96%. Financial performance was significantly impacted by a combination of low wind conditions and low price, creating a very significant drop in revenue. We have however taken important steps to reduce our exposure to periods of low price and turned the dial on our future cost base.

The board completed an organisational review in 2016, and I joined the organisation in March this year, just over six months ago. Since then it has been a very busy time. The Board made a number of commitments to shareholders at the 2016 AGM, and from day one these have been on the top of my list.

Much of our focus this year has been in moving wind farm operations to be consistent with global best practice – the essential hygiene factors our chairman referred to. This is about right sizing our team, driving out costs and operating our turbines intelligently. A key part of this is a range of curtailment measures to configure the turbines to operate only when it is profitable to do so – and by that I mean when we are experiencing the right combinations of wind conditions and market pricing.

In April we started putting this strategy into effect, rolling out turbulence curtailment across the whole wind farm, following an earlier trial. The objective here is to protect the turbines from wear and mechanical damage in adverse wind conditions. We are forecasting we can achieve mechanical savings of up to $700k per annum. While we have been experiencing light wind conditions, we have not had a gearbox failure since April; in FY16 we replaced 15 gearboxes – a bit over one a month – and we have now gone five months without a single failure. We appear to be on the right track.

We believe we can achieve additional mechanical savings through two further rounds of more elaborate curtailment.

PWC assisted us in rebuilding our impairment model earlier this year. We are now using a more conservative forward electricity price path based on the ASX curve alongside a more realistic calculated weighted average cost of capital. While these two changes largely cancel each other out, the model is very useful at allowing us to see the impact of operational changes on the value in use of our assets. As a result of our cost out and curtailment programme, in June we announced an increase in the value in use of the wind farm assets of $4.6m – quite a reversal for the company after several years of negative impairment adjustments.

As the Chairman mentioned, we have reduced our headcount by 25% this year. This is a function of both the organisational review, and lower workload through the curtailment strategy and more intelligent servicing, reducing our need for technical staff. We delighted that Alison Angove has accepted the financial controller role.

To provide an indication of the impacts of curtailment and our cost-out programme, we are forecasting a substantial decrease in the short run marginal cost (SRMC) of the plant. This measure assesses the wind farm generation volume against the operational cost of running the turbines. In 2016 the wind farm short run marginal cost was a little over $29/MWh; for the FY18 year we are forecasting that we will achieve a short run marginal cost of around $20/MWh.

We have been working closely with the industry regulators and operators in recent months. We're the only large-scale merchant wind generator in New Zealand, so we've been pretty vocal in consultation on proposed code changes. A rule change was put in place in June this year, and we have agreed with the Electricity Authority that we can interpret that the rules permit curtailment on price.

A more comprehensive rule change is forecast to be made in 2018, and we are anticipating that this will provide us with further operating flexibility. These code changes are essential steps in making wind generation sustainable in the New Zealand electricity market.

After four months of sustained negotiations, in August we announced that the company has entered into a binding deal to purchase the Powerco-owned electrical reticulation assets that are the subject of finance and operating leases and a cash guarantee. This move improves our operating cashflows by around $700k per annum and gives us full control of all our assets. Having been contemplated for many years, getting this done was a major priority for the Board and I started working on this transaction in my first week. Analysis has confirmed that the $17.3m purchase price represents good value. We have secured bank funding for $12.3m and we plan on using the bank guarantee funds for the balance, noting that this structure frees up cash for a distribution. We're on target to close this transaction imminently, subject to a positive vote today.

We commenced hedging our forward revenues in June. Our objective is to insulate the company against the low electricity prices it has received in recent years. Forward electricity price contracts typically "price-in" a degree of dry year risk; we can benefit from this by forward contracting. As at 10 August, the company held forward cover for FY18 for around 30% of average production at an average price of around $83/MWh, a substantial uplift on the pricing received for much of this calendar year.

The use of the ASX price curve alongside the use of hedges to baseline forward revenues to predict forward profitability is an important step for our business. It means we are using the market's best view of forward price to make operational decisions. An example of this is the model we now run to assess turbine repair decisions against forward price expectations. We know that if we have a gearbox failure and the forward price is below a certain level, it is economically advantageous to "borrow" a gearbox from a low revenue producing turbine and delay repair and replacement until the electricity price justifies it. This sort of dynamic approach is a complete reversal from the old management approach where the farm was kept 100% operational even when this made no economic sense.

The company continues to make progress in resolving consent issues in relation to wind farm noise. The review of the consent conditions under Section 128 of the Resource Management Act is nearing completion. The Board and I have agreed to a fresh approach to dealing with noise issues based around direct engagement with near neighbours to resolve concerns. A small number of neighbours are troubled by noise levels when the wind is blowing from the non-prevailing south easterly wind direction. In July we put in place a voluntary sector-specific noise curtailment trial to provide relief in these conditions. This is entirely consistent with international best practice. Through the section

128 hearing held earlier this month we have agreed a set of operating conditions with the neighbours and the council where we curtail two of our 96 turbines in specific summer conditions to reduce noise levels. Subject to some final analysis, we are confident the experts will agree that this is an equitable outcome, and subject to the commissioner's decision, we are hopeful that this will put an end to a seven-year process, notwithstanding that the RMA does contain appeal provisions.

At an operating level, turbine performance has remained strong, and the consistent 96.0% availability for the year is a great result given the multiple operational changes we have put in place. Our in-house team continues to make progress in reducing the costs to repair, maintain and operate the turbines.

Variable wind conditions meant that the anticipated 130GWh output was not met this year, with actual production of 124.6GWh, 4% below target. This illustrates the annual variability we are exposed to. The year was notable for high resource volatility, and unusual seasonal conditions.

FY17 was also characterised by high price volatility. Wholesale pricing through much of calendar 2017 did not appear to reflect declining hydro storage volumes in the South Island – with prices staying very low despite a looming water shortage. An energy broker commented that after two consecutive "wet" (and by wet we mean high hydrology inflow) years the market participants appeared to have forgotten the impacts of a dry year like 2017. Very high July pricing saw this view borne out. This is exactly what our hedging regime seeks to address – effectively lifting our revenue floor to baseline our income so we can operate profitably consistently.

Operationally we carried out a number of repairs and refurbishments, but significantly we have seen a notable drop in the failure rate of major components including gear boxes and pitch bearings.

We have also put in place a range of improvement projects over the last twelve months. We're starting to see real results from mechanical improvements, sheeting back to that reduced short run marginal cost I referred to earlier.

Health and safety performance was solid; there were no work-related lost time incidents in FY17 and only one minor recordable incident. Health and Safety remains a primary focus for the company. In joining an organisation that operates in a hazardous environment I was pleased to find a very strong health and safety and safe work culture at the company.

We now also benchmark our health and safety performance against other NZ wind operators, and initial benchmarking shows that our health and safety performance is comparable to others, and we will of course continue to seek further improvement.

Turning to financial performance, revenue for the year came in well below budget principally as a function of poor electricity pricing received. The average electricity price received in FY17 was around $48/MWh compared to over $55/MWh received in FY16, a 13% drop. Revenue of just under $6m was 17% down on FY16 revenue of $7.2m.

Total operating costs were reduced from $5.9 million to $5.8 million this financial year, despite significant one-off costs of around $300k associated with restructuring. FY17 has seen intense scrutiny on the financial performance of the business. The cost base for FY18 is markedly different with the full year impacts of savings anticipated from the new curtailment strategy, the management and team restructure and the proposed purchase of the electrical reticulation assets. Alongside our hedging strategy, these measures are forecast to make the company robustly cashflow positive.

In other matters, in March the company received an unsolicited approach from a third-party corporate expressing an interest in either acquiring the company or its asset. The approach at no time constituted a formal bid and was materially incomplete. After some information exchange discussions were terminated as the parties were unable to agree on price and value. Our role is always to work hard to continue to find value in this business; it's gratifying to see others noticing our progress.

The company operates in a difficult segment of the New Zealand electricity market; that of merchant generation. Generation assets are highly valued, however this value is best realised where they are paired with either a retail base or other fuel sources (or both) – it's this integration that creates value. Gaining full control of our generation base through the purchase of the Powerco assets is an essential part of getting our house in order.

We're well positioned to expand our operational base. My team has expertise across a diverse range of generation types. The challenge for us this year is to complete the improvement programme that has consumed most of our time – those hygiene factors again – such that we can use our time to work through and put in place a more diverse future.

Whilst merchant generator status is problematic, it is no less challenging to be an independent electricity retailer without any generation capability. There are clear synergies in bringing these positions together, to in effect create a gentailer type of model. We will be investigating these opportunities in FY18.

To conclude, the wide-ranging initiatives that have been undertaken, and particularly those put in place over the last six months position the company favourably for FY18. The combined effect of these initiatives presents a vastly different company to the one facing you a year ago.

My team and I are resolutely committed to making this company sustainably profitable under the board's leadership. We have taken the essential first steps, but the exciting stuff is yet to come. Thank you for your support as we embark upon this journey.