

NZ Windfarms Limited

Acting CEO's address to the Annual General Meeting

29 November 2016.

As you are aware, our previous CEO resigned at the end of October, so at the beginning of this month I found myself completely unexpectedly fulfilling the role of Acting CEO.

As Rodger has indicated to you, this was an already significant year for us in that over the course of the year there has been a complete change of directors and the board was just completing an organisational and financial review of the company and its operations.

We have announced that the result of that review was for the company to dis-establish the roles of CEO and CFO and replace it with a new role of Commercial Director, which will encompass both previous roles. Following this announcement the CFO approached the board with a request to be paid out the notice period required by his contract. We agreed to this request and he left the company on 23 November 2016.

Amongst a number of urgent tasks I faced on taking up this position was to prepare this address for shareholders. On looking back at previous reports I noted a high focus on the many issues associated with the Windfarm and the Windflow 500 generators that we are using. Whilst it is fair to say that if one were building a windfarm today, it is unlikely that one would use this particular equipment, the farm was built using them, they do exist and they are our main asset. This means that our task is to operate them as efficiently as we can and optimise all other aspects of our business.

Far from spending time agonising about what was done in the past and the various design issues with the turbines, I want to focus on the future and also on our staff and what they are achieving. Our windsmiths and engineers have been maintaining an availability ration for the turbines at or over 95% for some time. This is an outstanding achievement and we should celebrate it. As Rodger has said, mother nature has co-operated and we have been meeting our production targets of 130 GWH for the last two years. This is also outstanding and something to be proud of.

The two principal risks we face in these circumstances are the possibility that the wind doesn't blow and the impact of the power price. Whilst most New Zealanders want a summer of warm calm weather, we want a very windy one. It is impossible to please everyone, isn't it? The other variable in our business is the power price. Anyone who has been developing webbed feet this winter will know it has rained. Lots. Full lakes are bad for power prices. Full lakes are bad for windfarms.

The absurdity of this is that when power prices are low, consumers do not benefit at all. They pay the same price they have always paid and they only have access to one retailer at a time. An integrated company that generates and retails electricity feels little impact from a depressed market. When wholesale prices fall, so do margins from generation. If retail prices stay the same, retail margins increase. Profits are not impacted.

So there is one of our main challenges. We need to move from being wholesalers and price takers to accessing retail margins. Our task if you like, is to become part of the cartel.

There are a number of issues that we have to resolve in order for that to happen. The biggest of these is to overcome the intermittency that is an inescapable part of wind generation. Output is not consistent and can cease altogether when it is calm. In order to access better pricing, we have to be able to guarantee supply. This is not a problem created by the equipment we use. It is a windfarm problem. Most windfarms overcome this by having multiple locations or being linked to other forms of generation. At present we do not. If we can overcome this issue, our other challenges diminish significantly.

Unfortunately identifying the problem is a lot easier than solving it. I can't promise that we will fix it. What I can promise is that there will be no lack of energy from the board, me, while I am here, and my yet to be appointed successor, to chase down all of the options and strenuously endeavour to implement the changes needed.

When I took over this position I found that no work had been done on how to move from our current position as a price taker, to a position of being able to make prices nearer retail prices. This is not an acceptable or sustainable position.

I have made it clear that I am in this role in an acting capacity. I have no ambitions to be a long term CEO of this or any company. However what I have already done in my time is to begin to resolve some of the historical issues plaguing the company, and work will commence under my watch on developing a business plan that addresses our business issues.

I should also mention that progress has been made on the Section 128 review being conducted by the Council relating to noise issues associated with the farm. This process requires co-operation between the Council and the Company and we are seeking to actively engage in the process.

We are starting work on a programme to improve our relationships with local councils and be accepted as a local business. We are physically located in the Manuwatu and almost all of our staff are local. Since we are part of the local community, we should seek to embrace it.

There are some issues facing all windfarms arising from changes in the Council's latest plan. Wind generators are co-operating to submit on the subject. These changes do not have any significant immediate impact. Given that there are a number of windfarms in the area that bring employment and economic benefit, it is reasonable to assume that a sensible accommodation will be found by the parties that allow the long term operation of windfarms in the area, given the ideal conditions that exist and the contribution they make to the local economy.

And finally, whilst no situation is perfect, we should all reflect on the fact that the mode of generation we use resonates with New Zealanders in that it is part of the parcel of generation alternatives that meets the wishes of the world generally to manage carbon emissions. I am much happier standing here talking about a windfarm than I would be if the company owned a coal mine, which by the way is not one of the possibilities we are considering to solve our intermittancy issue.

Thank you for your attention.