

30 August 2021

NZX Announcement

For immediate release

NZ WINDFARMS LIMITED (NWF): FY2021 RESULT AND CHANGE OF STRATEGIC FOCUS

Overview

Having progressed the transition to a more stable, income-generating platform for shareholders, your Board is pleased to present its view on the company's longer-term strategic focus, alongside today's financial results for the year ended 30 June 2021.

The country is now at the beginning of a profound and rapid shift away from carbon emitting energy sources and NZ Windfarms is uniquely positioned to assist in this transformation. Following recent strategic planning workstreams, we can now give shareholders a broad overview of our future direction within this compelling macro dynamic. There is a large amount of work that still needs to be done and some details are commercially sensitive, but we will share what we can for now. We look forward to giving shareholders continued updates on material developments as we further progress our plan.

We have also formulated a permanent Dividend Policy. We encourage all shareholders to read more about the strategy updates within the annual report and investor presentation and also to review the dividend policy. All of these documents are included with today's NZX release.

Highlights

- **Second highest Net Electricity Revenue (incl realised loss on derivatives) of \$9.7m** (2020: \$11.5m)
- **Second highest Net Electricity Price GWAP¹ of \$87.80 per MWh** (2020: 97.39 per MWh)
- **Second highest EBITDAF² of \$5.1m** (2020: \$8.0m)
- **Second highest Operating Cashflow³ of \$4.9m** (2020: \$7.6m)
- **Profit before tax of \$0.5m** (2020: \$2.4m)
- **NPAT⁴ of \$0.3m** (2020: \$1.7m)
- **Announced today a final dividend of 0.45 cps (unimputed)** (2020: 0.70 cps). Total unimputed dividends related to FY2021 are 1.00 cps (2020: 1.80 cps).
- **Dividend Policy of 70% - 100% of free cash flow adopted**
- **Generation of 110.5 GWh** (2020: 118.4 GWh)

¹ Net GWAP = Net generation weighted average price = (electricity sales + gain on realised derivatives – loss on realised derivatives) / generation

² EBITDAF - Earnings before interest, tax, depreciation, amortisation, and fair value adjustments. EBITDAF is a non-GAAP measurement. The Company utilises EBITDAF to provide shareholders with a view of underlying operational earnings on a like-for-like basis over time. EBITDAF is a common measure utilised by listed companies. Please note NZ Windfarms definition may be different to others in the market.

³ Operating cashflow is referred to as net cash inflow (outflow) from operating activities in the financial statements.

⁴ NPAT = Net profit after tax.

- **Average Mean Wind Speed of 9.5 m/s** (2020: 9.7 m/s)
- **Debt repayment of \$0.93m** (2020: \$0.95m)
- **Continuation of excellent health and safety record**
- **Update to the Company's mid to long-term strategy:**
 - **investigation of the repower and re-consent of the Te Rere Hau wind farm; and**
 - **investigation of Greenfield sites**
- **Forward EBITDAF Guidance FY2022: We anticipate EBITDAF in the range of \$7.8m to \$8.6m. The material uplift in guidance over the just completed period is a result of the 100% fixed price of \$107.22 MWh⁵. (2021: \$87.80 MWh)**

Strategic Update

Without losing attention to continuous improvement for our operations, your Board is now focussed on the long-term ambition to further improve our ability to make the most of our valuable wind resource. Forward industry conditions, Government policy, outlook and informed consensus are supportive of our strategic conclusions to investigate the repowering and re-consenting of Te Rere Hau and to investigate possible greenfield opportunities.

In a very short period, particularly against the normal industry horizons used, there will be a rapid shift away from carbon emitting energy sources. Our own Government has been very clear about its intent and that has unprecedented implications for the electricity sector. In New Zealand, policy settings target wind and solar as the main sources of new generation.

While NZ Windfarms is currently relatively small, it has considerable operational experience in the New Zealand environment, and this covers on-farm activities and corporate support such as revenue hedging with New Zealand counterparties.

Any decision to advance opportunities in the future will be supported by a robust commercial case. It is also almost certain, amongst other requirements, a final investment decision will require a commercially acceptable off-take agreement, operations and maintenance contract, a viable resource consent, and acceptable funding.

FY2021 Results

The Company sustained solid results during FY21, despite an unseasonably low wind year, particularly in the second half and higher operating expenditure compared to the prior year. These included net electricity revenue (incl realised derivatives) of \$9.7m (2020: \$11.5m), Net Electricity Price (incl realised derivatives) Net GWAP \$87.80 per MWh (2020: \$97.39), EBITDAF \$5.1m (2020: \$8.0m), Operating Cashflow \$4.9m (2020: \$7.6m) and Total Unimputed Dividends of 1.00 cps (2020: 1.80 cps). Net interest costs remained low and we continued to pay down debt, leading to NPAT of \$0.3m (2020: \$1.7m). Dividends were consistent with the Dividend Policy announced today setting dividends at 70%-100% of free cash flow.

Revenue, Operating Expenditure and EBITDAF

Revenue reflected a combination of continued high prices from the Variable Volume Fixed Price (VVFPA) throughout the period offset by below average wind conditions. Generation of 110.5 GWh (2020: 118.4 GWh) was down on last year, a result of very low wind in the last four months of the financial year, something that could not be foreseen at mid-year.

At the interim result we were forecasting potential full year generation of 120.0 GWh, that is H2 generation of 55.1GWh. We received 45.6GWh (H2 2020: 50.7 GWh) of H2 generation, 17% below forecasts. Our wind resource, represented by average mean wind speed was 9.5 m/s (2020: 9.7 m/s).

⁵ This price is a generation weighted average price (GWAP) based on the budgeted generation profile.

In addition, there was a grid outage that partially impacted H2 generation for the year by -0.7 GWh (2020: -2.3GWh).

Availability was a respectable 95.6% (2020: 95.3%). This compares favourably to our OEM benchmark of 95.0% (2020: outperformed), but below the industry benchmark of 97.0% (2020: underperformed). This translated into lower than forecast net electricity revenue.

This year we introduced non-destructive testing (NDT) on all towers, selected foundation studs, and early design series blades. This is part of asset management planning to baseline the resilience of key structural components. No issues were detected in the towers and foundation studs. A proactive blade strengthening program was designed for a subset of early series blades by a reputable composite consulting firm. The blade strengthening programme was implemented by the operational team on site. The consultant costs, elevated work platform hire, and NDT specialists contributed to some of the additional operating costs compared to the prior year. Going forward NDT will be undertaken on a sampling basis and therefore costs for this specialised work are expected to be lower. A portion of these costs can be characterised as non-recurring. The asset resilience and blade strengthening work underpins our commitments to keeping our people safe and enables the operation of the fleet in a safe, efficient and sustainable manner.

Maintenance was required in the substation and on our electrical reticulation system. This was a non-recurring cost, and essential work to maintain our critical connection infrastructure. Operational costs relating to increased inventory and consumable utilisation, cranes and freight costs were higher compared to the prior year. Insurance was disappointingly higher, especially given the premium relief observed during the prior year. Insurance cover for material damage, business interruption and directors & officers insurance saw the largest increases. Costs related to strategy development and planning were higher than anticipated. These are expected to increase as we investigate the repower of Te Rere Hau and seek greenfield opportunities to add additional generation sites. While we continue to maintain strict cost controls, we recognise that we must remain flexible in situations where maintenance is required on critical infrastructure and components.

Lower net electricity revenue coupled with these higher operating costs, led to EBITDAF of \$5.1m (2020: \$8.0m). This was below the guidance range of \$5.7m - \$6.3m, but nonetheless was the second-highest EBITDAF achieved by the Company.

FY2022 EBITDAF Guidance

Based on our forecasts for FY2022, we anticipate EBITDAF in the range of \$7.8m to \$8.6m based on the current cash generation assets. This is materially higher than the year just completed and is a result of the elevated forward prices at the time the fixed price contracts were executed. The net electricity price for FY2022 is 100% fixed at a GWAP based on our budgeted generation profile of \$107.22 MWh (2021: \$87.80 MWh).

Guidance is provided on the basis of information available to the Board at this time and is subject to variations such as climatic and other factors outside of the Company's control. Forward electricity generation is based on historical production volumes adjusted for relevant factors. Wind generation can be extremely volatile due to a range of factors outside our control. The EBITDAF range excludes all costs related to investigating the repower and re-consenting of Te Rere Hau as most of these costs are expected to be capitalised. Guidance will be updated at the half year or if a material event occurs.

The net electricity price for FY2023 is estimated at \$108.92 MWh. The price is 100% fixed for the first quarter of FY2023 and the last three quarters is a blended price of 25% fixed and 75% estimated spot price based on observable forward prices. The budgeted generation profile is applied to determine a GWAP. During the year ahead we will look to fix the remaining 75% of unhedged generation between 1 October 2022 and 30 June 2023 (dependent on market conditions). At the time of writing short dated futures have eased considerably from the levels observed at the end of May, but long dated futures have remained elevated.

Capital Expenditure and Re-powering strategy

Our capital program continued to enhance the robustness of our turbine platform and infrastructure. We continued to work closely with suppliers to maximise the efficiency of our inventory regime and manage maintenance costs.

We stepped up planning work on the re-powering of Te Rere Hau, and expect to be in a position to make further announcements on this in the coming year as these plans are developed more fully and the Board makes decisions on the programme.

Bank Funding and Capital Structure

The Company's term debt with BNZ provides a stable funding environment, and we continued to pay down debt by \$0.95m (2020: \$0.93m). Total debt at the end of the reporting period stood at \$9.0m (2020: \$9.9m), Net Debt was \$6.5m (2020: \$6.2m) and net debt to EBITDAF was 1.26 times (2020: 0.77 times). A total of \$7.3m of the outstanding principal has the interest component fixed until Q1 2023. Net interest cost was \$0.13m (2020: \$0.25m). We will review our capital structure and funding requirements in the year ahead.

Distributions and New Dividend Policy

Today the Board announced a 0.45 cps unimputed dividend (2020: 0.70 cps) to be paid 22 September 2021. Details are included in the accompanying distribution notice. This follows distributions on 31 December 2020 of 0.40 cps (unimputed), and a 0.15 cps (unimputed) dividend on 9 April 2021. Total unimputed dividends related to the full financial year are 1.00 cps (2020: 1.80 cps) or \$2.9 m (2020: \$5.2m).

The Company's Dividend Policy announced today consolidates our position to continue to deliver income-generating dividends for shareholders. The policy will see the Company seek to pay dividends each year of between 70% - 100% of free cash subject to carve outs.

Clean and renewable energy

We are fortunate to be operating in one of the world's leading wind generation locations. Our 92 turbines with a capacity of 46 MW produces enough electricity to power about 16,000 homes, or in excess of half the households in Palmerston North, using clean and renewable energy. Were the electricity we produce to be generated by a gas-fired power plant, it would emit roughly 64,000 tonnes of carbon dioxide, equivalent to an additional 23,000 cars on the road.

Outlook

This year we consolidated our efforts to create a solid platform to enable our future strategy with work now underway to investigate the repowering and re-consenting requirements of Te Rere Hau and to secure additional generation sites around the country as part of our Greenfields programme.

Pursuing a repowering strategy offers an opportunity to increase renewable energy supply for New Zealanders, assist Government to achieve its renewable energy targets, support the electrification of transportation and industrial heat processes, provide jobs and economic benefits to the local economy, and further unlock strategic value in the Company.

Our progress to date, combined with the opportunity in front of us, will make our Company increasingly attractive to shareholders seeking both income-generation as well as growth from an environmentally sustainable and responsible investment.

For further information, contact Warren Koia, Chief Executive, by phone on 06 280 2773, or by email at info@nzwindfarms.co.nz.

Thank you | Nga mihi nui

John Southworth
Chairman

About NZ Windfarms Limited

NZ Windfarms Ltd is a long term specialist wind farm owner and operator, with its revenue coming from the sale of sustainably generated electricity from its Te Rere Hau wind farm.

The Te Rere Hau wind farm is located on North Range Road in the Tararua Ranges outside of Palmerston North. The wind farm has 92 turbines with a capacity of 46 MW producing enough clean energy to power about 16,000 homes, or in excess of half the households in Palmerston North. In comparison to generate the same amount of energy, a gas-fired power plant would emit roughly 64,000 tonnes of carbon dioxide, the same as an additional 23,000 cars on the road

NZ Windfarms Ltd (NWF) is a public company listed on the NZ Stock Exchange. Up to date share trading information can be obtained from the NZX website.