NZ WINDFARMS LIMITED
ANNUAL MEETING
26 SEPTEMBER 2017

CHAIRMAN'S ADDRESS

Before commencing the formal section of this meeting I would like to comment on the key features of the year to 30 June 2017 as published in the Annual Report and update shareholders on progress since that date.

INTRODUCTION

Let me start by thanking the shareholders for their patience as the company was transformed. It has been my pleasure to lead the transformation with my fellow directors Stuart our deputy Chairman, John who chairs our audit and remuneration committee, John Worth our new CEO and Alison who takes on a new role in the company as Financial Controller. It may sound trite to say it but our success this year is the product of a strong team who know where they are going, from the team of windsmiths through to the board.

2017 has been a very significant year in the development of NZ Windfarms (NWF). Since its inception the company has struggled for commercial success against a background of being a small merchant generator with high operating costs who has been exposed to the vagaries of the wholesale energy spot market. The company and its neighbours have been engaged in a long debate with Palmerston North City Council over the original noise consents, compliance with them and their appropriateness. At the 2016 AGM I and my fellow directors promised that things would change – and they have.

We said that we had a plan for how the company could go forward and that plan had three parts.

- We had to get the company functioning as efficiently as possible, manage our exposure to the energy spot market (stop being a price taker) and undertake a restructure of the company capital.
- We have to include a retail operation in the ambit of the company.
- We have to acquire an alternative fuel generation capability.

I am pleased to report that we have achieved the first part of our plan if you as shareholders choose to endorse the ordinary resolutions for the acquisition of the Powerco electrical reticulation assets.

Since the last AGM we have:

- Appointed a new CEO John Worth who you will hear from today
- Reviewed the staffing levels that we need to effectively operate the company which has resulted in a significant reduction in head count of 25% including a member of the senior management team
- Introduced a curtailment management protocol to protect our wind turbines in high and turbulent wind conditions and we have negotiated with the regulator to ensure that we only generate when the market price exceeds our marginal cost of production

- Introduced a hedging policy which seeks to hedge up to 40% of our average production looking forward to baseline future revenues and profitability as part of our move away from spot price taking status
- Agreed a binding transaction (subject to two ordinary resolutions) with Powerco to purchase the electrical infrastructure that delivers our energy to the grid
- Introduced a dynamic noise curtailment regime

These actions have a net positive impact on the cashflow of the company and in a full year will add $1.4M -$1.8M p.a; circa $400k per annum from the restructure, circa $700k per annum from the Powerco transaction and circa $300k - $700k from curtailment. The impact of the hedging policy is yet to be realised but is considered to be net positive, particularly in periods of low price. The first impacts of hedging will be realised in Q1 of this financial year.

The next two steps in the plan are the acquisition of a retail customer base and the acquisition of alternative fuel generation; your board has advanced it's thinking in both areas and is actively canvassing the market for opportunities. It is the board's intention to execute at least one of these opportunities in this financial year.

ELECTRICITY REVENUE

The year has been characterised by volatile low production and sustained low pricing. Hedging will reduce our revenue volatility in coming periods however the company will ever be exposed in part to the vagaries of the weather as all other wind and hydro producers are. Success in acquiring alternative fuel generation will add to the reduction in price volatility augmenting the hedging programme.

Thermal plant closures over recent years, and an increase in global aluminium prices that is underlining the future of the Tiwai smelter alongside sustained population growth and strong economic activity, indicate that supply and demand are much more in balance than we have seen for the last 5 to 8 years, and with this we see electricity prices recovering.

However of concern to your board is the increasing and challenging task of making a profit in the wind sector. I note that over the last year wholesale prices earned by large generators fell by about 8% while those of NWF fell by 13%. Whilst the wholesale market declined interestingly retail prices rose by around 1%. This idiosyncratic market behaviour puts all merchant generators at risk and suppresses the build out of existing wind farm consents pushing away the day that NZ can depend fully on sustainably generated energy. I encourage the incoming government to critically review the current market structure to address this market anomaly.

OPERATIONAL PERFORMANCE

There is no doubt that being the operator of a unique wind turbine fleet is a tough place to be, however the challenge that we have addressed in the last year has been to bring together:

- A fundamentally robust turbine platform
- Appropriate bespoke management strategies as used for all wind turbines to protect the turbines from adverse wind conditions (through curtailment)
- Expert engineering expertise in improving turbine performance and component lives

- A market overlay (electricity price) driving how we operate turbines, stock parts and replace components

This is what we have been focussed on for much of this year – essentially the basic hygiene factors that every wind farm operator on the planet must be completely across. We have made fundamental shifts in how we operate the plant and after a year leading the company we can only wonder at how NWF fortunes would have been different had the company taken action earlier.

FINANCIAL PERFORMANCE

The company achieved reasonable performance on the cost side of the ledger, but on the revenue side the performance was poor and was simply the outcome that can occur with an unhedged price-taking business. This will not occur again.

Since writing my review for the Annual Report, I note with pleasure this year has started well and we are on track to meet our targets. The July/August revenue was circa $1.6m with costs within budgets.

The board has driven a philosophic change in the company from a wind farm business run by engineers almost in total isolation of the wholesale market and the regulated environment – to the new ethos where we run the business in such a way that we only spend your dollars when there is a clear payoff. We are actively working with the regulator (the Electricity Authority) and the grid owner and operator to improve the operating environment and financial sustainability of merchant wind generators. As I have noted earlier all wind and hydro generators are subject to these vagaries; the companies that succeed are those that manage the risks of price and costs most effectively. NWF is closely focused on just those risks.

RESOURCE CONSENTS

The board recognises that success in putting noise issues sustainably behind us requires both technical outcomes and cultural change. Our neighbours are our partners in that we operate in their environment and we must and will work closely with them to achieve a solid balance between commercial outcomes and effects. The company has not ever shown that it understood the concept of a social license to operate. The result has been 7 years of prolonged, expensive and distracting litigation costing the shareholders circa $2M. This Board will end the foolishness because it's cost effective, it's the fair thing to do for our neighbours and we have much more exciting things that will drive shareholder value to be getting on with rather than being distracted by this pointless litigation.

CAPITAL MANAGEMENT

When I was elected to the board last year with Stuart Bauld and John Southworth there was shareholder concern about the large cash reserves that the company had on its balance sheet. Your board had similar concerns. Companies that have underutilised balance sheets are denying their shareholders the opportunity to place their capital to more profitable ends. With this in mind the board has aggressively pursued the purchase of the Powerco transmission assets and should the shareholders agree plans to take on loans of $12.3M to part fund the purchase. The effect of this transaction is to release cash to the Company and alongside our cost out, improvement and hedging programmes our current guidance is a distribution of $0.7c to $0.9c per share. The distribution is dependent on the execution of the Powerco transaction which is imminent and of course obtaining shareholder approval at this meeting. The Company holds imputation credits. I believe that this shows clearly the board's intent to focus on building shareholder wealth. Again it is a shame that past boards and CEO's have not shown the resolution necessary to execute the transaction which has been in contemplation for some years. Your current board and CEO have executed the transaction in four months. This makes the business more profitable and builds rigour in managing a debt book – essential as we contemplate growth and changing our fuel mix.

OUTLOOK

So the first stage of the plan is in place and we now turn our minds to where we go in the coming year. The new strength we have in our refreshed management team led by John Worth puts us in a strong position to develop the acquisition of alternative fuel generation and move in the area of developing or acquiring a retail base. The company will not remain a merchant generator. The timing of these plans cannot easily be predicted but with the skills the refreshed board and company leadership team bring to the table it is my intention that we will execute one or other of the strategies before the next AGM – our small team has significant experience in development, consenting, transmission and other generation fuel classes including hydro, geothermal and other renewables. We're looking forward to deploying these resources as we move beyond being a one-asset company. Based on our historic production and hedging position we will achieve a significant improvement in revenue; this year our revenue was $6.2M and in the coming year our target is $8.2M.

We, the board and all the staff are making this company sustainably profitable – not easy within the NZ electricity market structure, but we're way ahead of where the company has been before and it will give me much pleasure to confirm a distribution in coming weeks. Thank you.