

28 February 2023

NZX Announcement

For immediate release

NZ WINDFARMS LIMITED (NZX: NWF): FOCUS ON OPERATIONAL EXCELLENCE AND STRATEGIC GROWTH OPPORTUNITIES

Operational Metrics:

- The Company maintained comparable operational performance for the half year despite low spot electricity prices and partially hedged generation.
- H1 Generation: **56.0 GWh** (pcp:56.1 GWh)
- H1 Average Wind Speed: **9.5 m/s** (pcp:9.5 m/s)
- H1 Availability: **93.6%** (pcp: 94.4%)
- H1 Net GWAP: **\$88.67 per MWh** (pcp: \$91.13 per MWh)
- H1 Net Electricity Revenue¹: **\$5.0m** (pcp: \$5.1m)
- H1 EBITDAF²: **\$2.5m** (pcp: \$2.9m)
- H1 NPAT³: **\$1.8m** (pcp: \$4.4m)
- H1 Operating cash flow⁴: **\$2.8m** (pcp: \$2.7m)
- A first quarter dividend of **0.05 cents per share** (pcp: 0.15 cents per share) was paid in December 2022.
- **\$1.35m** of additional debt was drawn during the period to partially support the investment in upfront resource consenting costs and related workstreams.
- H1 Lost time injuries (LTI): **Zero** (pcp: One)
- Dividends to be **paused**.
- FY2023 EBITDAF guidance revised to **\$4.1m to \$5.2m**

Key highlights:

- Fast-track resource consent submitted for consideration to the Environmental Protection Authority. An expert consenting panel has been appointed and consultation is underway. A successful application would provide the option to repower the Te Rere Hau wind farm.
- The Company is making progress on the development of commercial structures with a short list of counterparties to develop our wind farm. Counterparties were identified and have provided Expressions of Interest and non-binding terms to partner with NZ Windfarms. A repower is conditional on both the outcomes of the fast-track consent and ongoing commercial discussions.
- Establishment of our Company purpose: **Empowering Sustainable Communities and Values: Trust, Innovation, Manākitanga and Enjoyment.**
- Surplus cash is being redirected to invest in strategic growth opportunities.

¹ Net Electricity Revenue = electricity sales + gain on realised derivatives – loss on realised derivatives

² EBITDAF = Earnings before interest, tax, depreciation, amortisation and financial instruments. EBITDAF is a non-GAAP financial measure. Any hedges that have been transacted or closed within the period that replicate future hedging positions are excluded. In NWF's case, EBITDAF excludes electricity hedges that relates to transactions that fall outside of the reporting period. The Company utilises EBITDAF internally to evaluate profit and loss that relates to the financial period.

³ NPAT = Net Profit after tax. This is referred to as total comprehensive income and profit (loss) after tax in the financial statements.

⁴ Operating cashflow is referred to as net cash inflow (outflow) from operating activities in the financial statements.

Highlights for the half year

Net electricity revenue for the period was \$5.0m (pcp: \$5.1m) and EBITDAF was \$2.5m (pcp: \$2.9m). NPAT of \$1.8m (pcp: \$4.4m) was lower as a net result of a lower gain on unrealised derivatives \$2.5m (pcp: \$5.0m), higher depreciation \$2.1m (pcp: \$1.5m) and higher net interest costs \$0.2m (pcp: \$0.1m). Depreciation was higher as a result of the reversal of impairment on the property, plant, and equipment carrying value at 30 June 2022.

The Variable Volume Fixed Price Agreements (VVFPA's) partially shielded the Company from the full impact of low spot electricity prices on the unhedged portion of generation. The Company was 100% hedged for the September 2022 quarter and 50% hedged for the December 2022 quarter. The blended price (incorporating VVFPA's and spot pricing) averaged \$88.67 per MWh for the half year period. This is down slightly on the comparable period of \$91.13 per MWh.

Spot electricity prices were extremely low during the period as a result of full hydro lakes across the country. For reference, the December month averaged \$6.26 per MWh and was the lowest average monthly spot price recorded by the Company. The Company did seek further VVFPA hedging opportunities during the half year to 31 December 2022 but market interest was not aligned with our commercial needs. The Company continues to investigate opportunities to capture the benefit of the forward price curve and to enhance revenue opportunities.

Average wind speed was 9.5 m/s, unchanged on last period (pcp:9.5 m/s) and availability was 93.6% slightly below last period (pcp:94.4%). Note the availability statistic has been restated for last period. This led to half year production broadly unchanged at 56.0 GWh (pcp: 56.1 GWh).

Zero Lost Time Injuries (LTI's) were recorded (pcp: One). This is illustrative of the company's strong health and safety culture.

Strategy focus

As we move into the second half of the financial year our focus is two-fold. The first is optimising our existing fleet, revenue streams and cost centres; and the second is the repowering workstreams which underpin our strategic growth opportunities.

Optimising our existing fleet, revenue streams and cost centres includes maintaining a close eye on costs, supply chains and controllable factors, working with customers to optimise our VVFPA offering and exploring additional revenue streams.

Repowering workstreams are progressing. The expert consenting panel has been appointed and they are gathering feedback from various parties to inform their fast-track consenting decision which we anticipate in the April-June 2023 quarter.

The Company is making satisfactory progress on the critical commercial elements required to deliver the repower to NZ Windfarms. The repower is conditional on the outcome of the fast-track consent and ongoing commercial discussions. A proposal will be discussed with shareholders once commercial terms have been agreed. A further update is anticipated later in the calendar year after a consenting decision has been made.

We are pleased with the progress we have made on these crucial initiatives, which creates a remarkable opportunity for long-term growth. We understand that pursuing such opportunities creates short-term cashflow challenges (such as the decision to pause dividends). However, it is an essential investment in our pursuit of a successful long-term growth strategy.

Company Purpose and Values

During the period the Company established the Company's Purpose and Values. This was a collective effort, which involved gaining insights and perspectives from all layers of the organisation and from external stakeholders. The Purpose and Values will guide decision-making and set the tone for how the business operates going forward.

Purpose: Empowering Sustainable Communities

Values: Trust, Innovation, Manākitanga and Enjoyment.

Operating and capital expenditure

Most operating expenses were higher compared to the prior period, reflecting the inflationary environment. Fleet availability, operating & capital expenditure and heavy maintenance programmes were impacted by inflation, competitive labour markets (impacting the ability of suppliers to find staff), Covid-19 related staff absences, difficulty sourcing materials or components (as a result of China's restrictive Covid-19 lockdown settings) and transportation bottlenecks. These factors impacted management's ability to improve fleet availability and EBITDAF. When turbines are shut down as a result of faults, any delays in sourcing replacement parts or components impacts the timeframe in which turbines can be returned to service. Hence availability suffers and this has a flow on effect to generation as we observed this period. The Company is proactively working with suppliers to minimise delays and manage inflationary cost escalations where possible to improve availability.

Impact from recent weather events

The wind farm was not directly affected by the impacts of Cyclone Gabrielle. The team was on high alert as the wild weather lashed the country, but ultimately the full force of the weather event was borne by other regions. One of our team members responded as part of Surf Lifesaving NZ's immediate response to the rescue efforts in the Hawkes Bay. We offer our thoughts, prayers and condolences to those families that were impacted by this tragic event.

Net Debt, FY23 EBITDAF guidance and Pause to Dividends

During the period the Company drew down \$1.35m of new bank debt to support a portion of the investment into the consenting and repowering workstreams. This capital has been ringfenced for these purposes hence the larger than usual cash-on-hand balance at period end. Interest costs will be higher from June 2023 as a result of a favourable interest rate swap coming to an end. Management is reviewing its interest rate hedging strategy.

The Company now expects **FY2023 EBITDAF to be in the range of \$4.1m to \$5.2m**. Forward electricity prices are currently elevated heading into the final months of the financial year and spot electricity prices have improved in January and February. However, it is difficult to estimate the level to which the elevated forward price curve can be monetised by the Company and therefore the guidance range remains wide to account for the variety of foreseeable pricing and generation scenarios. 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. Forward electricity generation estimates are based on historical production volumes adjusted for relevant factors including wind speed volatility. Guidance will be updated prior to financial year end or sooner if a material event occurs.

Considering the low electricity spot market prices and continued upfront investment to support strategic growth aspirations, the Board has taken the difficult but prudent decision to pause dividends.

Board changes

As announced, in August 2022, Mark Evans, retired from the Board of Directors. The Board acknowledges Mark's contribution to the governance of the Company, and thanks him for his efforts. As a result of his retirement, the board has reduced in number to four members. The constitution allows for a minimum of three and a maximum of eight directors.

Outlook

Despite stable operational metrics, the Company remains exposed to the spot electricity price path. Mid to longer term forward electricity pricing is currently favourable, but short-term pricing is highly dependent on hydro storage levels. Short term electricity price volatility has been partially shielded by our VVFP contracts in place to 30 June 2023 at a hedge ratio of 50%.

Longer term challenges include a large pipeline of new generation opportunities (as evidenced by Transpower's new grid connection queue system), the uncertainty created as a result of reforms to the Resource Management Act and a lack of clarity on the Lake Onslow project. Projects that can move to a final investment decision, and into construction and delivery quickly, and demonstrate acceptable investment returns, are likely to benefit from a first mover advantage.

The Board is committed to its two focus areas – optimising profitability of the existing fleet and execution of its strategic growth opportunities. We are excited about what lies ahead and committed to taking steps towards fulfilling our Purpose of **Empowering Sustainable Communities**.

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

Craig Stobo
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 Taranaki 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.