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## Windlab Limited Results Call Script – 9.30am 29 August 2019

Roger Price, Executive Chairman and CEO

Rob Fisher, Chief Financial and Operating Officer

[Rob]

Good morning everyone. My name is Rob Fisher and I am Windlab's Chief Financial and Operating Officer. I am joined this morning by Roger Price, Windlab's Executive Chairman and CEO

On today's call, Roger will provide an update on the company's operations, after which I will take you through our half year results as released over night. We will then be happy to take some questions.

[Roger]

Before beginning I would like to thank and acknowledge John Copper for his contribution to Windlab as a young and growing publicly listed company and wish him all the best for the future.

The Board and Management Team remain frustrated by the performance of our share price. There remains limited liquidity in our stock and despite operating in a massive, growing market the share price remains stubbornly low. Our business is one where our projects naturally have a long "gestation" period, and are influenced by certain market, regulatory and political factors. Furthermore, the Australian industry, the main focus of our shareholders, has been impacted by a material change in marginal loss factors, as well as grid connection technical requirements, rules and processes. This change has resulted in a dramatic shift in the way projects are developed, registered and connected to the grid and have impacted developers across the Australian market. While I do not think these matters will continue to be as disruptive as they have been in recent times, we are still in the midst of a transitional period and further delays and obstacles to the development of renewable projects are possible. We also continue to operate not only without a national energy policy, but in an environment where political forces are pulling in multiple directions creating uncertainty and volatility in the market.

That said, it is important to reiterate that the Board believes that there is a significant market opportunity for Windlab in Australia over the medium term and in our focus markets of South and Eastern Africa. The fundamentals underpinning the Australian and global shift to renewables remain strong, and our proprietary *Windscape* technology continues to be a key competitive advantage for the Company.

For these reasons, the board has commenced a strategic review of our business to consider a range of options to close the value gap that exists between the company's share price and what the board believes to be the underlying value of the business. We have appointed Moelis Australia as our advisor to assist with the process.

I might now take a few minutes to speak about progress across the business in the first half of this year.

- ◆ Early in the year, Eurus Energy invested US\$10m for 25% stake of Windlab East Africa. We have immediately turned these funds to good use, expanding the team and development activities in that market. The first 100MW stage of our fully-approved Miombo Hewani project has been shortlisted in the first renewable energy reverse auction undertaken by the Tanzanian government, with final bids due in November 2019.

- ◆ Later today I will attend the Tokyo International Conference on African Development to sign a memorandum of understanding between Windlab, the Government of Kenya and the Meru County Government, through their relevant investment authorities to support the development and construction of renewable energy projects in Meru County. Meru Energy Park, the first of these projects, is likely to be the first hybrid renewable project in Africa, similar to Kennedy Energy Park, it will provide 80MW of wind and solar power to the Kenyan Grid.

- ◆ In March we announced that Windlab Asset Management was appointed to manage the Nevertire Solar Farm in NSW. This has brought our total assets under management to over \$1b in value and adds further to our recurring revenue base. We continue to pursue further asset management opportunities across both solar and wind projects. Despite the slow down in the solar market, we believe the fragmented nature of this market and the current disruptions present a strong opportunity to continue to expand the portfolio of projects we manage and the business.

- ◆ We have continued to invest prudently in our development portfolio, both adding new capacity and advancing project through development. The prospects for our Queensland portfolio continue to improve with significant activity around the proposed CuString 2.0 project, a transmission line connecting Mt Isa to the National Electricity Network which will enable our Big Kennedy project and the advancement of the R400; Queensland government 400MW reverse auction procurement process.

- ◆ As many of you will recall, our Lakeland Wind Farm project in North Queensland was impacted by delay and some of the grid issues I mentioned before. This had a number of impacts;



- Firstly, we were able to undertake a re-tendering of the EPC contract to take advantage of new larger turbines to address and offset the cost of meeting the new grid rules. Good responses were received from the market and negotiations are nearing completion with a shortlist of suppliers. We are now well advanced in the process of finalising EPC, equity selection and debt; however
- Secondly, the market is now nervous about the potential cost overruns and delay caused by the grid connection process. This has manifested itself into a position where project financiers, particularly lenders, are insisting on a project having an approved Generator Performance Standard, before financial close where previously this work was only ever undertaken closer to financial close. Historically these things were only required well after financial close. Despite our efforts to negotiate and compress the time taken by Ergon and AEMO to complete these tasks it now appears that financial close of Lakeland will be delayed until 2020.

Greenwich Wind Farm, our project in Ohio in the US, continues to progress to financial close and realisation of our contracted development fees. The project's owners advise that they have commenced early works on site and are working towards financing and off-take. This does not constitute a payment milestone under the contract, which we now expect may be delayed by a number of months. Windlab is assisting the project owners where possible and is monitoring the process closely and will look to realise value as soon as possible

Finally, through the year a lot of our efforts this year have been focused on bringing Kennedy Energy Park to completion. It is a truly innovative project in the industry, which has not been without its challenges. I will ask Rob to provide a little more detail.

[Rob]

Thanks Roger. Kennedy Energy Park is now connected to the grid and has exported power for the first time last month as we announced a week or so ago.

We expected to be operating commercially in the last quarter of 2019 subject to no further issues with the registration and testing process that we have to complete. The project team are working hard to meet this timeline with the contractor, grid operator, and AEMO. We will keep the market informed on progress.

As you are aware Kennedy has been substantially delayed. We attribute the responsibility for the delays to the project's EPC contractor and the project company has billed them for delay liquidated damages in accordance with the terms of the EPC contract. Those delay liquidated damages have been recognised as revenue in KEP's books and 50% flows through to Windlab. I am unable to discuss this matter further today to avoid prejudicing our position, but Windlab will keep the market informed as the project progresses.



Turning to our financial results:

Windlab reported a reduced loss after tax for the first half of 2019 of \$907,645, a 32% improvement year on year. EBITDA improved from a loss of \$1.8m in the first half of last year to a loss of \$1.45m in the first half of 2019.

Total cash receipts from customers was \$2.9m for the half, compared to \$1.98m in the same period last year, a 49% improvement. This was principally attributable to the growth in asset management fees. Payments to suppliers and employees and investment in inventory was flat year on year, but the company paid income tax of just under half a million dollars relating to the 2018 tax year. Importantly we grew the team in East Africa, and added a grid engineering expert to the team in Australia, but have remained prudent with our approach to operating expenses and prioritised our development and overhead spending. Our rate of cash burn continues to reduce as recurring revenues grow and expenditure is stable. Continued growth in asset management and commercial operations at Kennedy should bring the company, excluding the separately funded East Africa, to positive operating cashflows in 2020.

As previously announced Windlab secured an extension to its corporate debt facility with the Clean Energy Finance Corporation in June. That facility was extended to \$10m and was fully drawn at that time and will be applied to fund the group's operations in Australia. With this funding and Eurus' investment in the East African business the company has adequate capital to continue pursuing our identified development plans across these markets.

Accounting enthusiasts will note that the half year report contains a restatement of prior period numbers due to a change in accounting policy. In the first half of the year the accounting profession has re-evaluated its approach to accounting for contracts in the Australian National Electricity Market. A consensus view has formed among the large accounting firms that all contracts for the sale of power through the NEM are to be accounted for as derivatives, on the basis that the market mechanism requires that these contracts are required to be cash-settled. Windlab has historically assessed each PPA on its merits, and where a PPA covered 100% of a project's output on a variable basis treated it as a contract with a customer under AASB15. This meant that PPA revenue was recognised as earned as year project generated.

Our revised policy treats all PPAs settled through the NEM as hedge accounted derivatives. PPAs are recognised on the books of the company as assets or liabilities on the relevant project balance sheet, and fair valued at each balance date. The movement in the value is tax-effected, taken to a hedge reserve in equity, and shown as Other Comprehensive Income. Windlab recognises its share of the tax balance, reserve and other comprehensive income from each project. Importantly revenue and profit from the sale of electricity and LGCs remains unchanged.

The value of a PPA that we take to account are determined by forecast electricity production and the difference between the forecast market price and the contracted fixed price, on a discounted basis. As a result, movement in forecast prices can create



large swings in the value of the derivative and hence the value of the investments on our balance sheet.

We have applied this change in policy has been applied from the inception of Kennedy Energy Park's PPA in 2017. Shareholders should note that this change in accounting treatment does not reflect any change in the underlying economics of our projects nor a change in value of those assets, change in accounting treatment only.

Due to the change in accounting policy, a total of \$9.3m was reclassified from Windlab's equity accounted investments at 31 December 2018. This appears in the books now as a \$2.6m in deferred tax liabilities and a \$6.7m hedge reserve. At 30 June 2019 \$1.3m was recognised in other comprehensive income as the value of derivative liabilities fell.

Of note, I draw your attention to the fact that this accounting policy change has been applied to other Australian and New Zealand listed owners of operating renewable energy projects. You will have seen the impact in their accounts in the last few months.

Of course none of that helps readers of the accounts understand the economics of our operating project, I'll talk about those for a moment. Kiata Wind Farm performed well in its first half as a fully contracted asset, although it has experienced a higher than expected level of curtailment due to network outages relating to grid upgrades that have been carried out in that part of Victoria. Kiata contributed \$555k in cash distributions to Windlab in the first half. Kiata distributions are expected to fall slightly in the coming year due to reductions in the project's marginal loss factor but it is certainly still performing well.

Although Kennedy wasn't operating as at 30 June, we did recognise delay liquidated damages, which had a \$2.3m impact on Windlabs when we booked our 50% share. We look forward to cash distributions from Kennedy in 2020.

Now we'll open the call up for questions. Could I please request that you state your name and organisation before your question?

<Questions>

[Hamish Burns]

Good morning gents, thank you for the update. My question is in relation to liquidated damages, which I think was mentioned had been recorded as revenue circa \$2.2m, I want to know with what sort of probability that has of coming through at around that amount, is that sort of based on advice you have from advisors or is that funds which have been already booked to the project? I guess I am looking for a level of certainty around it.



[Rob]

I am somewhat restricted, what I can say is that we have invoiced delay liquidated damages to our contractor and we expect to recover them.

[Hamish]

Ok, and it is sitting as a receivable at the moment?

[Rob]

It was actually invoiced just after the end of the financial period but it is accrued in the 30 June numbers.

[Hamish]

With relation to cash on hand and Windlab being able to self-fund and development through to break even which is probably looking more like 2020 at the moment, is the company comfortable that you won't have to issue some sort of capital raising or further debt. I guess, I am not certain around if there were caveats on the use of the cash provided from the Eurus capital, as in it had to be specifically for use within East Africa and cannot be used for say corporate overheads or if there is anything similar applied as a commentary in the half year, sorry the previous update from the company. Is that capital a buffer if you like against venture capital raisings?

[Rob]

Maybe there are two parts to the answer there; in the notes to the accounts, there is a description of exactly how the cash from Eurus can be used, I'm sure people haven't quite got that far through since we released them. \$13m of the cash on hand is East African and is restricted for use in those markets. So the balance of just under \$8m is available for general corporate activities and development and we think that is adequate capital for the company for the foreseeable future.

[Hamish]

Thank you for clarifying, and my bad for not reading the notes.

[Rob]

That is ok, note 8 for anyone who is interested.



[Sean Kiriwan - Moelis]

A question on the Tanzania project; with final bids expected in November 2019, what is the company's expectation now for potential financial close for that project?

[Roger]

Maybe I can take this one. What I can do is comment on the timeline that is proposed under the process, so final bids are due early November this year, there is a planned 120 day adjudication process, which would take us through to early March. The objective or one of the requirements in the RFP is for the project to be operating before the end of 2021, so that will require financial close no later than most probably the third quarter next year. So that's the timeline as defined in the RFP process.

[Hamish]

Could I follow up on that last question, in relation to Africa which seems to be the most promising opportunity given that the problems we are facing in the Australian market, in the company's view will the returns on capital and I guess the project economics, are they comparable to what Windlab has achieved within the Australian market or are energy prices and project costs different so that I moves the needle on rate of return and revenue generated per megawatt etc?

[Roger]

Our expectation is that in less mature markets, so that is pretty much every market in Africa other than South Africa, what you find is the first projects to get away in most new markets usually generate very good returns, of course we won't know this until we get deeper in to the process but that's our current expectation and our plan. In a market like South Africa which has got an established reverse auction process run by the government which is highly competitive we would typically find that our returns are less in those highly regiment, highly competitive markets and I think that is in fact reflected in some of the information that was originally in our Prospectus.

[Hamish]

Understood, it all flows back from the prices which will be achieved under the auction mechanism and that in turn feeds in to the project cash flows and everything else.  
Thank you.



[Sean]

A follow on from that question, are there any updates on South Africa and how those projects are tracking.

[Roger]

I think as we have advised previously, we now have 5 projects, 640 MW of capacity available for bidding into the next round, it is still somewhat stuck in a government process. What they are doing under the new president is they are reviewing and revising what they call the Integrated Resource Plan, which was last approved by parliament in 2010. They released a draft of that about 9 months ago, that has been through a process of scrutiny by numerous parties. What we have heard a number of times in the last couple of weeks and from the Energy Minister himself is that they expect that the final IRP updated to be put before cabinet within the next 2 weeks to a month and what we would expect to happen after that, is that there will be an allocation made for the next auction round based on that revised IRP. Now if that revised IRP is similar to the draft that was put out 9 months ago, it calls for 1600 MW of new wind capacity to be operating in 2022, that would suggest that a significant bidding round should be implemented shortly after the approval of the IRP, but conversely we have heard this one or two of these things before so we are a little bit circumspect until we actually hear the announcement but hopefully it will be within the next 4 weeks.

[Sean]

And on the US project given the new owners have commenced works on site, is the expectation that financial close could be possible this calendar year?

[Roger]

Yes, we're still working with them on that, as you know once you sell a project someone else controls the actual process. There is a defined set of criteria which relates to our success milestone payment. We are working through those issues with the new owners now to exactly work out when that could be, but yes, it is still possible this year.

[Giles Parkinson – Renew Economy]

Just wondering if you can tell us more about Kennedy and what the issue is there, I know you addressed the AEMO prediction that it could be up to two years delay, was that an accounting error or an error from AEMO or is there are there bigger problems and issues there.

[Rob]



We have been in contact with AEMO and one of the things we do from time to time is provide AEMO with updates on the progress of our different projects. As you are aware we have two projects called Kennedy. One of which is generating at present and one of which is some way done the track and the dates on those two projects were confused in AEMO's modelling so we have agreed with them that we will keep their information up to date very regularly and make sure that this sort of confusion doesn't happen again.

[Giles]

And the delay that has occurred for which you have sent an invoice for damages, is that relating to the EPC contractors inability to get across the connection requirements or is it something different?

[Rob]

That is not something we comment on at the moment.

[Roger]

The good news is the project is now generating and we are working through a commissioning and testing process over the next few months.

[Giles]

You have obviously been impacted on two projects here, Kennedy and Lakeland, you are suggesting there is obviously a broader impact here and that is coming back to bounce on you as well as you are trying to get financing because it is obviously not just your two projects that have encountered problems, I think we have seen liquated damages across the whole wind and solar sector; can you tell us a bit more about that, how this has happen and what can be done about it to give financiers a but more confidence in what they are doing?

[Roger]

I think what has happened is the industry has been caught on the hop little, with a whole pile of projects committed, and as I said previously, the industry's historical approach was, you get a project to financial close, start construction and then you'd finish off all the related grid issue, GPS approvals, your registration all of those sorts of things. So that's one aspect of what has become much more difficult under the new grid rules and performance standards, to the point where a lot of plant that has already gone into construction ultimately finds it very difficult to get a GPS approved under the new rules, it has to do re-work or go through delay or negotiate non-automatic standards and lots of things like that.



I think the other thing that most probably has more immediate impact on the view of investors is the MLF situation. Maybe it shouldn't have, but it caught a number of investors by surprise early in the year and I think the investment community is still trying to digest the best way of handling the particular issue. I mean, obviously, there's a process underway by AEMO to review how MLFs are calculated and applied and we're hopeful that that will be positive, there's also a much more stringent environment in terms of evaluating future MLFs and ultimately if the regulators does not address the reasons why this happened, it will have a flow on effect to the cost of capital and hence the ultimate cost of generation. It won't stop the transition to renewables, it just creates short term volatility.

[David Birrell - Croxon Capital]

Just on Lakeland and the comment about needing to know what the generator performance standards is, referring to the last question, does that put you into a bit of a catch 22 where you understand what the generator performance standards and then you have to go back and redesign the project a bit?

[Roger]

That has certainly happened to others in the industry. It sort of has an impacted on Lakeland in as much as because we were delayed last year and we flipped into the new grid regime as of February, we have had to go back to the grid connection on Lakeland redo the design of the project. However, obviously, we haven't committed to building it yet, so that's just the deal.

The thing that has impacted us, and I believe this will be the case for most of the industry, at least the prudent developers, is the work that we used to do after financial close to prepare GPS and submitted GPS for due diligence and approval, by the OEM/the manufacturer of the turbines, what we have now done and what we're doing with Lakeland is, we still have not selected the preferred turbine and we have a number in the mix, but we have employed independent expertise to produce that generate performance standard before [Roger cuts out]

[Roger]

...it will propose and the OEM's usually did it as part of the EPC contract. We've now pulled that work out and we're undertaking that work under our control with our independent experts to get that work done before we reach financial close so that's the way that we have addressed this transition in this industry. So it has had impact in projects that were previously committed but we are pretty confident that when we get this stuff sorted and we press the go button on Lakeland these problems will not persist.



[David]

The other question was, with Kennedy I think you had to add STATCOMs and a SYNCON, was that additional or was that originally in the project scope?

[Rob]

We designed them into the connection, that wasn't a change at all.

[David]

And at Lakeland you were thinking that you would have to put SYNCON in but there was also some new turbine technically, you might have been able to use that?

[Roger]

I don't think we are at a point where we can comment on those things definitively, the grid work on Lakeland is going well, we can't really comment on it, but I think that the expectation is the grid process for Lakeland will be somewhat simplified, will be easier to implement, and hopefully more cost effective.

[David]

And last question from me; with Greenwich when and if that, sorry when you receive the payment for that, I understand you booked the cost, but not the revenue, so two questions on that. First, have you hedged that? And if not, am I correct in assuming that's about \$6 million AUD and the second part, is the tax payable on that?

[Roger]

No, we had not hedged it and the ultimate payment is somewhat subject to the final economics of the project, there is a formula that ultimately has to be applied, so it will vary a little bit, we may pick up a little bit of foreign exchange advantage as things sit at the moment, and tax Rob?

[Rob]

We have accumulated tax losses in the US that will cover that.

[Stephen Panizza]



A more general question from me on the issue of MLF and curtailment. We saw John Laing come out this week with a gross write down of Australian assets of £66m sterling, they have attributed that to MLF, they have also said they have put a hold on wind and solar investment in Australia.

My question is, this is, is the MLF and curtailment issue more acute in solar technology than it is in [wind], the production profile of solar being so highly correlated?

[Roger]

Yes, we definitely believe it is Stephen.

I think an analysis that I saw not long ago shows the generation profile between a solar farm at Point Perpendicular and Clare in South Australia is about half an hour. MLFs do take into account the diurnal generation profile of generators, so I think the simple answer is yes I do think it is much more acute for solar projects than wind, and we do see some wind curtailment in South Australia and in parts of Western Victoria, but one of the things that Windlab does try to do is find those little unique projects away from the hordes, which hopefully are less susceptible to those issues, but it's not a challenge that is going to go away quickly, but I think wind is less effected than solar.

[Fred Wright]

Can you talk more about the CEFC loan terms please?

[Rob]

We have announced we extended the facility to a \$10m limit, that is repayable progressively over the next 3 years with a minimum \$3m reduction each year. We also repay a proportion from development fees that we receive during that time so there is a cash sweep mechanism from development fees where a proportion of those fees goes to pay down debt.

[Sean]

Just on MLF, have you had to recalibrate your assumptions for small Kennedy for changes over the last few months?

[Rob]



No we haven't, we had long term MLF forecasts done for Kennedy and we haven't seen anything that's materially inconsistent with those forecasts.

[Roger]

They are on the margin so far.

[David]

Sorry if you address this earlier. I came into the call late, the Queensland R400 process, I noticed that Lakeland was listed in there, but it looks like that list is very much out of date. I just wondered if there was any update on that process and any sort of colour you can give us as to the interactions you've had with Clean Co or the Queensland Government on that?

[Roger]

You're right David that list is somewhat out of date and there are some projects on it that I think are either otherwise committed or they are potentially no longer prospective projects. Lakeland has an opportunity to respond to it if we choose to. We also have a good relationship with Flow Power regarding the Lakeland project, and we will look to leverage both of those things as best we can to the benefit of the project.

[David]

And any other projects that might be able to benefit from that, I know that you sort of refocused away from Big Kennedy to some other projects that you thought were better positioned in the grid.

[Roger]

I guess it's a matter of the way that the Clean Co is planning to run the processes is they want to award that capacity to some of those projects that have been shortlisted, whether they are successful at doing it, I couldn't predict at this stage. I understand that Queensland's long term aim is for Clean Co to have more generation than just 400MW, so I would predict this to be an ongoing instrument that the Queensland Government would use the help them get to their 50% renewable energy target. So whilst our other projects would not be a part of this process, perhaps they could be in a future round.

[Rob]



If there are no more questions, I'd like to thank everyone for joining the call and look forward to updating you on our progress throughout the year.

**<Ends>**

**Forward-Looking Statements**

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Windlab. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

