



Established in 1989 Pure Energy Professionals ("PEP") is an unusually experienced renewable energy advisory company

We use our industry experience, knowledge and insight to provide specialist advice within the renewable energy sector.

EXTRACTS.

1. EXECUTIVE SUMMARY

Renewable energy ('RE') is now an attractive business for a range of investors. Capital markets can provide developers with the ability to stabilise their business, and to grow long term. Other forms of capital investment are also readily available for well prepared companies.

Developers are the mainspring of growth in the wind industry. They turn government policy into actions and projects. However, many lack the capital required to build projects, and so are forced to sell. This provides them with a difficult "lumpy" business. Operating projects fall into the hands of well capitalised companies, often cheaply.

Developers can change this by following the example set by the turbine manufacturer community who have transformed from being 90% private to 90% publicly quoted. Whilst this took a period of some years, the wind turbine manufacturing sector has successfully made the transition. Other RE players can enjoy the benefit of this hindsight.

Certain strategic actions can make a developer suitable for a public offering, or for alternative interim financing as a step in that direction. The net result can be the same as has been achieved in the manufacturing sector. Strong independent companies can be formed which can plan their growth into new markets and countries with confidence. Experience from the past 2 decades can inform decisions over the next year or two.

2. A RANGE OF INVESTORS REGARD RENEWABLE ENERGY AS A SERIOUS PROPOSITION

There can be no doubt that Renewable Energy ('RE') is coming of age. The growth in RE over the past decade has been extraordinary,



and has dwarfed growth rates from traditional fossil and nuclear plants. Since 1990 wind power has grown at an average annual rate of 24.3% [1]

Over the past decade the early scepticism of utilities has been replaced with an understanding that RE provides:

- Scale
- Low costs
- Predictable costs
- Predictable supply
- Growth opportunities
- Good investment opportunities

Utilities have now started to become major investors in RE and have been actively buying not just projects, but companies too.

Utilities have been joined by large industrial groups who have recognised the growth in RE and who have bought RE developers of products as well as projects to give them access to the unusually rapid expansion in this large market.

It is hardly surprising that in this high-growth environment, fresh sources of capital have also become available. Private Equity has become a significant player. Venture Capital (VC) investors have started to invest in early stage technologies.

In addition to these financial players, the capital markets have become accessible. Stock Exchange listings have become increasingly common over the past few years. The largest wind turbine manufacturer in the world, Vestas, manufactured its first wind turbine in 1979, almost 30 years ago. However it only listed as a public company in 1998, being one of the pioneers in accessing the capital markets. Since then many manufacturers of equipment, and project developers have become publicly quoted. Some have prospered, some have failed, and some have found that a return to private control might be preferable.

3. SELL A PROJECT AND POCKET THE CASH, OR BUILD A MORE STABLE BUSINESS?

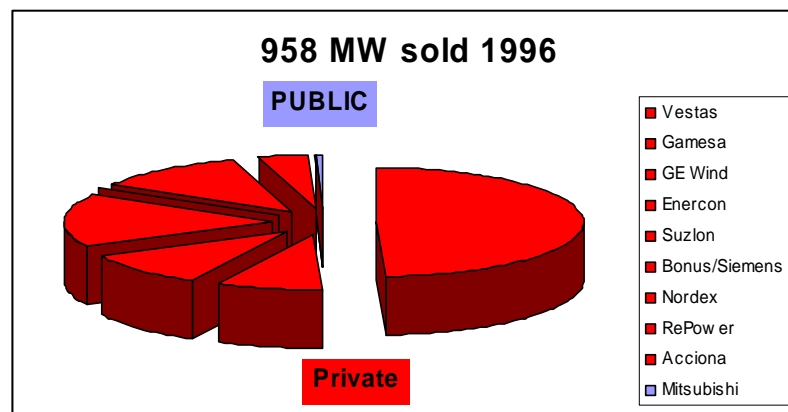
Project developers provide manufacturers with sales to projects, consultants with work, lenders with business, and governments with success or failure. However, their business is commonly constrained by a lack of capital. This requires them to sell projects before they are mature, and it makes the developer's business difficult to manage over the long term. Develop-and-sell becomes a cycle that is difficult to break. It does not provide a platform for sustained and predictable corporate growth.

If, in contrast, a company can make the transition to having predictable annual operating cash flows from its own projects, then a transformation can begin:

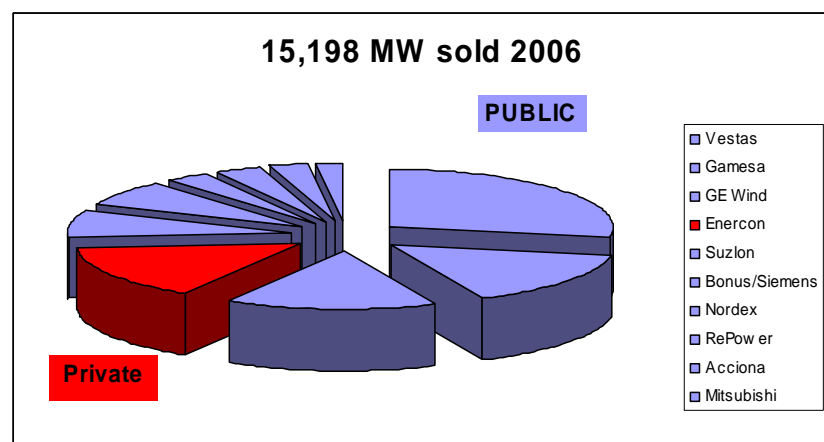
4. LEARNING FROM RE INDUSTRY HISTORY: WIND TURBINE MANUFACTURERS

The turbine manufacturing community faced the same problem of under-capitalisation and dealt with it. The top manufacturers changed from being 90% private to 90% publicly owned, either as subsidiaries of major engineering groups, or as well funded independents.

A comparison covering the years 1996 to 2006 is shown below. This illustrates still further the fundamental shift in ownership as the wind manufacturing industry reached maturity.



The dominance of publicly quoted companies over private companies has since continued unabated. The 2006 top-ten manufacturer list is shown below:



[5. THERE IS PLENTY OF CAPITAL SEEKING RE INVESTMENT OPPORTUNITIES

Over the past few years, many RE developers have gone public through an Initial Public Offering ('IPO').

Publicly Quoted 'Green IPPs' include:

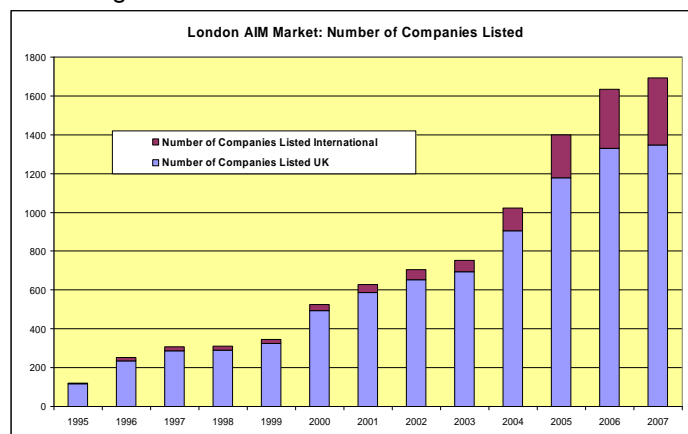
- Babcock & Brown Wind Partners
- Canadian Hydro Developers
- Japan Wind Development
- Leaf Clean Energy
- Novera Energy
- Renewable Energy Generation
- Tema Energy
- Theolia

The combined market capitalisation of these eight companies in Spring 2008 was in the region of €3 billion. The activities of the companies can be said to be 'global'.

Notable investors in publicly quoted companies include global players such as:

- Fidelity
- Blackrock
- ABN AMRO
- Citigroup
- Perpetual
- GE Capital

In recent years the London Stock Exchange AIM market has been a particularly fertile ground for RE companies. Initial Public Offerings have become quite normal and generally popular with investors. As can be seen the AIM market has been hugely successful in general terms over the past decade. RE companies are now taking advantage of the appetite for investment in UK and international companies. The growth of non-UK companies is particularly interesting.



6. OTHER DEVELOPERS HAVE SOLD TO UTILITIES OR MULTI-NATIONALS

Long-standing developers and new entrants have sold a majority of shares to either large utilities or other multi-nationals. Prime examples include:

- Airtricity North American to E.ON of Germany
- Airtricity to SSE of the UK
- SeaWest to AES Corporation of the USA
- AREC to PPM of the USA
- Compagnie du Vent to Suez of France
- Tradewind LLC to Enel of Italy
- Horizon Wind Energy to Energias de Portugal
- Greenlight Energy, Inc. to BP

7. PRIVATE EQUITY HAS ALSO JOINED THE RE MARKETPLACE

Private Equity firms have been active in RE for quite a while. They have been particularly active in the manufacturing space:

- Doughty Hanson bought LM Glassfiber, manufacturer of wind turbine blades, in 2002
- Allianz Capital and Apax Partners bought Hansen Gears, and subsequently sold it to Suzlon in 2006
- CVC Equity Partners bought Flender Gears, and subsequently sold it to Siemens in 2006
- Goldman Sachs invested in Nordex of Germany in 2006
- Citigroup were one of the key investors in Suzlon in 2004
- 3i invested in the service business of Gamesa
- Goldman Sachs bought Zilkha Renewable Energy of Texas in 2005, re-branded it as Horizon Energy, and sold it to EdP in 2007

Venture capital (VC) and private equity (PE) have increased significantly from \$2.7 billion in 2005 to \$7.1 billion in 2006, and look set to continue this growth in 2007. VC activity has moved up the maturity spectrum, with later funding rounds attracting most investment. There was noticeably higher investment in China during 2006, most of which was PE for solar manufacturing expansion. Biofuels, biomass & waste, solar and wind in roughly equal shares dominate private equity investment for expansion. In early 2007, all stages of venture capital and private equity investment saw increased activity, with later-stage leveraged private equity investments putting in a particularly strong showing.

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8. DIFFERENT CAPITAL, DIFFERENT NEEDS AND DEMANDS

As has been demonstrated, capital is not in short supply for good RE opportunities. The nature of the capital needs careful consideration however.

Private Equity firms tend to require very clear exit strategies. A quick look at some of the examples cited here demonstrates that two to five years is a common investment period. Is this what is being sought?

Public markets, in contrast, do not have such requirements. However the investors in these markets can be swayed by many external factors, and a quick look at see-sawing share prices demonstrates that stability is not always possible.

Trade players, whether utilities or manufacturers, may tend to take a more stable investment view. However, they will probably be more intrusive and may well expect very tight control over the company. An interesting variation of a trade investor may be to team up with a large supplier or customer, and gain capital support that way. This of course can bring its own problems, but can be an effective short-term means of accessing capital.

Some key investor questions to be addressed include:

9. INVESTMENT READINESS

It is very easy to get bogged down in running the company, to the exclusion of making the company fit for investment. There are many things that need to be made ready. First impressions count, and if your business appears well prepared for investment then a good start can be made:

10. CAPITAL IS USUALLY NOT ENOUGH

Other significant factors affect the likely growth of a business, and capital is usually not the only constraint on the growth of the company:

PURE ENERGY PROFESSIONALS (“PEP”) is a renewable energy company established in 1989. PEP’s position is differentiated by over fifteen years of active investment management in renewable energy, across three continents. PEP has evaluated a wide range of renewable opportunities, ranging from micro-scale dispersed generation, up to some of the largest scale capital projects. These projects have been with a wide range of blue-chip companies and investors. Increasingly, PEP has been requested to undertake analyses of companies and products, as well as projects. These have included renewables in the form of: biomass; hydro; wind; wave; and tidal stream. PEP’s experience is further bolstered by a long and close involvement with the manufacturing industry. The company has produced wind turbine manufacturer reviews for potential investors, and presented a co-authored Industry Review with PriceWaterhouseCoopers for the 2004 European Wind Energy conference.

Bruce Woodman is a founding shareholder of PEP. His track record includes: directorships of a number of renewable energy companies in Canada, USA, UK and Europe; specialist adviser to a number of investors and groups; due diligence experience across a range of renewable energy technologies, projects, and companies; IPO and subsequent fund raisings; private equity investment appraisals; commercial advice for business expansion internationally.

Ben Lundie has over 12 years’ experience of the RE sector as a lawyer – advising project companies, investors and developers on corporate and project finance, commercial and regulatory issues. He has extensive experience of financing for wind power, both onshore and offshore, as well as a number of other technologies. He has recently extended this transactional experience into actively managing the development portfolio for a rapidly expanding biofuel business. Ben has a Certificate in Corporate Finance and is a member of the Securities and Investment Institute.

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