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Financial crisis and wind energy: Growing investor interest keeps wind power sector buoyant through liquidity squeeze

Marseille, 17 March 2009

The wind energy sector is attracting new sources of capital that compensate for banks' general reluctance to provide debt finance for projects, the European Wind Energy Association (EWEA) announced yesterday. A growing number of power companies with strong balance sheets are investing in wind energy and there is increasing interest from institutional investors, despite the financial crisis. The sector expects to be among the first to emerge from the economic turmoil. However, governments and the European Investment Bank must urgently establish loan guarantees to ease the banking liquidity squeeze and accelerate economic recovery.

The European wind energy market is less reliant on bank project finance than just three or four years ago as an increasing share of new installations are financed by institutional investors, infrastructure funds and from power company balance sheets[1].

"Whilst many sectors are struggling with falling demand for their products; the European wind power sector is not. Although the sector is doing well in attracting new sources of finance, EU governments should learn a lesson from the US recovery plan, which provides billions of dollars in loan guarantees to renewables. We need all channels of finance, including bank lending and export credits, to be wide open to meet demand," said EWEA CEO Christian Kjaer at a press conference yesterday in Marseille.

MEP and rapporteur on the Renewable Energy Directive Claude Turmes, also speaking at the press briefing, reinforced this point, saying that more money from the EU recovery plan should be set aside for loan guarantees.

"I welcome the proposal in the European Commission's draft of the five billion euro EU recovery plan to co-finance offshore wind and the first parts of a European supergrid, but this is not enough. The Heads of State also have to address the difficulty being experienced by even the most dynamic economic sectors like wind in getting access to the necessary finance needed for their investments," Turmes said. "They should follow the plans put forward by the European Parliament to dedicate parts of the economic recovery plan money to guarantee loans from the European Investment Bank or other banks to renewable projects with funds from the EU budget. This is exactly what wind and other renewables need to keep growing fast in the financial turmoil and to carry on delivering jobs, industrial leadership and preventing dramatic climate change while reducing Europe's energy dependency", Turmes added.

The cost of capital is an important factor in any wind energy project. Banks have hiked up the interest rate spread for wind projects from under 1% to above 2% in the last 18 months. However, this has been more than offset by the general decrease in central bank base rates. The rate on a

[1] See slide 1 in the attached document.

100 MW onshore wind farm in Europe decreased from 5.2% to 4.3% between July 2007 and February 2009[2].

"European governments have injected hundreds of billions of Euros to support financial institutions, but the fraction that reaches the real economy in the form of project finance is being limited by banks' reluctance to lend. This short-term difficulty does not accurately reflect the medium-term attractiveness of the sector. In a recent survey we found that 75% of institutional investors say they are likely to invest more in the sector by 2012" said Michael Liebreich of analysts New Energy Finance, also speaking at the conference.

If anything, however, wind energy is less risky today than a year ago, following the EU Heads of States' agreement in December 2008 to set binding national targets for the share of renewable energy in all 27 Member States. EWEA is confident that the sector will emerge early and even strengthened from the turmoil, and will be viewed as an attractive asset-class.

"Wind power investments carry more economic certainty than other energy investments since investors are not exposed to unpredictable fuel and carbon prices. 49% of institutional investors now say they are more likely to invest more in clean energy than they were a year ago. Only 5% say they are less likely to do so. Many investors have burned their fingers on high-risk assets, but require a higher return than the 2% they could get from government bonds. The institutional investors are showing the way and the retail investors will follow," Kjaer added[3].

Note to editors:

The above discussion took place at the European Wind Energy Conference 2009 (EWEC) in Marseille on Monday 16 March, at a press briefing organised by EWEA on the financial crisis and wind energy.

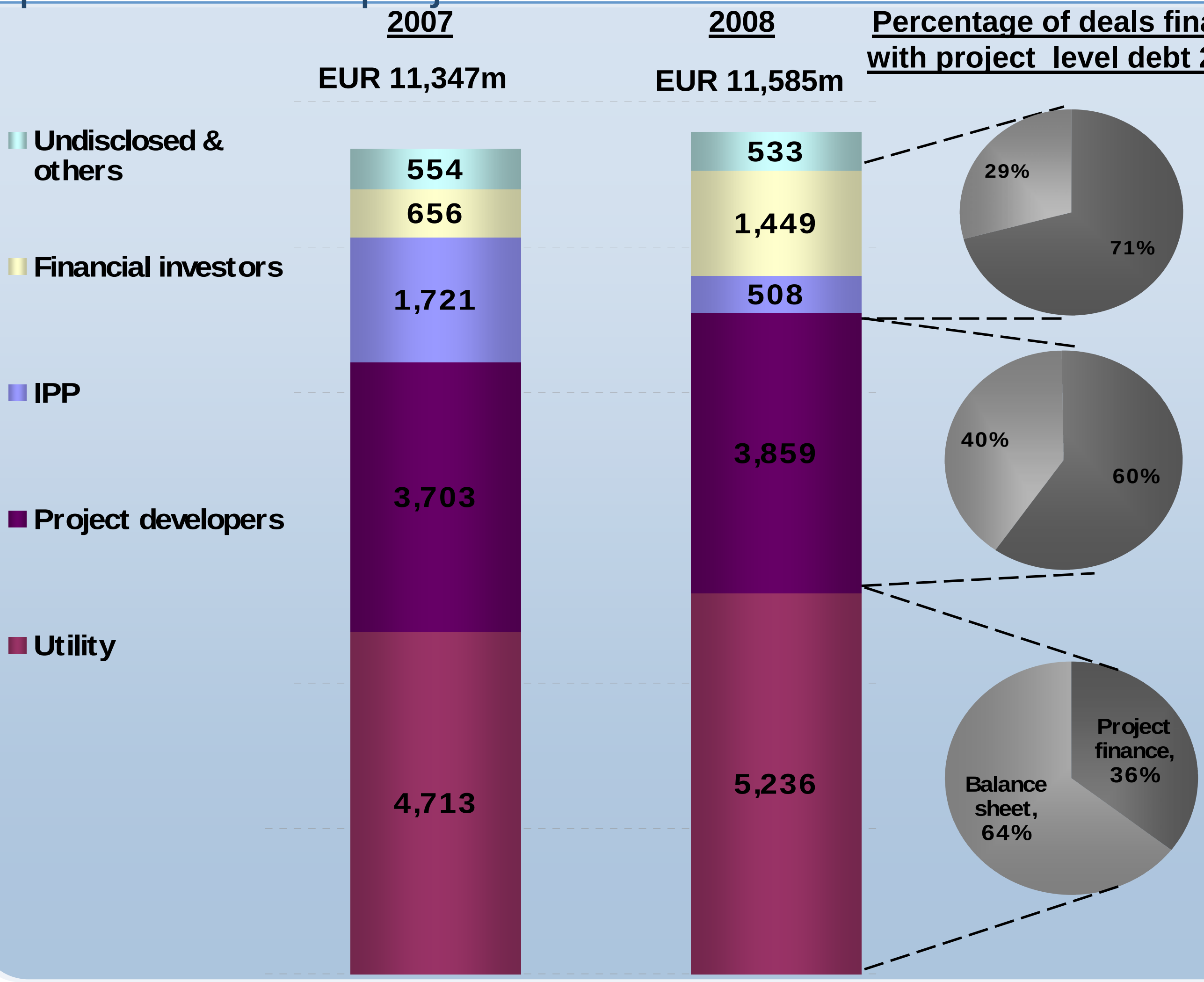
Slides providing reference data and additional information can be found attached.

For more information on EWEA, go to www.ewea.org.
For more information on EWEC, go to www.ewec2009.info. Broadcast-standard videos highlighting the main activities at EWEC will be made available on www.thenewsmarket.com as from Tuesday, 17 March.

[2] See slide 2 in the attached document.
[3] See slides 3 and 4 in the attached document.

Project developers and utilities dominate capital spending; smaller sponsors depend more on project financing

EU 27 new build wind asset finance 2007-2008 by type of sponsor and sponsors use of project finance: EURm and %



Trends

- Infrastructure funds: keen interest, new funds being raised
- Project debt: Severely undermined banks choosing key relationships

- Private equity: Actively investigating opportunities in equity and junior debt
- Equity capital markets: Closed to pure play wind companies
- Project debt: Severely undermined very selective lending

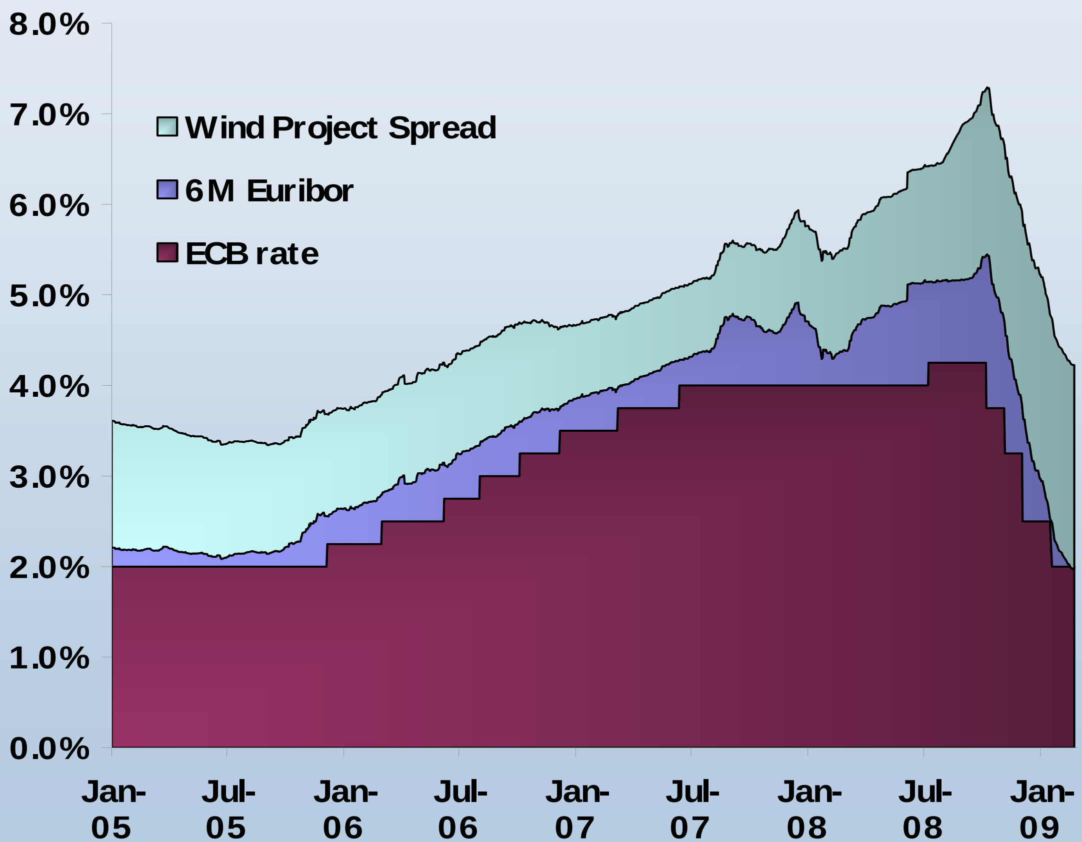
- Equity capital markets: Open to secondary offerings/rights issues
- Debt capital markets: Open to large players, strong appetite for utility bonds
- Project debt: Severely undermined, looking to build on key relationships with cross sell opportunities

Notes: Rebased to July 2004. Wind asset price index benchmarks public acquisition prices (enterprise value) of commissioned wind asset globally.

Source: New Energy Finance,

Project economics have benefited from reductions in central bank rates and recent compression of EURIBOR spreads

Debt pricing for typical 50MW European wind farm: %



- Economics of projects have benefited from a reduction in the total costs of debt between July 2007 and January 2009
- <u>However, the primary issue is capital rationing</u>

Notes: Data as of 12 February 2009; Spread data in basis points (100 bps = 1%)

Source: New Energy Finance, Bloomberg

Increasing momentum towards clean energy investments

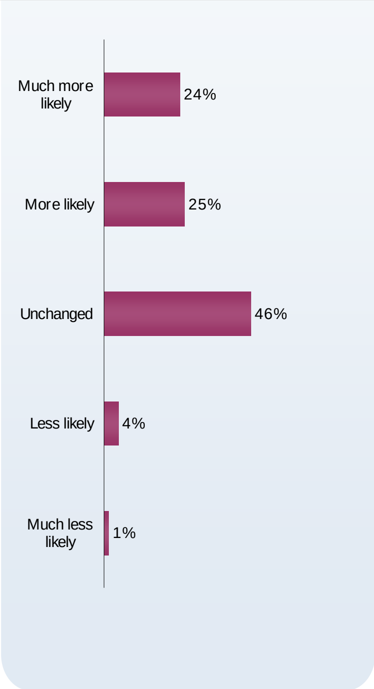
These are among the conclusions in a survey from New Energy Finance and Deutsche Bank Climate Change Advisors of more than a hundred institutional managers and owners, in total representing more than $ 1 trillion of invested assets.

The survey found that some 49% of institutional investors were either "more likely" or "much more likely" to increase their exposure to clean energy than they were a year ago. Another 46% said their intentions were unchanged, while just 5% said they were "less likely" or "much less likely" to invest more in clean energy.

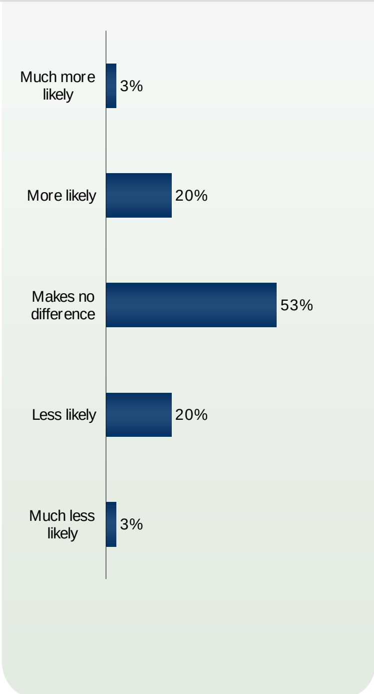
The current turmoil in financial markets seems to have had little impact on appetite for the sector; 23% of respondents are now 'more likely' or 'much more likely' to invest in low carbon-related opportunities, 23% are 'less likely' or 'much less likely' to, with the remainder stating that it makes no difference.

As far as 2012 is concerned, a full 75% of institutional investors said they were likely to have more money invested in the sector by then than they do now, while just 3% expected to have less invested in clean energy.

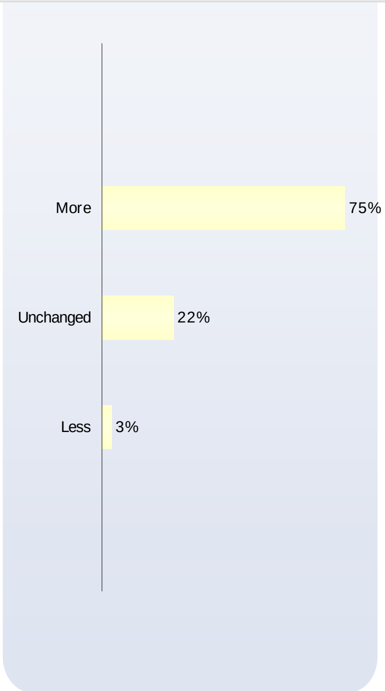
Compared to 1 year ago



Impact of current turmoil



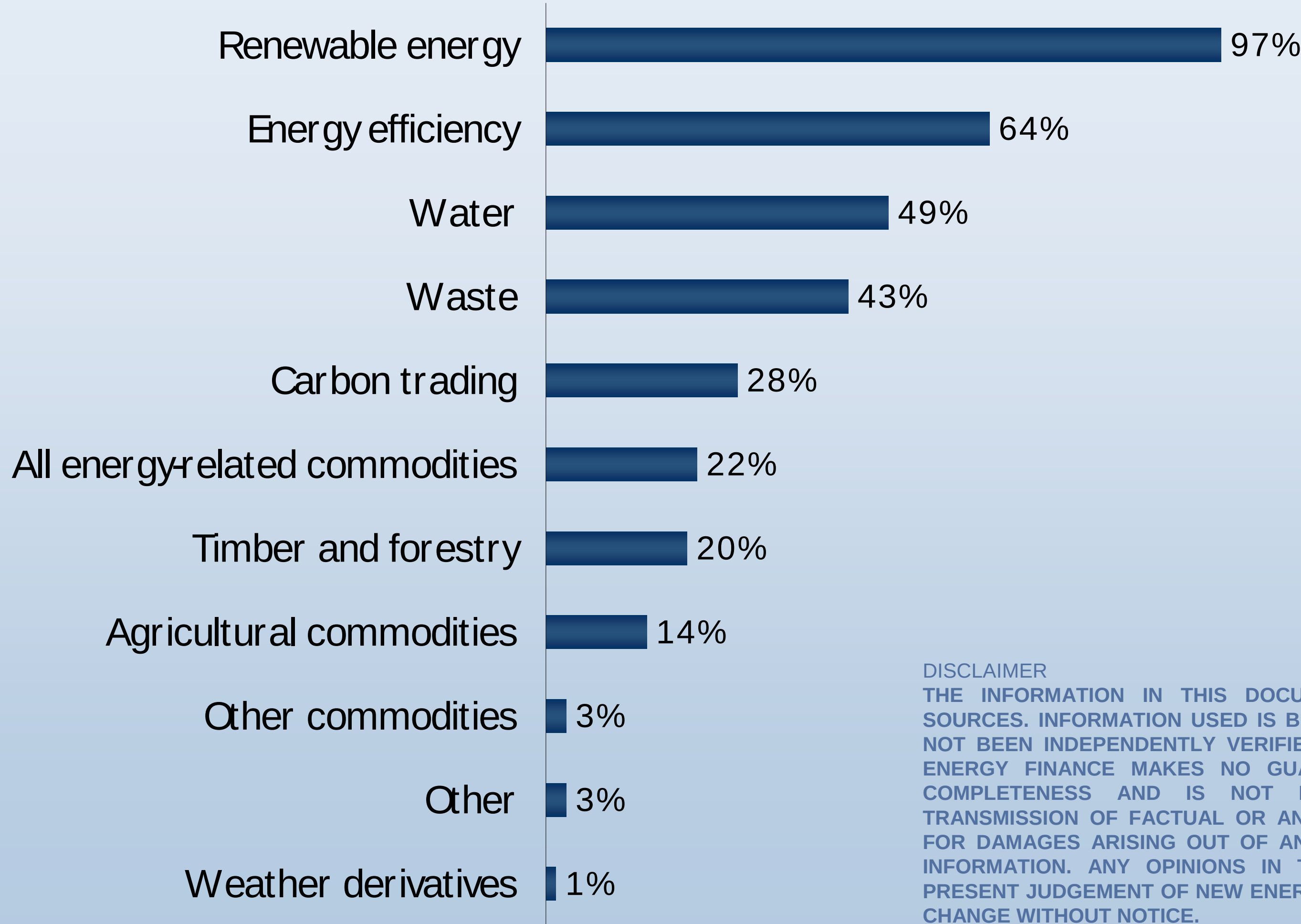
Expectations for 2012



Source: New Energy Finance

The sectors subject to the most interest from investors were renewable energy (97%), energy efficiency (64%), water (49%) and waste (43%).

Investment themes of interest



Source: New Energy Finance