M&A IN RENEWABLE ENERGY GLOBAL OUTLOOK
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Rödl & Partner are pleased to present the second edition of M&A in Renewable Energy undertaken in association with mergermarket. This study provides a comprehensive overview of the global renewable energy M&A market, offering a detailed look at recent deal activity, emerging trends and providing market insight from professional dealmakers.

Since the release of our last publication, the overall M&A market has continued on the road to recovery. This has been spurred on by improvements in market visibility; investor confidence; and access to financing – all of which have contributed to the bounce back in global deal flow. The renewable energy M&A market has been much the same, with growth in announced transaction volumes edging up by 4% year-on-year in 2010 after a small decline in the preceding year.

The outlook for the year to come also looks bright. Our survey findings show that 72% of those surveyed expect an increase in renewable energy M&A activity. Most respondents expect Europe to remain the main hub for renewable energy tie-ups and takeovers, but there is a widespread recognition that emerging markets are playing an ever greater role in the industry. In terms of sectors, our findings show that strategic and financial investors will continue to look to well-established areas to broker deals, such as the wind power and solar thermal niches.

Government support continues to act as a big incentive for investors in the broader renewable energy market, according to nearly three-quarters of respondents (72%), while on a corporate level acquirers are looking to overtake rivals (43%) and gain market share, as well as to achieve economies of scale (39%).

Notwithstanding the generally positive tone from this year’s survey, our interviews reveal a tone of caution among many respondents. On a macro level most of those surveyed believe the global economic recovery is already consolidated (34%) or at least well-entrenched (42%), but a sizable proportion (24%) fear a double-dip recession.

When looking more specifically at the renewable energy industry itself, around one-third (34%) identify uncertainty and lack of legislation as one of the most significant impediments to M&A in the space. However, this is down from the 42% who shared the same view in our 2010 survey. And while 70% of respondents said access to financing was a significant M&A obstacle last year, just 29% of respondents expressed such a view in this year’s survey.

Clearly, the market is improving and there is no doubt that the long-term fundamentals for the industry are solid, with a widespread consensus among most of the global public and policy makers about the need for sustainable energy promotion, production and consumption. Governments and regulatory bodies have a role to play in driving toward this end, but it will be businesses investing in renewable energy development projects that will make it a reality.

Rödl & Partner and mergermarket hope you find the second edition of M&A in Renewable Energy an insightful and timely study of the industry and we welcome your feedback.

Dr. Marcus Felsner
Managing Partner, Rödl & Partner
Germany has long been the 'promised land' for renewable energy investors, as Anton Berger, Partner in Rödl & Partner's head office in Nuremberg puts it.

This must in part be attributed to the Renewable Energy Act (EEG) of 2001 with its two basic instruments: one, the obligation of energy distributors to purchase all energy produced from renewable sources; and two, that tariffs have been fixed for 20 years of commissioning. In addition the “Marktanreizprogramm” of the German KfW Bankgruppe provides incentives in the shape of direct subsidies and loans with subsidised interest rates as well as “discovery risk insurance” for deep-seated geothermal energy. It is only natural that these powerful incentives together with a stable regulatory environment have attracted a lot of capital both from national and international funders to Germany. The current progress report on the EEG proposes an increase of feed-in tariffs for deep-seated geothermal energy as well as offshore wind being the ‘bearer of hope’ for the future energy supply.

“All that said, the German population of course also plays a big role in the importance that renewable sources have as an energy provider,” Kai Imolauer, Associate Partner goes on to say. “The outcome of the recent elections in the Federal State of Baden-Wuerttemberg illustrates that very clearly.”

In these elections, which took place in the immediate aftermath of the Japanese earthquake in March 2011, the German Green party gained significant percentage points and was able to appoint the first Green Ministerpraesident to a federal state.

So who are the key players in the German renewable energy space and where is activity focused?

The German renewable market is interesting in that it has long offered both national and international – increasingly Asian – investors an attractive investment opportunity. This is true for both trade and financial sponsors, with private equity investors frequently using Special Purpose Vehicle deal structures to engage in transactions.
They invest in a project in the development phase and once the facility is ready to be connected to the grid, they sell it on to trade players. However, Ralf Ott also points out that contrary to what is norm in the industry, private equity investors in this space often have exceptionally long hold times driven by the predictability of revenue streams on the basis of feed-in tariffs.

On the subsector front, the photovoltaic and wind power space continues to hold great attraction for investors, understandably given that half of the global capital of photovoltaic-generated renewable energy is produced in Germany today.

Pressure stemming from changes in the feed-in tariff system will result in consolidation plays with many of the smaller players becoming targets for the larger, more established ones. “There are only a few German companies that are really well-positioned in the solar energy market,” Ott explains referring to BELECTRIC, juwi AG, Phoenix AG, SMA AG and Solarworld AG for example, “so it will be interesting to see how the industry will change in the years to come and whether we will see the emergence of a true national champion.”

As in many other industries, competition will be coming from Asia where not only are governments recognising the importance of renewable energy and are thus looking for investment opportunities, but emerging technology players involved in the renewable energy value chain are looking to invest too.

Meanwhile, offshore wind farms are set to become the future growth market in the context of the German renewable energy industry with M&A activity here being driven by large utility scale investments. Illustrating this, an increasing number of traditional energy and industrial players – such as Vattenfall, E.ON, Repower and Siemens – are recognising the potential of the sectors and investing here.

Smaller and sometimes citizen-owned SPVs will also play an important role for on-shore wind projects currently under development in Southern Germany.
SPOTLIGHT: SPAIN
Spain has historically been one of the most progressive markets when it comes to renewable energy and is now in the position where around a quarter of its total energy comes from renewable sources. This compares favourably even with the “promised land” of renewables, Germany, where a smaller 18% is generated from renewable sources.

“In addition, in the Spanish market energy generated from renewable sources is fast approaching grid parity with traditional forms of energy,” says Georg Abegg, Partner in Rödl & Partner’s Spanish office, “and with all the incentives from the European Union and the efforts to install renewable energy grids all over Europe, Spain really has been able to position itself as a leading player”. The country has also been able to export electricity generated from renewable sources to other parts of Europe – an ability that will stand its producers in good stead as countries such as Germany pull out of nuclear energy in the aftermath of the Japanese earthquake and leave the future of its nuclear power plants in question.

While the Spanish market has been somewhat in turmoil over recent months, with the previous government reducing tariffs, Abegg is confident that the upcoming elections of March 2012 will return stability to the market. “There are expectations that the Conservative Party will win the elections and a general feeling that it will have a positive impact on the sector, making it more stable and predictable,” he argues. He goes on to add, however, that “fundamentally, investors care little for the politics, but they do go where the environment is stable and where they are able to assess the risk adequately.”

Private equity continues to play a central role in the Spanish renewables market and interestingly, in the aftermath of the financial crisis, it is in fact private equity funds that are furnishing local corporates with the funds to engage in M&A activity. “They are partnering with the trade players, allowing them to do deals,” Abegg explains, “but we are also seeing private equity engaging in project financing, so they are directly engaged in developing production sites for example.”

Abegg also voices the expectation that private equity will be involved in the roll-up of the still highly fragmented wider, renewable energy industry. “There are lots of smaller players out there, who are involved in the entire value-chain that runs through the industry, be it the planning and construction of facilities, right down to their maintenance and then the distribution of the energy,” Abegg says, “and there is still a great need for consolidation.”

Unlike in other jurisdictions, Asian parties are playing a somewhat limited role when it comes to M&A activity in the Spanish renewables market. “We have seen two projects with Chinese financiers on board,” Abegg explains, “but my feeling is that because of the complexities of the industry, we are in fact not seeing more such investors.” Their focus, he goes on to say, tends to be to combine strategic investment with access to know-how, for example, by investment in the companies developing the underlying technology for wind power and solar projects.

Looking at sub-sectors, activity continues to be focused on the wind power and solar energy space but slowly the market is shifting to include biogas in the mix. “Spain has plenty of agricultural-used land which produces biomass, therefore a shift towards utilising this is something we very much expect for the future,” Abegg concludes.
Over the past year the renewable energy industry in Italy has come on in leaps and bounds. Roberto Pera and Svenja Bartels from Rödl & Partner’s Italian offices point out that investment in the sector has grown to the point where it is experiencing activity levels similar to those in Germany and Spain.

However, the renewable energy decree adopted at the beginning of March contains new framework legislation for renewable energy and is expected to pose a number of challenges for the industry. The decree means that within the photovoltaic space, feed-in tariffs are only guaranteed for plants constructed and grids connected by 31 May 2011. While the feed-in tariffs foreseen by the forth Conto Energia, entered into force on 13.05.2011, are lower, and the access to the tariffs has been limited by a register to which plants have to subscribe, they are guaranteed for 20 years. Bartels and Pera view this development with a degree of apprehension. “It will almost certainly mean that we will see less investment in project development,” says Pera.

A further concern is that in the new decree a certain, limited budget has been set aside to subsidise feed-in tariffs for renewable energy. The cap is set at 1.2 gigawatt for 2011 and once that limit has been reached, subsidies cease. “This surely will also have a negative impact on the industry,” Pera states.

Meanwhile, in an effort to shift the mix of energy from renewable sources, the feed-in tariff for biomass generated energy has been increased and this, Bartels feels, will drive activity in the sector.

There is no doubt that photovoltaic is still very much front and centre when it comes to renewable energy in Italy, making up around 90% of the mix of energy stemming from renewable sources. “It quite clearly dominates the market, however biomass is very much seen as an up-and-coming area of activity,” says Bartels.

Recognising the opportunities in the Italian market, a number of international investors have been attracted to the country. “Mainly they are coming from Germany, but we feel that all the key names within the global renewable energy community are coming to Italy,” says Bartels. “The difference between national and international investors is often that foreign investors have longer holding times than local players,” Pera points out, giving insight into the market.

Interestingly, the market is seeing equal interest from investors and facility constructors. Private equity also continues to play a key role with local funds having the upper hand over international players. Unlike in other jurisdictions, Asian parties – here particularly Chinese players – are also scouting around for investment opportunities while at the same time providing financing for pure Italian projects. This stands in stark contrast to the US market where Chinese financiers have sought to bridge the funding gap left by the withdrawal of German funders in the aftermath of the financial crisis of 2008. However, they have had to fight political resistance in the US for their involvement in the space.

Despite all the recent changes and the accompanying challenges, it is clear that the Italian government maintains its strong emphasis on the renewable energy space and has a vested interest in keeping the market stable. “The recent developments in Japan have also put Italy’s nuclear power policy under new review,” Pera points out, adding that this would naturally have an impact on the renewable energy space. Consequently, as with many other key countries active in the renewable energy space, the coming years will prove to be very interesting for the Italian market and is certainly a space to watch.
It is difficult to think of another industry that displays such staggering regional and indeed country-unique trends and developments as the renewable energy industry. We have selected three vastly different countries to highlight how differently the industry is developing and the varying roles that government agencies and financing models play when it comes to supporting growth.

United States
While the US is generally recognised as an interesting market for renewable energy investors, Ullrich Kämmerer, Partner in Rödl & Partner’s US office, points out three challenges that investors have to confront with: firstly, investors have to contend with renewable portfolio standards, which can vary from state to state; secondly, the frequently extended tax credits make it difficult for investors to rely on them and result in limited visibility for business planning and thirdly, the market is still battling the impact of the 2008 financial crisis, leaving German investors in particular concerned about investment prospects in the US.

“This is having a direct impact on acquisition and project finance,” Kämmerer says and goes on to explain that, “historically US banks have been very reluctant to fund deals and German players would often step in to do just that, now however it is very, very difficult to get any support for a US investment in Germany.” Enter Chinese players – funded by state-owned banks from their home country, Chinese players are wanting to become active in the space, but are often finding their acquisitive aspirations stifled by an increasingly protectionist US.

Aside from these three challenges there are a number of interesting observations to be made about the renewable energy space in the US. Particularly in Continental Europe there are an increasing number of traditional energy providers that are expanding into the field in renewable energy, but this trend does not seem to be emulated by the utility players in the US. “They just don’t seem to care for it,” Kämmerer goes on to say, giving insight into the forces at play in the market.

Location is also very important for different types of renewable energy businesses. One
expects that sunny Atlanta, for example, would see a larger number of solar-related renewable energy projects,” Kammerer says, “however, a strong local timber industry means that biomass is more prolific when it comes to renewable energy.”

The US is finding it difficult to align the location of renewable energy production facilities with significantly sized population centres to consume said energy. For example, the solar energy space was initially developed in the South West of the US. While this is a prime location for its climate, transporting the energy to areas where there are large consumer populations remains difficult. “The generation of energy from renewable energy is, as far as I can see it, not a huge issue in the US,” Kammerer notes, “The biggest challenge is to transport the energy to the end consumer”.

That all said, the coming years will be interesting for this country, intent on securing independence from the oil producing countries of the world.

Let us turn our attention now to a total newcomer on the renewable energy scene:

South Africa

Given the perpetual sunshine that many of us associate with the country, it comes as somewhat of a surprise that currently there is no energy from renewable sources being fed into the grid. The apparent lack of an industry that has become a force to be reckoned with in other countries must of course be attributed to the cheap accessibility of coal in South Africa.

That said, over the past decade the South African government has become more actively involved in the renewable energy industry. “Yes, it is still a fairly new concept,” says Robert Thompson, Partner in Rodl and Partner’s South African office, “but the government has started to put legislation in place that will ensure over the next two decades that 42% of the generated energy will come from renewable sources”. Interestingly, aside from energy derived from wind, solar and biomass, South Africa is treating nuclear energy too as a renewable energy source, with the recent events in Japan having a seemingly limited impact, unlike in other markets.

Following a government White Paper on the topic, and an extensive period of research and consultation, the National Energy Regulator of South Africa (NERSA) is now implementing a comprehensive program to drive investment and development in the space. Helping the establishment of the sector are the activities of the World Bank which is furnishing the Development Bank of South Africa with funds for incentives via the Renewable Energy Market Transformation Project.

NERSA is currently in discussions on how renewable energy will be fed into the existing energy grid with all providers of energy from renewable sources needing NERSA approval before being granted grid connectivity. The licensing process began earlier this year. Meanwhile, feed-in tariffs for example have already been agreed.

As a nascent industry, the South African renewable energy space naturally provides attractive investment opportunities for a variety of investors. “We are definitely seeing interest from foreign players,” Thompson goes on to say, “however coupled with it comes a sense of frustration about the long process.” Unfortunately, until NERSA publishes comprehensive requirements for the eligibility of renewable energy projects to be connected to the grid, things are unlikely to change.

India

Let us round off this spotlight with a look at one of the most interesting markets when it comes to renewable energy in the emerging markets context – India.

“To describe India as an emerging market in the renewable energy space is actually incorrect,” says Jan Eberhardt of Rodl and Partner’s Indian office. Right now, large parts of India are not electrified, there is a widespread lack of supporting infrastructure and power cuts are part of the daily routine for all of India with the exception of Mumbai. “This means that the Indian government is very interested in increasing capacity on all fronts and renewable energy plays a crucial role in this process,” Eberhardt went on to say.

Nevertheless, he identifies India as an established market when it comes to renewable energy, albeit with significant differences in activity levels between different subsectors. For example, India holds a globally leading position in terms of wind energy production, generating almost 20,000 megawatts of such energy. Many of the world’s leading players in the space – such as Vestas, Suzlon and GE – are active in India.

On the flipside the solar space is still in its infancy and therefore offers investors a number of attractive investment opportunities. “It certainly is the hotspot when it comes to renewable energy in India,” says Eberhardt. Capacity is still relatively small, with only 115 megawatts of energy being generated from solar sources.

Both of these sub-sectors of the renewable energy industry are challenged by India’s high population density, making it difficult to identify sufficient land with clean titles. “Looking ahead, addressing these two issues will be of crucial importance when it comes to attracting investors to the Indian renewable energy space,” Eberhardt concludes.
SPOTLIGHT: GEOTHERMAL
Investment in geothermal energy is set to rise over the course of the next several years, said Benjamin Richter, Associate Partner, Nuremberg.

Like other renewable energy sources, geothermal aligns with ambitious efforts to decrease carbon emissions and lessen dependence on conventional energy sources, but there are also uniquely attractive characteristics that make geothermal stand out in the broader renewables space.

Unlike wind or photovoltaic, geothermal energy is not highly sensitive to weather the power-plant after conditions and the drilling of wells has a minimal impact on the landscape itself. Furthermore, the exploitation of geothermal resources stands to benefit several corners of the energy market – residential energy for single family dwellings can benefit from ‘near surface’ energy which stands at approximately 100 metres drilling depth, whilst deep geothermics (referring to temperatures above 100 C and several kilometres in drilling depth) better suits large scale power and heat generation. In Germany, geothermics have been serving this purpose since 2008. Due to its base load character power is able to substitute nuclear and fossil base load power plants.

Looking at geothermal’s role in the M&A market, this particular form of renewable energy has been working its way onto the scene. Finland-based Uponor is one example of a company whose acquisition strategy has been seen to target geothermal development. A leading international provider of plumbing and indoor climate systems, the company acquired a 50.3% stake in the German geothermal technology company Zent-Frenger Gesellschaft fur Gebaudetechnik mbH in March of 2011 in an aim to strengthen its geothermal technologies. This deal highlights the increasing importance of geothermal technologies to residential and commercial building markets, both of which are served by these companies.

Other companies are keeping cross-border opportunities on their radar. Geo-En Energy Technologies, a privately owned German developer of ‘near surface’ geothermal systems, is looking for a strategic and a financial investor from the Middle East, according to mergarmarket intelligence published this year, seeking between £7m and £10m, and could sell up to a 30% stake. Established in 2007, the company has spent a significant amount on R&D and is developing turnkey geothermal systems for mid to large buildings, primarily offices and industrial sites. Furthermore a German developer of deep geothermics in possession of exclusive rights for exploration of geothermal energy in Southern Germany is looking for private equity of about £2.6m for the phase of project development.

From an investing standpoint, geothermal is not without its challenges. Deals are subject to certain legal, economic and fiscal conditions (for example, adequate power tariffs, reliable legal frameworks, insurance for geological risks, concessions, etc.) and only those projects that sufficiently meet these conditions can be successfully implemented. On the funding front the basic “exploration risk” is a major obstacle: there is still a geological risk that no adequate geothermal capacity can be achieved through the drilling, despite the qualified planning.

In the wake of these and other challenges, important strides have already been made. The European Union-backed GEOFAR, for instance, was established in 2008 to address the financial and non-technical barriers to geothermal development and raise awareness of the industry across Europe. Furthermore, as part of the deep geothermal pilot project Unterhaching, Rödl & Partner developed an insurance concept that was realised together with the MunichRe, which was adopted as a model by the German private insurance industry. Furthermore, Rödl & Partner developed a nationwide risk-insurance concept, which has been offered in modified form by the KfW Development Bank for more than two years now.

Geothermal energy plays an important role in the shift from fossil fuels to clean energy resources. According to a study by the Federal Environmental Agency (Germany), by 2050 almost half of all households in Germany could be supplied by geothermal heat (near surface and deep surface). Today there are 150 approvals in the two relevant regions – the Molasse Basin and the Upper Rhine Graben – and it is expected that the current level of approximately 7 MW will be increased to between 80 to 100 MW by the end of the decade. In southern Germany alone, investments from around €6bn to €7bn are expected in the next 10 to 15 years. Despite barriers, considerable know-how has been gained over the past several years, especially in the low-temperature range. At the same time, the establishment of risk assessment strategies, combined with an open dialogue to address the industry’s unique financial and technical challenges, ensures continued growth of geothermal energy in the years to come.
Methodology

In April 2011, Remark, the research and publications division of The Mergermarket Group, canvassed the opinions of 100 senior M&A practitioners involved in the renewable energy sector. Respondents were drawn from the corporate, financial advisory and private equity communities in Africa, Asia-Pacific, Central & South America, Europe and North America. Respondents were asked to share their views on a number of extant issues currently facing the renewable energy space, including the key challenges and opportunities that exist in the market, as well as the M&A outlook over the coming months. All answers were reported confidentially and the results presented in aggregate.
Respondent Information

Have you been involved in a renewable energy transaction over the past 24 months?

- Yes: 19%
- No: 81%

Which region(s) do you operate in?

- North America: 34%
- Europe: 33%
- Asia-Pacific: 29%
- Central & South America: 15%
- Middle East: 9%
- Africa: 7%

If yes, how many transactions?

- 1 - 2: 51%
- 3 - 4: 29%
- 5 - 6: 11%
- > 7: 9%
If so, how would you rate the outcome of the transaction?

- 48% Neutral
- 29% Successful
- 23% Very successful
Asked about the state of the economic recovery respondent views are fairly mixed. Over one-third of those surveyed (34%) believe the economic recovery is secure with the recession now fully overcome. One upbeat respondent explains, “In Colombia, the market is stable, banks are providing finance and the government is doing its part to improve the economy. A lot is happening in the market with investors coming in to support existing and new projects.”

Other respondents take a less optimistic view: 24% fear the economy will slip back into recession and 42% believe it has not yet emerged from the crisis but it is on the road to recovery. A respondent from Norway comments, “We’re not out of the woods yet, but things are slowly improving,” while a UK-based respondent says, “I fear a double dip could come from sectors reliant on consumer spending such as retail, hospitality and the housing market.”

Respondents are split on what impact the revolutions in North Africa will have on M&A in the renewable energy sector with 44% believing that it will and 41% believing that it will not. A small 15% of respondents remain uncertain.

Among respondents who believe it will affect M&A, there is also diversity of opinion with one respondent saying, “The political instability will definitely have a negative impact,” while another stresses that “The revolutions will have a huge impact on oil prices, which will make renewable energy a lot more interesting to investors.”

Another respondent who does not believe it will lead to greater deal activity, acknowledges that “It will not boost M&A, but it does reaffirm the fact that political risks exist in the oil industry and alternatives should be sought.”
More than two in three respondents expect global M&A activity in the renewable energy space to increase in the coming 12 months.

What do you expect to happen to the overall level of global M&A activity in the renewable energy sector over the next 12 months?

In total, 72% of respondents expect global M&A in the renewable energy sector to increase (65%) or to increase greatly (7%) over the coming 12 months. “M&A activity will increase as smaller producers combine to reach that mid-cap status,” one respondent explains, while another says that “bigger players will acquire the technologies and resources of smaller companies through a process of consolidation.”

Compared to our 2010 survey, this year’s results show more measured optimism. While the broad majority of respondents hold a bullish M&A outlook, the proportion of those expecting activity to increase greatly fell to 7% from 13% last year while the share expecting a decrease edged up to 7% from 4% in 2010. More measured optimism may reflect the more general M&A trends where the bounce-back from the post-crisis period has already occurred and M&A is now increasing at a more stable pace.

The political revolutions in Northern Africa will have a rather positive effect on the economic standards in the countries, and lead to more liberalisation of the market. This particularly favours the private sector in the field of renewables, as this sector is less state controlled and will probably lead to more but closer investigated M&A activity.

Ulrike Brückner, Rödl & Partner Berlin

What recession? In Brazil business is booming as usual, and the new government is keen to maintain the momentum of the país do futuro. Investment opportunities will be especially attractive in the energy and infrastructure sectors, supported by a new €600 billion package, part of the PAC 2 government growth program. And let’s not forget the prospects associated with the upcoming 2014 and 2016 sporting events.

Dirk Beuth, Rödl & Partner São Paulo

The renewables industry has established itself as a major pillar of global economic growth. Given the dynamic of events earlier this year, the commercial, political and social drive for fossil fuel independence has only further empowered investors, big and small. High transaction activity in this promising sector – both in developed and emerging markets – is poised to continue well into the future.

Dr. Marcus Felsner, Rödl & Partner Nuremberg
Almost one-third of respondents (30%) tip Europe to be the most active hub for renewable energy M&A in the coming year, while a further 37% say the region will see very significant (24%) or significant (13%) activity. One respondent notes that “Europe has a great diversity: The Nordics are great for wind power; Italy, Spain and Greece for solar; and continental Europe for geothermal and biomass,” while another simply says, “Europe is ahead of the curve in renewables.”

The majority of respondents who identify a specific European country point toward Germany where long-term feed-in tariffs help bolster renewable energy investment. One respondent also points to the consumption side, noting that “In Germany a lot of encouragement is given to people to use renewable sources of energy, especially wind and solar as it is easy to harness.”

Elsewhere, it is noteworthy that the combined figure for those respondents (23%) expecting the Asia-Pacific region to witness significant dealmaking over the next twelve months (62%) exceeded the total for North America (57%), marking a change from the 2010 survey.

Looking at specific Asia-Pacific markets, respondents overwhelmingly expect China to lead the region. One survey participant believes that both China and India’s “rapid economic development” will drive M&A investment in the region, while another points toward South East Asian markets, stating, “There are a lot of prospects available in Singapore, Malaysia, Thailand, Indonesia – especially the latter where there are many new projects.”

In a view echoed by a number of respondents, one states, “The recent earthquake in Japan will make people rethink nuclear energy with many looking to the renewable sector.” Some respondents state this will be a spur to renewable energy M&A in Japan specifically, while others believe it will drive M&A investment in the sector globally.

Even as the aggregate figure of respondents identifying Asia-Pacific has surpassed North America over the two years of the survey, the view of those surveyed for prospective activity in North America remains comparatively bright with nearly one quarter (23%) believing the continent will witness the most significant renewable energy M&A globally. One such respondent states, “Wind will continue to attract investment in areas where there are few opponents, primarily in western and mid-continental agricultural areas with low population densities and in regions where purchase power agreements have higher prices, such as New England and California.”

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### Survey Findings

#### Respondents tip Europe to be the main hub of renewable energy M&A activity over the next 12 months

Which region(s) do you expect to witness significant M&A activity in the renewable energy sector over the next 12 months?

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A large majority of respondents recognise the importance of emerging markets in the renewable energy M&A market

Please share your views on the importance of the emerging markets in the context of M&A activity in the renewable energy sector.

More than two-thirds of respondents (67%) say that emerging markets are very important in the context of M&A activity in the renewable energy space. “What happens in emerging markets is very significant. China is obviously a huge renewable energy investor and we monitor their activities closely,” states one respondent.

The proportion of respondents who do not believe that they are very important comes in at just 11%. One such respondent says, “Emerging markets are a good organic growth area, but not ready for consolidation yet,” while another says, “There is capital there, but business is troubled by structural, legal and regulatory frameworks.”

M&A in renewable energy projects in Thailand will go through the roof in the coming years, as Thailand plans to increase the portion of renewable energy from 6% currently, to more than 20% in 2022.

Martin Klose, Rödl & Partner
Bangkok

There is enormous potential for wind parks in Vietnam. Vietnam has 3,260 km of coastline and is widely considered to be an excellent location to establish wind parks. We foresee huge inflows of FDI, which will lead to substantially increased M&A activities in Vietnam.

Sebastian Pawlita, Rödl & Partner
Ho Chi Minh City

Following a challenging year 2010 caused by various effects, Europe and especially Spain will in 2011 once again be home to significant M&A activity in the renewable energy sector. The tendency in Spain in the photovoltaic sector will shift towards large rooftop systems and very large open area systems, allowing for solid returns through the current tariff schemes.

Christoph Himmelskamp, Rödl & Partner Barcelona
The wind power and solar thermal niches are expected to see bustling M&A over next year, while biomass gains greater prominence.

Which sub-sector(s) of the renewable energy sector do you expect to witness significant M&A activity over the next 12 months?

In keeping with last year’s survey results wind power is expected to be the lead sub-sector for renewable energy M&A in the coming year. Over one-third of respondents (35%) identify the wind power space to see the most significant M&A, while a further 47% say the niche will see very significant (32%) or significant (15%) deal activity.

Not surprisingly, solar thermal also remains a leading space for prospective deal activity say a sizable proportion of respondents. Over one-quarter (28%) foresee the sector witnessing the most significant M&A among renewable sub-sectors over the coming year – a further 20% and 21% expect the space will see very significant and significant deal activity.

Notably, this year’s results show an increase in the prominence of the biomass space among respondents with the aggregate figure for those expecting the sub-sector to see significant M&A activity in the coming year doubling from 22% in 2010 to 44% in 2011.

Trade and private equity buyers need investment opportunities in Italy. While other sectors are still bearing the brunt of the financial crisis, the wind power and solar thermal subsectors will provide such opportunities, thanks to the appealing incentives in place in Italy.

Stefan Brandes, Rödl & Partner Milan

In Italy, obtaining permits for wind parks and solar thermal plants is very time consuming. This will lead to strong M&A activity among the existing parks and plants, whilst parallel the new permit procedures will slowly near completion. Biomass as an alternative does not face much bureaucratic adversity, which will ensure investor interest in new plants, given the interesting feed-in tariffs granted in Italy for such plants.

Roberto Pera, Rödl & Partner Rome
The majority of respondents believe the same sub-sectors will appeal to trade and private equity buyers

Will both trade players and private equity funds be interested in the same sub-sector of the renewable energy sector?

More than two-thirds of respondents (67%) believe the same renewable energy sub-sectors will be of interest to trade and private equity investors. Not surprisingly, a number of these respondents say both strategic and financial buyers will source transactions in the wind power and solar thermal niches.

In the Baltics, renewables are much more than a sustainable source of energy – they are a crucial instrument for economic and, perhaps more importantly, political self-determination in the region, validating the governments’ generous terms to attract know-how and new technologies into the respective countries.

Jens Pastille, Rödl & Partner Baltics

Government support is foreseen by the majority of respondents as the principal external driver of renewable energy M&A over the coming year

What do you expect to be the principal external driver(s) of M&A activity in the renewable energy sector over the next 12 months?

Nearly three-quarters of the survey pool (72%) believe government support will be a very significant external driver of M&A activity in the renewable energy sector over the coming year. “Renewable energy is directly affected by political decisions, which create energy laws and affect prices and output of renewable energy products,” one respondent explains.

Slightly smaller proportions expect high commodity prices (68%) and cash-rich corporates (59%) will be the main external M&A drivers. While the share of respondents who point to distress and climate change as very significant M&A drivers is the same at 46%, the proportion indicating that climate change is an insignificant driver is noticeably high at nearly a quarter (23%) of the respondent pool.

Climate change concerns are fundamental to government support for renewable energy development, yet in and of itself climate change is seen as less of an important external M&A driver relative to other factors. One respondent recognises the paradox, proclaiming, “Climate change is very important, but the importance given to it not at all significant.”
Respondents deem SPVs as an ever more attractive option for acquisitions, while interest in classical share deals wanes

What do you expect will be the dominant M&A deal structure in the renewable energy sector over the next 5 years?

Remarkably, this year’s survey results show a sizable increase in respondent expectations for the use of special purpose vehicles (SPVs) for making acquisitions: 40% of the overall survey pool believe SPVs will be the dominant deal structure over the next five years, up from just 18% in 2010. “There will be many SPVs set up to capitalise on new technologies and projects, which will become attractive to bundle together,” one respondent explains.

While SPVs are clearly becoming ever more attractive to investors, the proportion of respondents who believe classical share deals will be the dominant deal structure has fallen sharply from 2010. Indeed, last year two-thirds of respondents indicated it would be the primary structure for dealmaking, but the figure has fallen to just over one-third (35%) in 2011.
Overtaking competitors and gaining market share is still a key M&A driver in the renewable energy industry say respondents

What do you expect to be the principal internal driver(s) of M&A activity in the renewable energy sector over the next 12 months?

Similar to our 2010 survey, overtaking competitors and gaining market share is still identified by the largest share of respondents (43%) as one of the principal internal M&A drivers in the renewable energy industry.

“It’s natural to want to grow, expand and benefit as a corporation,” comments one respondent in this regard.

Just over one-third of respondents (39%) believe that achieving economies of scale will be among the main industry drivers of M&A, while one-third say that benefiting from new and proposed legislation in specific countries and regions will be a key deal driver.

Investors of all shapes and sizes are competing against one another in this flourishing sector, therefore sustainable future growth can only be assured in two ways – by beating out the competitors or by acquiring them.

Michael Wiehl, Rödl & Partner Nuremberg
Access to financing is now much less of a dealmaking obstacle according to respondents

What do you consider to be the most significant obstacle(s) to M&A activity in the renewable energy sector?

Incredibly, just 29% of respondents identify access to financing as a significant obstacle to M&A activity in the renewable energy space in this year’s survey, marking a dramatic fall from the 70% of respondents who identified financing as an issue in 2010.

Uncertainty or lack of legislation is now considered the biggest obstacle to M&A in the space by the largest share of respondents (34%). One respondent from the US explains, “Legislation can be a bit murky. In the case of geothermal, it’s not very clear. There is obviously a drilling risk and other challenges. The incentives are good and attractive, but they are not reliable and we as sponsors of those projects are taking that risk.”

Feed-in tariffs certainly is the approach with maximum promise for any investor. However, it also bears the risk of later disappointment, due to exaggerated expectations.

Jan Eberhardt, Rödl & Partner Mumbai
Although the change from last year’s results is comparatively small (up seven percentage points), the majority of respondents (52%) now believe that national governments are doing enough to promote investment in the renewable energy sector.

There is great diversity between countries, and even states in the case of the US, which many respondents are quick to recognise. One such respondent explains, “Things are improving. For instance, the German government has been at the forefront of stimulating renewables infrastructure, whereas to date the UK government has lagged behind. Note that the majority of the UK’s renewables developments have been manufactured outside of the country.”

California stands out as a beacon of good policy among a number of those surveyed. The difference between states may explain why roughly the same proportions of respondents (around one in four) identify the US on the whole as having both good and bad renewable energy promotion policies. One respondent laments, “In California renewable energy is very well promoted, however this is not so in the rest of the country.”
Nearly one-third of respondents [31%] believe feed-in tariffs constitute the most effective government policy for driving investment in the renewable energy sector. “Feed-in tariffs are a perfect mechanism for a fair game where both small and big players benefit, but capital grants only benefit big players and isolate the small ones.”

It is noteworthy that while the overwhelming majority of respondents cite some type of government policy to help support the development of the renewable energy sector, a small minority [7%] believe governments should take a hands-off approach to the sector. One such respondent says, “I do not believe there should be any government involvement. The renewable energy sector should be a pure commercial enterprise.”

A combined 67% of respondents expect crude oil prices will rise over the coming year, either by up to 25% [47%] or by more than 25% [20%]. Respondents point to a host of factors that affect oil price movements. One remarks that upward price pressures will come from “instability in the Middle-East and increased demand by India and China,” while another says, “Global economic conditions are improving and this will cause the oil price to go up further.”

A number of respondents point to changes in the value of the US dollar, on which the price of crude oil is pegged, as a significant factor affecting oil prices. “Oil prices will rise in US dollars, which are becoming worthless due to ballooning debt,” says one respondent, while another says, “The US dollar has been depreciated, but in terms of the Singapore Dollars it’s hardly seen a 5% increase.”

Respondents appear fairly mixed in their view of how rising oil prices affect their businesses, which could reflect the diversity of renewable energy companies and investors active in the space. For instance, one respondent believes, “High oil prices always help the renewable energy industry,” while another says, “It has a minimal impact.”
Due to South Africa’s electricity price increases over the next two years of an average of 15% per annum, investments in renewable energy sources for residential and commercial users alike will not only keep costs in balance but also lead to greater self sufficiency and less reliance on the energy grid.

Robert Thompson, Rödl & Partner Johannesburg

There is definitely an indirect correlation between oil prices and renewables; an increase in fossil fuel prices will lead to higher demand for renewable energy projects, due to their higher planning feasibility.

Anton Berger, Rödl & Partner Nuremberg

The majority of respondents believe oil prices below US$70 per barrel would cause interest in renewable energy to fall

What is the minimum oil price level below which you think interest in renewable energies would fall?

Other respondents suggest that the affects can be more heterogeneous. One such respondent elaborates, “On the one hand, increasing prices will help stimulate renewables development, therefore pushing forward project development. On the other hand, operating costs will increase, the cost of steel will increase, transport to the field will increase and therefore our prices will need to reflect this.”

The majority of respondents, a combined 64%, believe that oil prices below US$70 per barrel would cause interest in renewable energy to fall. Surprisingly, whereas no respondents cited oil prices of above US$80 per barrel as a break point at which interest in renewable energy investments would fall in last year’s survey, this year a combined 16% place the price at this level.

Other respondents (13%) are less certain about the influence of oil prices on renewable energy, while a small share do not believe this to be an important factor (7%). One explains, “We do not see oil and gas in this way. We see them as finite resources, which is why we are interested in renewable energy sources – they are endless. In 50 years time is oil going to be scarce? Yes. And in 50 years time are renewable resources of energy going to be around? Yes, because they are endless we are not going to run out of them, ever.”
Nearly two-thirds of respondents expect the price of electricity to rise over the next 12 months

What do you expect to happen to the price of electricity over the next 12 months?

Over two-thirds of respondents expect private equity activity in the renewable energy sector to rise over the next 12 months

What do you expect to happen to the level of private equity activity in the renewable energy sector over the next 12 months?

A large majority of respondents (72%) expect the price of electricity to rise over the coming 12 months with 36% expecting it will rise by less than 5% and 36% saying it will rise by more than 5%. “It has already gone up because of Japan,” comments one respondent.

One-quarter of those surveyed believe electricity prices will remain the same over the coming year, while a miniscule 3% believe that prices will decrease (2%) or decrease greatly (1%).

Again, similar to the view taken regarding whether rising oil prices will affect businesses, respondents paint a mixed picture as to how it affects their own companies. One respondent states, “It is important to my expected revenue because when the construction of our power plant is finished we will be selling the energy and increased prices are going to benefit us.” Another respondent from a South African manufacturing business states, “We run only on electricity, so it affects us badly.”

More than one in two (55%) believe that private equity activity in the renewable energy space will increase (45%) or increase greatly (10%) over the coming year, down from 67% of respondents in last year’s survey. One survey participant explains, “We are expecting to see greater private equity investment due to the still tight government budgets and the bank selectiveness when financing projects. As such, we expect private equity to play an important role.”

Just over one-third of the survey pool (38%) believes levels of private equity investment will remain the same over the next year. “Private equity firms are not yet comfortable or confident enough making investment in renewable energy,” one such respondent comments.

Meanwhile, a miniscule 7% of respondents expect the asset class will scale back renewable energy investments from its current levels.
Respondents see strong buy-side activity as the biggest driver of private equity activity in the renewable energy space

If you expect to see an increase in private equity activity, what do you expect to drive this?

Survey results show fewer respondents expect secondary buyouts this year

How do you expect private equity groups to exit their renewable energy investments over 2011?

Not unlike last year’s survey, the wide majority of respondents (74%) expect financial investors to be most active on the buy-side. One respondent states, “There is a lot of money sitting on the sidelines and private equity funds have to put it somewhere,” while another suggests that, “Renewable energy is a maturing market, which investors are recognising and entering through acquisitions.”

The proportion of respondents who foresee sell-side activity acting as a bigger driver doubled over last year’s survey to 16% this year. “Sellers are getting a very good rate,” one respondent explains.

Secondary buyouts are identified by just over one-fifth (21%) of respondents as likely exit routes for private equity investors from renewable energy portfolio companies over 2011, down from almost one-third (31%) last year.

Trade sales are identified by the largest share of respondents (41%), in keeping with last year’s survey results. “Trade exits will be very strong. There will be fewer IPOs, which are not feasible in terms of scale, size and history,” one respondent explains. Contrary to this view, the proportion of respondents identifying public listings as a viable exit route rose to 38% from 32% last year.
The vast majority of respondents believe clean technologies are very important with regard to the renewable energy sector.

Please comment on the importance of clean technologies, in particular to its future influence on the renewable energy sector?

Overwhelmingly, respondents believe that clean technologies are important in influencing the renewable energy sector with more than nine in ten (94%) indicating this.

One respondent believes there will be an important influence from clean technologies, but that it could be negative. He says, “If clean coal costs could be reduced, that would curtail wind and solar development.” However, most other respondents believe the relationship between the two industries is more symbiotic with several noting that they “go hand in hand.” One respondent comments, “Renewable energy is itself a clean technology.”

Clean technology will be a key factor for the development of Asia’s mega-cities and Singapore will certainly set the standards in the region. The Asian renewable energy market is expecting increased activity this year, as new government-subsidised projects have been launched and investors, who have been inactive for a while, are ready to return.

Dr. Paul Weingarten, Rödl & Partner Singapore

The players in the renewable energy sector should be able to exploit the current public interest in their favour by tapping the financial markets. An increase is therefore expected both in the number of IPOs as well as a further diversification of the respective issuers by their line of business.

Dr. Oliver Schmitt, Rödl & Partner Munich

There is certainly a strong interest by traditional energy companies regarding a strengthening of their positions in the Czech Republic’s renewable energy sector. This is highlighted by the fact that the state owned energy company CEZ has applied for and been granted a loan of 200,000,000 EUR by the EIB to be used for the acquisition of solar power projects in the Czech Republic in 2011.

Hans-Ulrich Theobald, Rödl & Partner Prague
A combined 47% of respondents expect IPO activity to increase (38%) or to increase greatly (9%) over 2011. “IPOs are growing with the long-term future of the industry,” one respondent comments. Asked which bourses will see the most share offerings, most respondents point to the New York Stock Exchange and NASDAQ in North America and the London Stock Exchange in Europe. Smaller numbers identify the Shanghai Stock Exchange and the Hong Kong Stock Exchange in the Asia-Pacific region.

Elsewhere, a slightly smaller proportion (40%) of respondents is more sanguine, believing it will remain the same. And just 13% of respondents expect listing activity from renewable energy companies to decrease (10%) or decrease greatly (3%) over 2011. One such respondent states, “Until developers can demonstrate their ability to make money in operations, their risk-return issues will remain a drag on IPO feasibility.”
The renewable energy sector has seen a bounce in large-cap M&A transactions this year with a trio of €1bn plus deals brokered over the first four months. Corporate acquirers led the way with electricity providers Iberdrola and EDF both undertaking buy-backs in their listed renewables businesses, Iberdrola Renovables and EDF Energies Nouvelles.

Iberdrola’s 20% stake deal was valued at €2.6bn, while EDF’s 50% buy-back was valued at €1.5bn, making them the largest acquisitions to come to market in the space over the past two years. The repurchases were financially shrewd with each company striking price discounts from their debut listing valuations. However, such plays will no doubt play well strategically in the wake of the Fukushima nuclear crisis in March 2011.

Indeed, other big utility and energy groups may also make moves to bolster their clean energy portfolios. In April 2011, France’s Total brokered a majority stake purchase in SunPower Corporation, the California-based solar company, in a landmark transaction for an oil major in the renewable energy space. The 60% stake acquisition was valued at €1.0bn and will see Total gain a foothold in the US solar market where government support has underpinned an expansion in capacity recently.

The deal was the largest to come to market in the solar niche globally since October 2010, when Terra Firma brokered the €20m acquisition of Rete Rinnovabile, one of Italy’s largest solar generation businesses. This particular buyout has been followed by a string of other notable deals for the UK buyout group, which in 2011 acquired three wind farms worth a combined €284m through its renewable energy investment arm Infinis. According to the Financial Times, the firm aims to double its renewable energy business over the next five years and these deals are much in line with this growth strategy.

Other private equity funds have been just as aggressive in targeting renewable opportunities, as can be seen by an uptick in dealmaking: buyouts rose by 30% year on year in 2010 to 39 transactions and aggregate deal value nearly doubled to €2.1bn. In comparison, the overall renewable energy M&A market saw a rise of just 4% to 202 deals globally, while total valuations slipped by around one-half year on year to €14.0bn. Buyout activity has been strongest in Europe where well-established feed-in tariffs have acted as a boon to private equity investment.

This is not surprising as Europe is the most active globally within the renewable energy M&A market, accounting for 45% of deals announced in the first four months of the year – around 10 percentage points lower than in full-year 2010. While North America has remained stable with a 22% share this year, Asia Pacific’s share of dealmaking has risen to the same proportion as North America from just 13% in 2010. Central & South America’s share has also risen to 10% in 2011, up from 6% for the whole of last year. If trends from the early part of this year are anything to go by, emerging markets may play a greater role in the global renewable energy M&A market going forward.
<table>
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<tr>
<th>Announced date</th>
<th>Status</th>
<th>Target company</th>
<th>Target sub-sector</th>
<th>Target country</th>
<th>Bidder company</th>
<th>Bidder country</th>
<th>Seller company</th>
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<th>Deal value  (€m)</th>
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C = Completed; P = Pending
Data run from 1 July 2010 to 30 April 2011
### Top Five German Renewable Energy M&A Deals, Q1 2008 - 2011 Year to Date

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<th>Announced Date</th>
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<th>Target sub-sector</th>
<th>Target country</th>
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C = Completed; P = Pending
Data run from 1 January 2008 to 30 April 2011

### Top Five Spanish Renewable Energy M&A Deals, Q1 2008 - 2011 Year to Date

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<td>Brazil</td>
<td></td>
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C = Completed; P = Pending
Data run from 1 January 2008 to 30 April 2011
GLOBAL RENEWABLE ENERGY M&A TRENDS

GLOBAL RENEWABLE ENERGY M&A DEAL SIZE SPLIT BY VOLUME
HISTORICAL DATA

PRIVATE EQUITY BUYOUT ACTIVITY IN THE RENEWABLE ENERGY SECTOR

PRIVATE EQUITY EXIT ACTIVITY IN THE RENEWABLE ENERGY SECTOR
REGIONAL M&A SPLIT BY VOLUME

REGIONAL M&A SPLIT BY VALUE
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