

21 May 2010

Greenko*

Powering up

The group is taking full advantage of the growth in the Indian power market and the Indian government's growing commitment to renewable energy. Management is targeting a portfolio of 1GW by 2015, which will make Greenko a leading low-carbon energy group in India.

Attractive and growing portfolio of assets

- ◆ The group has 159MW of operational power generating assets (80MW hydro, 41.5MW biomass and 37MW liquid fuel) mostly carrying associated carbon credits. The full portfolio comprises 70% hydro – a strategic intention reflecting the zero input costs, which reduces margin volatility and leads to higher, more stable cash flows. The portfolio has a combination of long-term tariffs, sold to state distribution companies, and higher short-term tariffs, sold into the open market. This provides a balance between maximising returns and maximising security of long-term contracts.

Strong financial position

- ◆ Having raised c.£97m, the group is in a strong financial position. Given that projects are generally leveraged 30% equity 70% debt this gives the group significant headroom for expansion. Indeed, we estimate that this will permit the current portfolio to be expanded to over 650MW.
- ◆ The current operational portfolio is expected to generate over €26m of Ebitda per annum in March 2011 financial year, giving the group a solid cash flow, which will be enhanced as additional projects are developed and come into production.

Valuation

- ◆ The shares are attractively valued for a growing business on a 2012 PE of 16x and EV/Ebitda of 8.9x. In addition, our DCF value equates to a range of 200p-219p p/share based on a cost of equity ranging from 12%-15%.

Risks

- ◆ The development of the pipeline is inevitably open to the risk of delays. The benefit of a portfolio of assets is that it diversifies this risk. Short-term tariffs are currently very attractive but potentially vulnerable to open market forces. This risk is limited while the power deficit in India remains a situation which looks set to continue until the end of the decade. Regulation is a risk although we believe this is limited, especially given the Indian government's increasing commitment to renewables.

*Arden Partners acts as broker to this company.

In accordance with FSA Handbook COBS 12.3.2 (post MiFID) this information is categorised as Marketing Material

Indian Power

GKO.L

Buy

Current: **160p**

Unchanged

Key Data

Market Cap	£191m
Shares in Issue	119m
Free Float	75.1%
Average Daily Volume	283,000
12 Month Trading Range	48p to 164p

Financial Forecasts

Yr to March	2009A	2010E	2011E
Sales	€13.9m	€19.8m	€72.1m
Ebitda	€4.2m	€5.9m	€26.1m
Operating Profit	€2.7m	€3.7m	€20.7m
PBT pre-ex	€3.2m	€2.7m	€19.4m
EPS	3.9c	3.1c	10.0c
EPS Growth	-35.9%	-19.5%	+217%
P/E Ratio	47.8x	59.4x	18.7x
EV/EBITDA	59.8x	36.6x	11.5x
Net Dividend	-	-	-
Yield	-	-	-
Dividend Cover	-	-	-
Cash/(Debt)	(€31m)	€6m	(€76m)

Market Relative Price Performance*

1 Month	+6.3%
3 Months	-0.6%
12 Months	+169%

*Relative to the FTSE All Share Index.

Price Chart (p)



Source: Bloomberg.

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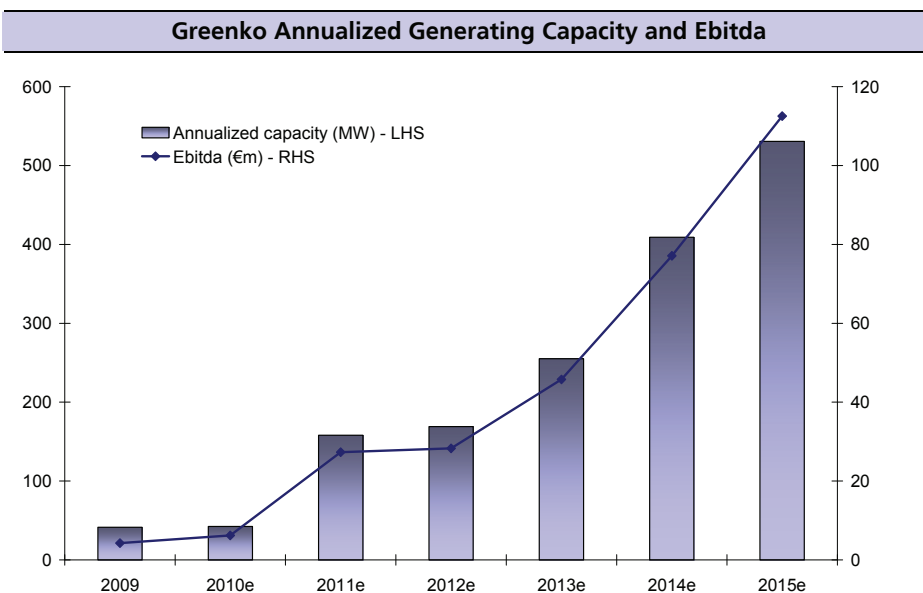
Introduction

The group was established in 2006 to take advantage of the opportunities provided by the opening up of the Indian power market and the burgeoning interest in renewables brought about by the Kyoto protocol.

The business was listed in November 2007 and has since undertaken two further fund-raising. This has enabled the group to put in place an attractive portfolio of assets – both operational and under development – which have promoted the group into being a leading renewable independent power producer (IPP) in India. Alongside tight financial controls to evaluate opportunities on a project-by-project basis, the core to the strategy is based on two key elements:

- ◆ **Independent Power Producer.** The deregulation of the Indian power market has generated an opportunity for IPPs to sell power direct to industrial consumers. The long-term power purchase agreements (PPAs) available from the state provide for healthy returns but the real opportunity comes from selling in the open market to the industrial sector. Greenko is building a balanced portfolio of long-term stable contracts to provide a base take-off alongside sales into the open market at higher tariffs albeit on shorter take-off terms.
- ◆ **Renewable Energy.** The renewable sector in India is eligible for carbon credits under the Kyoto protocol while the government is becoming increasingly committed to renewables through rising purchase obligations for state distribution companies. This makes the sector the fastest growing in the Indian power market and ensures attractive returns are available. The recent government paper on renewable energy credits (RECs) and pricing demonstrates the Indian government's commitments to renewables. In addition, hydro – the largest part of Greenko's portfolio - provides highly attractive and relatively stable cash generation, benefiting from virtually zero input costs.

The current portfolio of power assets provides a healthy and growing ebitda and cash generation.



Source: Arden Partners.

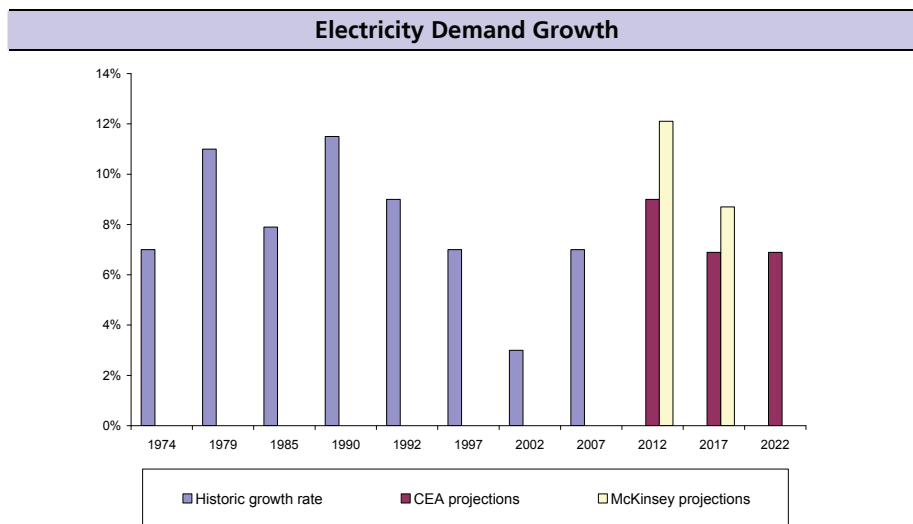
Indian Power Market

Overview

The Indian power market was opened up to private participants through the Electricity Act of 2003. Further information on the structure and regulation can be seen in Appendix 1. Developers are generally going down the 'group captive' model, which enables them to sell power to industrial customers and sell the surplus to local distribution companies. Power purchase agreements with the distributors are regulated through a return on capital basis or competitive bid basis, but sales into the industrial market are not. Hence, the importance of the supply/demand balance in determining the critical open market tariffs.

Indian Demand Profile

The strong economic growth in India, combined with the country's industrialisation, increasing population and increased access to power has led to rising demand for power in the country. This is illustrated by the following chart showing demand growth covering the government five-year plan cycle used for central planning purposes. CEA (Central Electricity Authority) forecasts are for continued demand growth of 9% falling to 7%. McKinsey forecasts are higher, citing demand patterns seen in other emerging economies and latent demand that exists but is being held back by supply constraints. The overall consensus would suggest continued strong growth.



Source: CEA/McKinsey.

Generation Profile

In analysing the Indian power generation profile we have split the outlook into two parts. In the short term (approximately two years), we cover plants under construction and those providing a high degree of certainty. In the longer term, we look at projects that are still mainly on the drawing board, with significant planning and financial hurdles to be passed.

Short-term Outlook

The tenth plan ended in fiscal 2007. The current five-year plan has therefore been running for nearly three fiscal years – with the addition of 22.5GW – suggesting that additions are running at c.50% of plan (the five-year target is 79GW).

Generating Capacity Expansion

	Capacity
Additions 2007-08	9.3GW
Additions 2008-09	3.5GW
Additions 2009-10	9.6GW
March 2010	159GW

Source: CEA.

This suggests that the shortage of generating capacity is not likely to be addressed in the short term. The following table highlights the latest shortages reported on a nationwide basis.

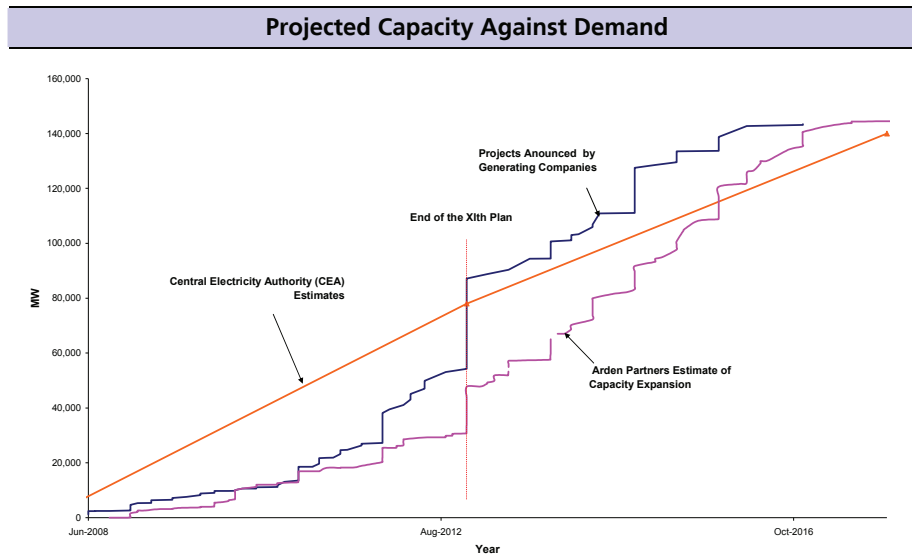
Energy Deficit Position

	Overall	Peak
2004/05	9.2%	10.5%
2005/06	10.7%	15.5%
2006/07	11.0%	9.1%
2007/08	10.8%	10.7%
2008/09	10.8%	15.4%
2009/10	11.6%	14.1%

Source: CEA.

Medium to Longer-term Outlook

We have undertaken our own study of the major power-generating groups in India – focusing on their intentions for capacity expansion – in order to construct a timeline for capacity expansion for the sector. The short-term timeline is relatively simple, with financing complete and construction often started, suggesting only building and commissioning delays are likely. Longer-term pipeline projects are far more susceptible to delays from land acquisition, permissions (less of an issue under the latest legislation) and equipment purchase, before considering the construction and commissioning programmes. A further issue recently has been access to capital; in particular, equity required before debt can be secured. The financial crisis witnessed a hiatus in equity issuance with only Reliance Power and KSK Energy Ventures raising equity in 2008, although there was greater issuance in 2009 (JSW, Indiabulls Power and Adani Power). Debt has been available but has taken longer to secure. The chart below highlights the project timeline from commissioning dates issued by the project promoters and a second line taking into account anticipated delays.



Source: CEA and Arden Partners Estimates.

Our capacity expectations are plotted alongside the Central Electricity Authority's expectation for demand (note, this is significantly lower than a recent McKinsey report). We would make the following observations:

- ◆ 2012 jump in capacity reflects the propensity for developers to push their projects into the current five-year plan. Given the stretch this would put on equipment suppliers and contractor capacity, this step change can be expected to be far more gradual.
- ◆ Our capacity expectations only diverge from those of the project promoters from 2010/2011. Larger projects will have a four to five year lead time. Hence, those still looking for permissions or finance will not come on stream before 2012.

Factoring in anticipated delays suggests that the deficit will remain for much of the next decade, and possibly longer if the higher independent forecast for demand materialises.

Pricing

Selling into the market effectively takes two routes:

- ◆ Selling to the state sector through PPAs. Selling into the state sector operates under strict pricing controls based on government guidelines (currently based on ROCE but moving towards competitive bidding) for which long-term power purchase agreements are available. These prices are variable and also depend on the level of free power provided to the state for hydro projects. Prices vary, but a rule of thumb is 2INR/kWh -3INR/kWh with domestic pithead coal power producers receiving the lowest tariff, reflecting their position as the most economical power generation in India at present.
- ◆ Selling into the open merchant market. Selling into the open market, predominantly to industrial users, is effectively unregulated in terms of pricing. The best indication of the open market price comes from the power trading market. While this is still in its infancy, there are currently two exchanges IEX and PEI with c.4.4% of power traded.

Average Weighted Purchase Price (INR/kWh)	
2006-07	4.5
2007-08	4.5
2008-09	7.3
2009-10*	5.3

Note: *Arden estimates from IEX data.

Source: CERC.

This suggests significantly higher tariffs are available in the merchant market. Shorter-term prices are being reported in the 6INR/kWh-7INR/kWh range, while medium-term contracts are available at lower rates but still a premium to state PPAs.

Conclusion

The open market has significant attractions at present, reflecting the high prices available. The country's power deficit looks set to continue for a number of years – which should ensure that these attractive tariffs remain – but this mechanism, often with short-term contracts, carries inherent uncertainties. Long-term PPAs with the state provide lower returns but with long-term contracts these carry reduced risk and are often required to obtain the high levels of debt financing. The pros and cons of each market are reflected by the middle ground being undertaken by many developers to ensure a combination of state and private tariffs either as a group or project-by-project basis.

Renewable Energy in India

Overview

India has significant potential for generating renewable energy, particularly in hydro, wind and solar. As a developing country, the focus has been on delivering capacity but this is shifting to increased attention to generation sources.

Current Generating Capacities

According to the Ministry of Power, at the end of 2009 India had an installed capacity of 156GW, dominated by thermal (at 64.6%) followed by large-scale hydro (at 24.7%). Renewable energy sources constituted c.8.5% of the total generation capacity. The following table illustrates the latest installed capacity for renewable energy sources; note that this includes small hydro (less than 25MW).

	Potential (MW)	Installed Capacity (MW)
Biomass Power (Agro residues)	16,000	835
Wind Power	49,000	10,925
Small Hydro Power (up to 25 MW)	22,000	2,560
Cogeneration-bagasse	3500	1,302
Solar Power	200,000	6

Source: Ministry of New and Renewables Energy (MNRE).

Government Targets for Renewables

The government has set a target of 10% of installed capacity from renewables by 2012. There are subsequent plans to bring forward the 10% target to 2010, with a target of 15% to 20% for 2020. The current installed capacity for renewables stands at 7.7%. There are also plans to move from capacity targets to kWhs generated. Current power generated from renewables stands at only 3.5%, reflecting the low plant load factors: hydro 35% to 40%; wind 25% to 30%. The National Action Plan for Climate Change (NAPCC) is looking to increase this to 5% in the current year, followed by a 1% per annum increase, with an eventual target of 15%. It is unclear how these targets will develop, although such targets suggest that the government is taking this subsector more seriously than external rhetoric might suggest. To reach these targets the country will have to focus on hydro, wind and solar:

- ◆ **Small-scale hydro.** A national hydro resources study has been completed, which identified a national target of 15,000MW, and state-by-state targets have been set with a goal of 6,000MW capacity by 2012.
- ◆ **Wind.** No targets have been set but the change in incentives to include a wind-specific subsidy (GBI) to cover an additional 4,000MW of capacity provides an indication of the targeted increase in capacity.
- ◆ **Solar.** Government is targeting 20GW of capacity by 2020 from the current level of effectively zero grid connected capacity.

Renewables Policy Framework

The sector operates through a central government policy framework cascading down to the state level for implementation. These mandates are translated into Renewable Purchase Obligations at the state level. These vary by state, owing to the differing renewable potential of individual states. Electricity can be purchased across state boundaries but it loses its green tag and therefore is excluded from the targets.

Currently, power regulators in 12 of the country's 28 states – accounting for around two-thirds of the population – have firmed up Renewable Purchase Obligations (RPO). This makes it mandatory for all distribution utilities in each state to source a minimum quantum of electricity annually from renewable sources – a move that could boost installation of 'green power' capacities. Expressed as a percentage of its total consumption, the RPO varies from 1% to 14% across the states that have implemented it so far.

State Renewable Purchase Obligations Fixed by State Regulator (per annum)

State	RPO	RPO Electricity Estimates in Million Units*
Andhra Pradesh	5%	3,207
Gujarat	2%	1,375
Haryana	3%-10%	2,935
Karnataka	Minimum 10%	4,032
Kerala	5%	783
Madhya Pradesh	10%	4,156
Maharashtra	5%**	3,447
Orissa	450 million units	450
Rajasthan	7.5%	2,755
Tamil Nadu	14%	6,578
Uttar Pradesh	7.5%	4,697
West Bengal	3.8%	1,103

Notes: *Based on annual demand in 2007-2008 | **With annual increase of 1 percentage point.

Source: CEA.

To meet these targets, states set higher preferential tariffs for renewable power. However, the utilities remain reluctant to purchase green power, partially owing to the higher cost but also because the generation pattern bears little relationship with the grid load profile. Wind and small-scale hydro are unpredictable and peak in the monsoon months, when electricity usage is lower due to the lack of irrigation required.

In order to encourage investment in renewable energy there are several incentives being implemented by the government of India and internationally.

Renewable Energy Certificates (RECs)

At present, electricity is traded across states but it loses its renewable tag outside the state in which it is produced. To reflect this, SERC currently sets different RPOs for each state to reflect its renewables potential. To simplify the system the Ministry of New and Renewable Energy (MNRE) is looking to introduce a Renewable Energy Certificate (REC) mechanism. This will unbundle green power into the electricity and renewable credentials, allowing them to be sold separately. Importantly, it is proposed that the RECs can be traded inter-state. This will enable national targets to be introduced. Also, importantly, distribution companies, captive users and open access users will all be required to purchase certificates to meet their RPOs. Monitoring will be achieved with a national register, with trading on the Power Exchange India and, potentially, other national exchanges.

A big advantage for IPPs will be the ability to sell both the power and the REC to third parties.

A recent announcement by CERC provided further details as to how the pricing mechanism will be calculated. While trading at market rates on the Power Exchange, the forbearance (ceiling) and floor prices have been set. Note that there are only two categories – solar and non-solar – with no distinction for wind, hydro, biomass etc.

	Non-solar (Rs/kWh)	Solar (Rs/kWh)
Forbearance (Ceiling) Price	3.78	17.2
Floor Price	1.45	12.28

Source: CERC.

The REC is clearly a major structural change to renewable energy in India. It raises questions as to how it will work alongside the other incentives that are already in place. We have summarised these below:

- ◆ **Preferential Feed-in Tariffs:** Any project taking advantage of a preferential green energy tariff will not be eligible to accumulate RECs – the green credentials being accumulated by the electricity board paying the higher tariff.
- ◆ **Generation-based Incentives (GBIs):** GBIs will still be eligible for wind projects that supply electricity to the state electricity board at the standard rate. However, it will not be available for those that sell into the merchant market.
- ◆ **Certified Emission Reductions (CERs):** CERs will not be affected by RECs, although we note that projects will have to demonstrate the criteria for 'additionality' under the clean development mechanism, which may no longer be achievable if RECs trade at high prices.

There are inevitably significant bureaucratic and logistical hurdles to overcome before the introduction of such a mechanism. The current timetable suggests the scheme will be operational by Q2 fiscal 2011 and have a control period of five years. We see this timing as ambitious but political willpower has, to date, supported rapid progress.

Capital Allowances and the Minimum Alternative Tax (MAT)

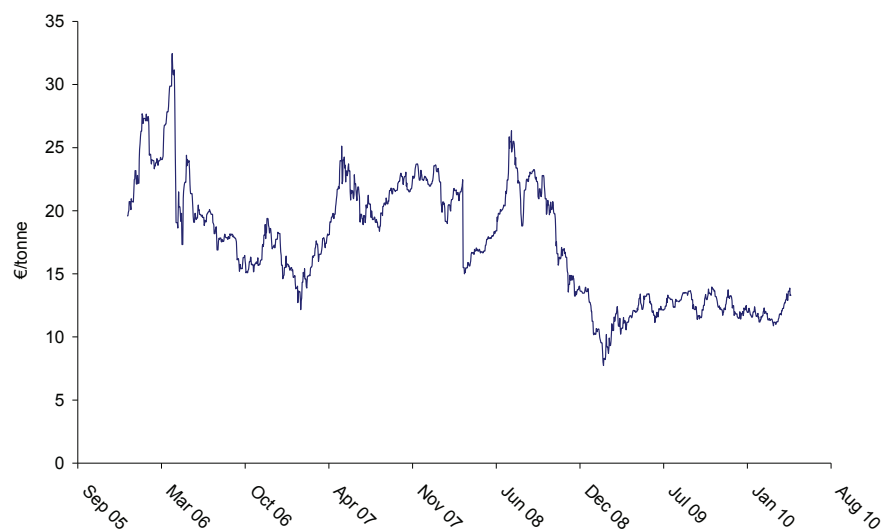
Corporation tax currently stands at 30% – effectively 34%, once surcharges and educational taxes are taken into account. In order to encourage capital investment, the government permits attractive tax breaks. Power generation projects currently qualify for a 10-year tax holiday. However, over this period there is a minimum tax level to be paid, which can then be recouped in subsequent years. This Minimum Alternative Tax (MAT) now stands at 15% (effectively 17%, including education tax and surcharges) having been increased from 10% (effectively 11.33%), with proposals to increase to 18% in the most recent budget. This tax can be offset against future taxes payable and hence does not change the total cash flows from a project but will mean that some of the tax which would have been paid in later years will effectively be brought forward and therefore impact early cash flows that are key for project IRRs.

Carbon Emission Reduction Credits (CERs)

The implementation of the Kyoto Protocol created a market for carbon credits through tradable reduction certificates. The carbon credit market became fully operational in 2008 as Phase II of the Kyoto treaty came into effect. While prices may be volatile, this is providing an additional revenue stream for renewables companies. Note that these revenues are in euros. Extension of the system past 2012 was not confirmed at the Copenhagen summit in December 2009, creating significant time pressures at the Mexico summit in 2010 in order for the scheme to be extended post-2012.

The price of CERs has been volatile. However, the market appears to have stabilised more recently.

Carbon Emission Reduction Credits (€)



Source: Bloomberg.

Voluntary Market/Verified Emissions Reductions (VERs)

The emergence of a secondary market for carbon credits outside the Kyoto protocol is driven by corporates and individuals looking to voluntarily reduce their carbon footprint. Credits tend to come from projects awaiting CDM clearance, special situations (e.g. carbon capture and storage) or smaller projects. Projects require third party verification and are required to meet standards such as the voluntary carbon standard (VCS) but there are higher standards such as Gold and Gold Plus, reflecting higher levels of accreditation, including issues such as social responsibility and sustainability. This market is currently small but expected to increase. Due to the less regulated environment and operating outside the regulated Kyoto framework such certificates trade at a discount to CERs.

Specific Incentives by Energy Type

In addition to these incentives, which cover the entire renewables sector, there is a range of additional incentives tailored to the individual subsectors.

- ◆ **Small-scale Hydro.** The MNRE has identified small hydro capacity of 22,000MW versus current installed capacity of c.2,500MW. In order to accelerate development of small hydro power the MNES provides incentives for detailed survey and project proposals. More important are the state policies, with 13 states having implemented small-scale hydro policies. The benefits available in the states include wheeling of power produced, banking, and attractive buy-back rates.
- ◆ **Biomass.** The sector received a boost from the introduction of capital subsidies in 2005/06 but these are less than in the hydro sector, which has more recently lead to a reduction in investment. The attractions of the sector may now be reversed, given the revision of tariffs in three states (AP, Maharastra and TN) in 2009 which will once more impact the returns available.
- ◆ **Wind Energy.** The Indian government has traditionally promoted wind energy generation through fiscal incentives: primarily accelerated depreciation of fixed assets of 80% in the first year against tax. This has made wind energy a popular investment for corporations and individuals looking to offset tax liabilities. This has led to a highly fragmented industry, with little incentive or capability to maximise operational efficiencies. With the financial crisis, which has limited the appetite from individual investors, the government appreciated the need to provide a more level incentive scheme between individuals and energy-focused corporate investors.

As a consequence, the government has introduced subsidies based on power generation or Generation-based Incentives (GBIs).

The main elements of the scheme are as follows:

- ◆ **Additional Tariff:** Incentive of Rs0.5 per kWh, for a period of 10 years, payable on a half-yearly basis. This is independent of and over and above the state tariff.
- ◆ **Eligibility:** Producers selling into the grid (i.e. non-captive schemes) with a capacity of over 5MW commissioned after the announcement of the scheme (i.e. the incentive is not retrospective) and are not utilizing accelerated capital depreciation for tax purposes.
- ◆ **Limits.** A maximum of INR 6.2m can be claimed per MW.

The scheme is to be run by the Indian Renewable Energy Development Agency (IREDA) under the guidance of the Ministry of Renewable Energy (MNRE). The original scheme for 49MW has now been extended to 4GW.

Solar

The government recently announced a target for 20GW of solar capacity by 2020. The MNRE plans to set up a solar energy purchase obligation for utilities with targets of 0.25% by 2013, increasing to 3% by 2022. To ensure sufficient returns CERC suggests feed in tariffs of 18.4INR/kWh with 25 year terms. These proposals are still at an early stage and we await full clarification.

Conclusion

The Indian government has been resolute in defence of its environmental record, pointing to the low level of carbon emissions per person compared with other developing and developed nations. Government policies would point to a much more proactive stance than external perceptions. We see the introduction of RECs as critical to development of renewables in India, providing a more transparent and unified market which will operate nationally and across energy sources.

Greenko

Background and Strategy

The group was established in 2006 with seed capital from Small Is Beautiful (an Indian-based fund) and Aloe (a French private equity group with specialist environmental funds). The group listed in November 2007, raising £29.1m net of expenses, with the plan to develop a 400MW portfolio of renewable power generating assets. The strategy has progressed since the IPO as follows:

- ◆ **Capacity target raised to 1000MW:** The target has been extended to 1GW of power-generating assets by the end of the 2014 financial year. The recent funds raised, along with cash from generating assets, will provide the equity required to reach c.650MW and will also permit strong cash flows to emerge which can be recycled into future projects.
- ◆ **Scale of projects increased.** In order to meet the capacity target and retain a manageable portfolio of projects and plants, the group has moved up the project scale from sub-10M to projects of 100MW.
- ◆ **Increased emphasis on hydro:** The current portfolio of projects contains 70% of hydro-generating assets. This focus on hydro reflects the attractions of the relatively stable output, given no input cost concerns, albeit rainfall can vary annual power output. This provides highly attractive cash flows once established. Another attraction is the up front complexity and cost limit competition, especially on the larger schemes which the group is now involved in.
- ◆ **Greater emphasis on development:** The strategy has been to increase the proportion of projects which are developed in-house rather than purchased as producing assets. We now expect a balance between project acquisitions and greenfield developments. Project development increases the risk – particularly the civils element of hydro and land purchase – but significantly increases the potential returns. The group is generally developing smaller, lower-risk, run-of-river projects. The timetable for construction is normally three to four years, highlighting the patience required before an earnings stream is delivered. Dikchu, the recently announced 96MW hydro project, highlights this strategic shift and timetable as it is not expected to be commissioned until 2014.
- ◆ **New Areas:** To date the group has been focused on biomass (relatively cheap entry point into the sector) and hydro (attractive cash returns). The company is now looking at wind and solar as additional areas where government incentives are changing the financial returns available. In addition, management is looking into low-carbon footprint power solutions such as gas-fired power plants, which will provide baseload for the group, important for selling into the merchant market while still offering reduced emissions solutions.

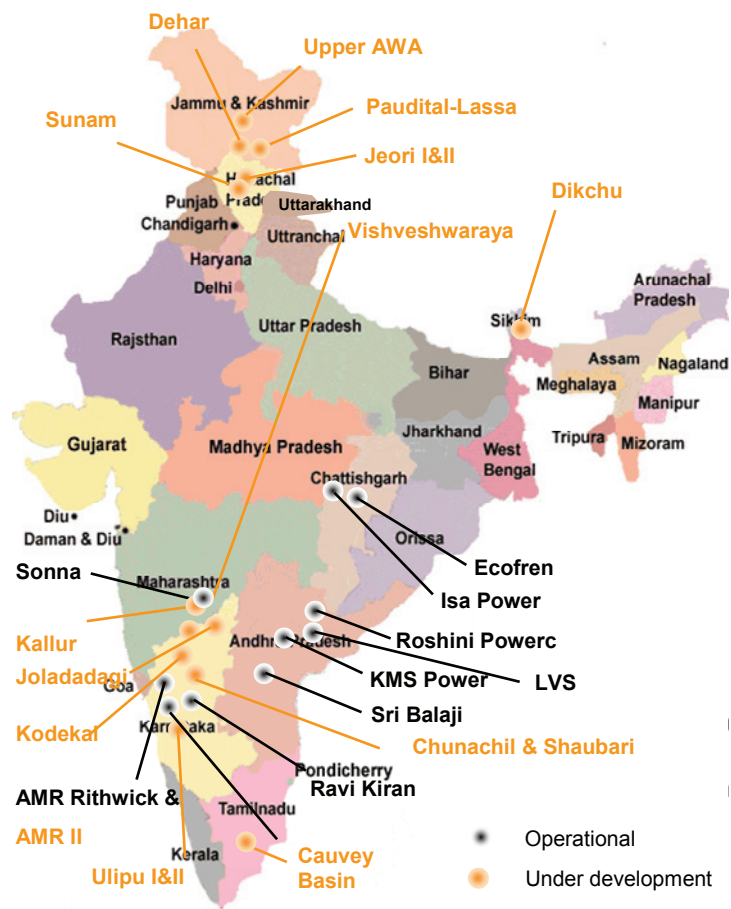
Portfolio

The group's current portfolio of assets is split into operational assets and those under development. These pipeline projects are subject to change in the early years, as permissions are sought and land purchases have to be made, but will become more certain as financing of each project – including the debt (normally 70% of the investment cost) – is secured.

Project	Asset Type	Capacity MW	CERs Produced	Start Date	Investment INR(m)	Plant Load Factor (Net of Free Power)	Tariff INR/kWh
Operational							
Sri Balaji Biomass Power	Biomass	6.0	24,000	Aug-06	250	80%	4.0
KMS Power	Biomass	6.0	24,000	Jan-07	270	80%	3.9
Roshini	Biomass	6.0	24,000	Jun-07	270	80%	5.4
ISA	Biomass	8.0	32,000	Sep-07	410	80%	3.9
Ecofern	Biomass	8.0	32,000	Sep-07	400	85%	4.0
Ravi Kiran Power	Biomass	7.5	30,000	Dec-07	330	80%	4.6
AMR	Hydro	24.5	60,000	Jan-10	1500	37%	3.4
Rithwik	Hydro	24.5	60,000	Feb-10	1500	37%	5.4
LVS Power: Phase I	Liquid fuel	37		Apr-10	1600	80%	3.5
Sonna	Hydro	10.5	23,500	Apr-10	720	32%	3.4
Sai Spurthi	Hydro	10.3	26,000	Apr 10	650	37%	3.3
Astha – Dehar	Hydro	5.0	9,000	Mar-10	800	55%	3.1
Astha – Upper AWA	Hydro	5.0	9,000	Mar-10	430	62%	2.9
Under Development							
LVS Power: Phase II	Gas	80	TBC	Apr-10	3200	80%	3.5
AMR II	Hydro	10.0	-	Feb-12	475	25%	5.4
VGPPPL	Biomass	12.0	48,000	May-12	540	80%	5.4
Jeori I & II	Hydro	9.6	-	Sep-12	620	60%	2.9
Kallur	Hydro	16.0	15,015	Jan-13	800	32%	3.9
Ullipu I+2	Hydro	22.8	30,000	Jan-13	1160	36%	3.1
Joladaadagi	Hydro	16.0	20,000	Jan-13	800	32%	3.9
Paudital Lassa	Hydro	24.0	67,000	Feb-13	1488	65%	3.9
Cauvery Basin Licenses	Hydro	100.0	200,000	Sep-13	5100	40%	3.4
Dikchu	Hydro	96.0	298,000	Jun-14	6250	55%	5.0

Source: Greenko.

Map of Greenko's Projects



Source: Greenko.

Key Projects

The group has a number of smaller projects (median size group projects: 11MW). The three largest projects are worth particular attention: AMR-Rithwik (59MW hydro), LVS Power (117MW gas) and Dikchu (96MW hydro).

AMR-Rithwik

This is a 49MW run-of-river scheme, which is a combination of two x 24.5MW schemes (AMR and Rithwik) on the Netravathi River, in the state of Karnataka. The scheme consists of a barrage across the river and a turbine house containing six turbines.

The scheme was originally due for completion for the 2008 monsoon season. But a flood surge from heavy rains (the river was the highest for 50 years) led to the breaching of a retaining wall, flooding the main turbine house. This led to a 12-month delay. The project is now completed, commissioned and is exporting power to the grid. The scheme will inevitably be seasonal with the monsoons (May to September).

The AMR project has now been registered with the UNCF for carbon credits and Rithwik is expected to be registered shortly. More importantly, management has renegotiated tariffs on the Rithwik scheme and will now be selling the power to PTC India (formerly Power Trading Corporate) at a tariff of 6.0INR/kWh. This compares with the PPA rate of 3.4INR/kWh, which will still be received at AMR under its long-term PPA.

The plan is to expand the scheme with AMR II, which will add a further 10MW. Given that the infrastructure is in place – including the power evacuation – this should be a low risk, higher return project.

Dikchu

The group's largest hydro project to date at 96MW. It is on the Dikchu River, a tributary of the Teesta River in the north-eastern state of Sikkim. The scheme is based in the Himalayan foothills and the river is fed by rain and snowmelt. This ensures a higher plant load factor of over 52% compared with more southerly, monsoon-based hydro (typically, 30% to 40% PLF).

The region has proven potential of over 8000MW of hydro and a large 510MW scheme is currently being commissioned. The proximity of this larger scheme will facilitate in terms of infrastructure, such as roads and power evacuation already in place.

The scheme includes a 300m diversion tunnel to an underground powerhouse containing 3x32MW turbines followed by a 1,200m tailrace tunnel. The construction period is expected to be four years, with a total cost of 5950mINR (c.€90m). All permissions have been received and much of the land has been purchased by the state. With financing now completed, construction is expected to start on the project imminently.

The 'cost' of the scheme is 12% of power generated being given free to the state. The project will revert to the state after 25 years, which is normal under hydro-development regulations.

The plan at present is to develop the scheme without any long-term PPAs. Current market prices in the area suggest a minimum tariff of 3.4INR/kWh.

LVS Power

The group has acquired LVS, which currently owns an operational 37MW liquid fuel peaking plant looking to convert to natural gas along with the construction of a new 85MW combined cycle gas plant. The business is based on the east coast of the state of

Andhra Pradesh and has been awarded gas allocation from the KG-D6 gas field being developed by Reliance energy with a five-year, fixed-price term. The total cost of the project is expected to be €80m, which will be funded with a 25:75 equity:debt structure.

The project currently has an operational 37MW plant which has a long-term pass through power purchasing agreement. This will remain operational whilst the larger gas fired plant is constructed, which is expected to take two years. At this point the 37MW plant will be converted to run off gas which will take a further 12 months. This phasing will ensure an immediate income stream and also continuous power production.

Financial Year	Power Generation (MW)	Comment
2011	37	Existing liquid fuel unit/CCPP under construction
2012	37	
2013	85	New CCPP/liquid fuel plant being converted
2014	117	Finished project

Source: Greenko.

The final capacity will be sold on a combination of long-term power purchase agreements and into the open merchant market (we expect a c.50:50 split). Management expects the business to return above group norm IRR – we estimate 25%, depending on merchant tariffs available.

The projects will be eligible for carbon credits as part of the fuel switch methodology under the UNFCCC Protocol.

From a group perspective, this will be the largest single plant but should also be relatively low-risk in project terms, with no major civil purchases or land purchases required. While not a clear renewables business, it will reduce overall carbon footprint and it is worth noting the carbon credit credential for the scheme.

Importantly, it will also provide a stable base, allowing the group to trade a greater amount of power in the merchant market.

Competition

The renewables sector is still dominated by a large number of small private companies and individuals, reflecting the small-scale and local dimensions, which the sector has attracted. This is changing with larger corporations looking to consolidate the sector and build up critical mass. Some of the companies at the forefront of the Indian renewables sector include:

Orient Green Power Limited (www.orientgreenpower.com). OGPL currently has an aggregate installed capacity of 175MW, which comprises 134.5MW of wind and 40.5MW related to biomass projects. OGPL has more than 500MW under construction/implementation. OGPL is promoted by Shriram EPC (Market Cap: \$220m), which is engaged in design and engineering, material procurement and overall project and construction management services. Current shareholders of OGPL include: Shriram EPC, Bessemer Venture Partners and Olympus Capital.

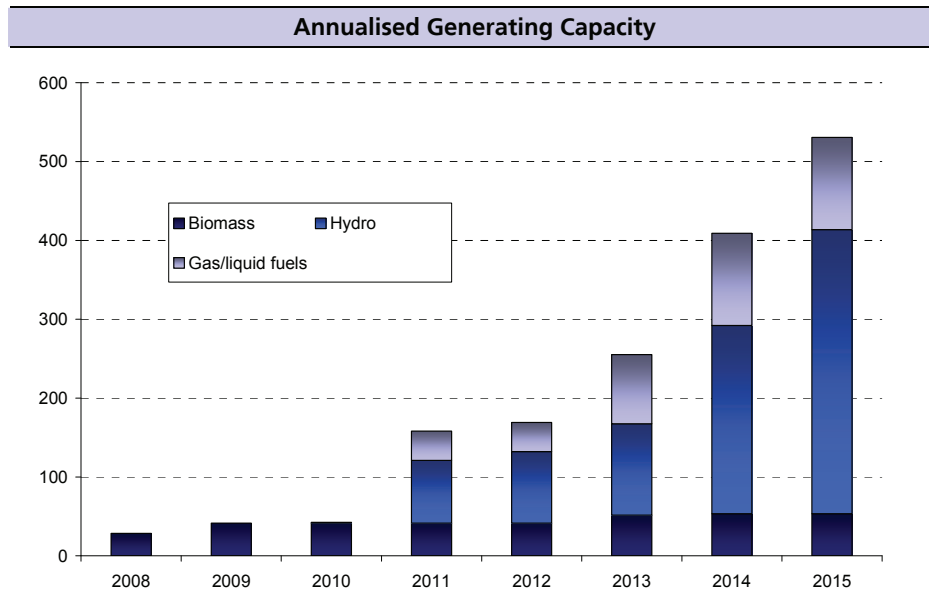
Bhoruka (www.bhorukapower.com). Bhoruka Power claims to be the leader in small hydro in India, having implemented 89MW consisting of 15 hydro stations and two wind power plants. The company has 16MW of hydro projects under construction and a further 48MW under development.

CLP Power India (www.clpindia.in). A wholly owned subsidiary of CLP Holdings – previously China Light & Power – a leading investor/operator in the Asia Pacific energy sector. The business is not wholly invested in green energy. Current operating capacity of 766MW includes 655MW Combined Cycle Power Plant and 100MW of wind. Projects under construction include a 1320MW Coal-fired Thermal Power Plant and 345MW of wind power.

Jaiprakash Power Ventures. Previously Jaiprakash Hydro (www.jppowerventures.com) Its main asset is a 300MW operational hydro plant. In addition, the group is currently building a pit head, coal-fired power station in Madhya Pradesh state, with a capacity of 1320MW which is due on stream in 2013. The business is listed on the BSE (JPVL IN).

Financials

The following chart shows the annualised generating capacity of Greenko and how this develops as the new projects come on stream. Note that this will remain relatively stable in 2011/12 before some of the larger projects under development start to come on stream.



Source: Arden Partners.

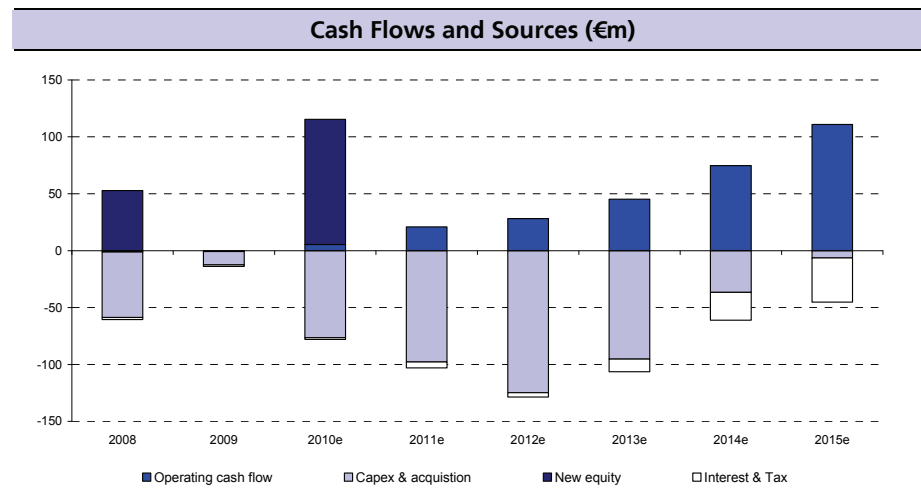
Profit and Loss (€000)

Year	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Mean Weighted Generating Capacity (MW)								
Biomass	28.4	41.5	41.5	41.5	41.5	51.6	53.5	53.5
Hydro			0.8	79.6	90.6	115.9	238.5	360.2
Gas/Liquid Fuel				37.0	37.0	87.6	117.0	117.0
Total	28.4	41.5	42.3	158.1	169.1	255.1	409.0	530.7
Revenue								
Biomass	10,774	12,648	17,096	18,674	18,710	24,463	25,452	25,452
Hydro				17,576	19,485	25,613	54,456	91,046
Gas/Liquid Fuel				33,116	33,116	39,713	53,023	53,023
Power Generation	10,653	12,648	17,096	69,367	71,311	89,788	132,931	169,520
CERs	2,468	1,227	2,675	2,747	2,828	3,280	5,066	5,868
Sales	13,122	13,875	19,770	72,113	74,139	93,068	137,997	175,389
Costs	(6,569)	(8,212)	(11,862)	(42,088)	(40,969)	(40,813)	(54,154)	(56,585)
EBITDA Group								
Biomass	4,210	4,436	6,838	7,470	7,484	9,785	10,181	10,181
Hydro				16,698	18,511	24,332	51,733	86,493
Gas/Liquid Fuel				5,172	6,468	17,318	20,662	20,662
Power Generation	4,089	4,436	6,838	29,339	32,463	51,435	82,576	117,337
CERs	2,463	1,227	1,070	687	707	820	1,266	1,467
Central Costs	(1,400)	(1,400)	(1,960)	(3,920)	(4,704)	(5,174)	(4,657)	(4,191)
EBITDA	5,152	4,263	5,948	26,105	28,466	47,081	79,188	114,616
Depreciation	(1,121)	(1,522)	(2,262)	(5,443)	(5,810)	(8,719)	(13,857)	(17,912)
Operating Profit	4,031	2,741	3,686	20,662	22,655	38,362	65,331	96,705
Exceptionals		1,801						
Interest	(1,380)	(1,376)	(1,000)	(1,246)	950	(4,396)	(14,437)	(24,168)
Adjusted PBT	2,649	3,166	2,686	19,417	23,605	33,966	50,894	72,536
Tax	(318)	(506)	(403)	(3,883)	(4,721)	(6,793)	(10,179)	(14,507)
Adjusted Tax Rate	12%	16%	15%	20%	20%	20%	20%	20%
Net Attributable Profit	2,331	2,660	2,283	15,533	18,884	27,173	40,715	58,029
Adjusted EPS (€)	6.1	3.9	3.1	10.0	12.1	17.5	26.2	37.3
Fully Diluted EPS (£p)	4.5	3.1	2.7	8.7	10.6	15.2	22.8	32.4
EPS Growth		-35.9%	-19.5%	217.0%	21.6%	43.9%	49.8%	42.5%
Average Number of Shares (m)*		68	73	156	156	156	156	156

Note:*this assumes full conversion of the GEF preference shares from 2011.

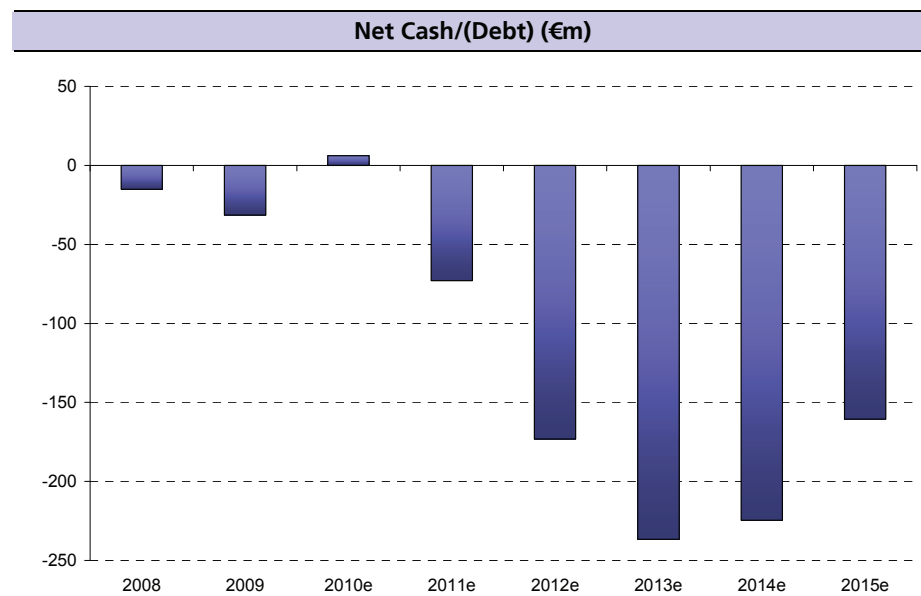
Source: Arden Partners.

The following chart highlights the uses and sources of financing.



Source: Arden Partners.

Projects will generally be financed on a 30/70 equity/debt basis. As a consequence, the group will carry substantial debt. This will be held within the individual SPVs which are established for individual projects.



Source: Arden Partners.

Cash Flow (€000)

Year	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Numbers €000								
Operating Profit	4,031	2,741	3,686	20,662	22,655	38,362	65,331	96,705
Depreciation	1,121	1,522	2,262	5,443	5,810	8,719	13,857	17,912
Other		78						
Share-based Payments		592						
Working Capital	(6,347)	(5,709)	(590)	(5,234)	(203)	(1,893)	(4,493)	(3,739)
Operating Cash Flow	(1,195)	(776)	5,359	20,871	28,263	45,188	74,695	110,877
Interest	(1,507)	(1,250)	(1,000)	(1,246)	950	(4,396)	(14,437)	(24,168)
Tax	(238)	(229)	(403)	(3,883)	(4,721)	(6,793)	(10,179)	(14,507)
Net Cash Flow	(2,901)	(2,255)	3,956	15,742	24,492	33,999	50,079	72,201
Capex & Acquisitions	(57,621)	(11,643)	(76,519)	(97,845)	(124,751)	(95,199)	(36,579)	(6,493)
Capital Subsidy		351						
Ord & Pref Shares Issued	52,851		110,000					
Currencies	(1,214)	(2,623)						
Other	(2)	(160)						
Net Cash Generation	(8,887)	(16,330)	37,436	(82,103)	(100,259)	(61,200)	13,499	65,709
Start of Year	(6,217)	(15,104)	(31,434)	6,002	(76,101)	(176,360)	(237,560)	(224,061)
Net Cash/(Debt)	(15,104)	(31,434)	6,002	(76,101)	(176,360)	(237,560)	(224,061)	(158,352)

Source: Arden Partners.

Balance Sheet (€000)

Year	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Numbers €000								
ASSETS								
Property, Plant & Equipment	58,942	67,434	128,683	204,452	302,185	372,481	388,985	376,462
Intangibles	9,149	11,344	18,996	28,780	41,256	50,775	54,433	55,083
Investments/Cash	322	289	5,645	12,495	21,227	27,891	30,452	30,906
Trade & Other Receivables	87	335	335	335	335	335	335	335
Total Fixed Assets	68,500	79,402	153,660	246,062	365,002	451,482	474,205	462,786
Inventories	1,362	2,353	2,943	8,177	8,379	10,272	14,765	18,504
Trade Debtors	7,807	14,661	15,840	26,309	26,714	30,500	39,485	46,964
Other Debtors	25	167	167	167	167	167	167	167
Cash	23,975	11,394	15,350	31,092	55,584	89,583	139,661	211,863
Total Current Assets	33,169	28,575	34,299	65,744	90,844	130,521	194,079	277,498
Total Assets	101,669	107,977	187,959	311,806	455,846	582,004	668,284	740,284
LIABILITIES								
Trade Payables	4,214	5,807	6,986	17,455	17,860	21,646	30,631	38,110
Borrowings	4,741	10,565	10,565	10,565	10,565	10,565	10,565	10,565
Current Liabilities	8,955	16,372	17,551	28,020	28,425	32,211	41,196	48,675
Borrowings	34,527	32,518	-963	96,883	221,634	316,832	353,412	359,904
Other Long-term Creditors	1,767	2,541	2,541	2,541	2,541	2,541	2,541	2,541
Long-term Liabilities	36,294	35,059	1,578	99,424	224,175	319,373	355,953	362,445
Net Assets	56,420	56,546	168,829	184,363	203,247	230,420	271,135	329,164
EQUITY								
Share Capital & Premium	53,828	51,235	129,235	129,235	129,235	129,235	129,235	129,235
Warrants & Pref Shares			32,000	32,000	32,000	32,000	32,000	32,000
Retained Earnings	2,592	5,311	7,594	23,128	42,012	69,185	109,900	167,929
Net Assets	56,420	56,546	168,829	184,363	203,247	230,420	271,135	329,164

Source: Arden Partners.

Valuation

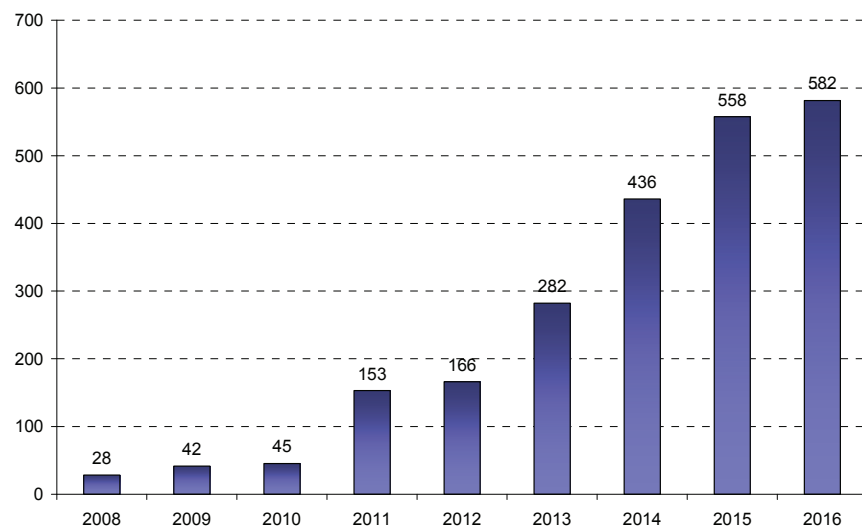
The long-term nature and power purchase agreements of these power assets lend themselves to discounted cash flow valuation. This section compares Greenko with its UK-quoted and international renewables peers.

Discounted Cash Flow

Greenko is now generating significant cash flow from its operational projects, yet much of the value remains in the projects currently being developed. Given the project finance nature of these projects – often with 25-year or more life span – a DCF should provide the most accurate valuation, albeit inevitably this is highly dependent upon the discount factor used.

Our assumptions are currently for the group to achieve 582MW of capacity by 2015. We believe that this is a conservative assumption, as the recent round of fund-raising provides sufficient equity for over 650MW of capacity and there is also the potential to bring the timescale forward if a higher proportion of complete or, partially completed, projects are purchased rather than greenfield developments.

Average Generating Capacity by Greenko's Financial Year (MW)



Source: Arden Partners.

The level of the discount factor is inevitably key. We see a cost of equity of 12% to 15% as the realistic range suggesting a price range of 200p-219p. As the portfolio is constructed, so there is reason to suggest that the lower end of the discount rate should be used.

Cost of Equity	DCF Value	Value per Share (p) (Fully Diluted)
10%	349	233
11%	339	226
12%	329	219
13%	319	213
14%	310	206
15%	300	200

Source: Arden Partners.

Peer group comparisons

The group has two complementary power groups: UK-listed Indian power groups (KSK, OPG, India Energy) and international renewable energy companies. Additional Indian companies operating in this space include Orient Green, Boruka and CPL although these are not listed, with Jaiprakash the main peer albeit it is now adding thermal capacity to its 300MW hydro asset.

	Year End	Price	Mkt Cap	EV/Ebitda			PE		
				2010	2011	2012	2010	2011	2012
Greenko	Mar	156p	£232m	34.7	11.2	8.9	51.8	17.2	16.0
India Energy	Mar	62p	£16m	N/A	10.3	10.0	N/A	N/A	N/A
KSK Power Ventur	Mar	605p	£844m	30.6	12.1	7.1	67.1	26.2	23.9
OPG	Mar	73p	£210m	24.8	9.7	7.1	73.0	13.3	7.0
				2009	2010	2011	2009	2010	2011
EDF Energies Nouvelles	Dec	32	€2.5bn	14.6	11.6	11.2	34.2	25.6	20.1
EDP Renovaveis	Dec	5.1	€4.4bn	11.1	10.6	9.3	40.6	31.3	23.5
Iberdrola Renovables	Dec	2.8	€11.8bn	10.1	10.9	9.7	34.9	28.3	23.8
				2010	2011	2012	2010	2011	2012
Jaiprakash Power	Mar	INR70	INR147bn	33.3	13.6	9.0	62.1	19.5	10.3

Source: Arden Partners/Bloomberg.

The larger European peers now have substantial portfolios of assets, which provide relatively stable cash flows while they continue to build out their pipeline of projects and are focused on Europe and North America. The companies quoted in the UK sector are much earlier in their development stages – hence, should be faster-growing, albeit with greater individual, project-related risks.

Overall, Greenko looks attractive on both a PE and EV/Ebitda basis: both of which could improve if the recent funds raised are deployed more rapidly than in our model.

Note the different year ends: Indian companies' year end is 31 March while the majority of European companies' year end is December.

Financial Structure

Recent Fund-raising

Subscription of \$46m by Global Environment Fund

The group raised \$46.3m through the issue of preference shares to Global Environment Emerging Markets Fund III (GEF), a US private equity firm managing \$1bn of investments. The funds have been invested in Greenko Mauritius (the immediate subsidiary of Greenko).

The preference shares are convertible into 29.1m Greenko ordinary shares. The exercise date is between January 2013 and June 2017. This would translate to an effective share price of 98p at the time of the announcement. The preference shares carry a guaranteed 16% annual return, which could require the company to provide additional cash or shares at conversion, with the limit that GEF's holding will not exceed 29.9%.

GEF will have two seats of five on the Greenko Mauritius board and will have certain step in rights as well as access to additional information, such as monthly management information.

Placing to raise GBP72m at 140p

The company announced the placing of 51.4m new shares at 140p. Of greatest note was that £17.5m was raised from TPG Growth: an investment platform of Texas Pacific Group, which has \$45bn under management.

The raising equates to 43.1% of the enlarged share capital, excluding the GEF conversion shares.

Shareholding Structure

Following the recent raising the shareholder structure is shown below. GEF's preference share holding is currently at the Mauritian level but will convert into 29.1m ordinary shares.

	Current	Post-GEF Conversion
GEF	-	19.6%
Aloe Private Equity	17.9%	14.4%
M&G Investment	12.6%	10.1%
TPG	10.2%	8.2%
Impax Group	7.1%	5.7%
ACMK Enterprises	6.8%	5.5%
Scottish Widows	6.1%	4.9%
F & C Asset Management	5.2%	4.2%
Capital	3.5%	2.8%
Blackrock	3.4%	2.7%

Source: Greenko/Argus Vickers.

Appendix I: Industry Background

Regulatory Framework

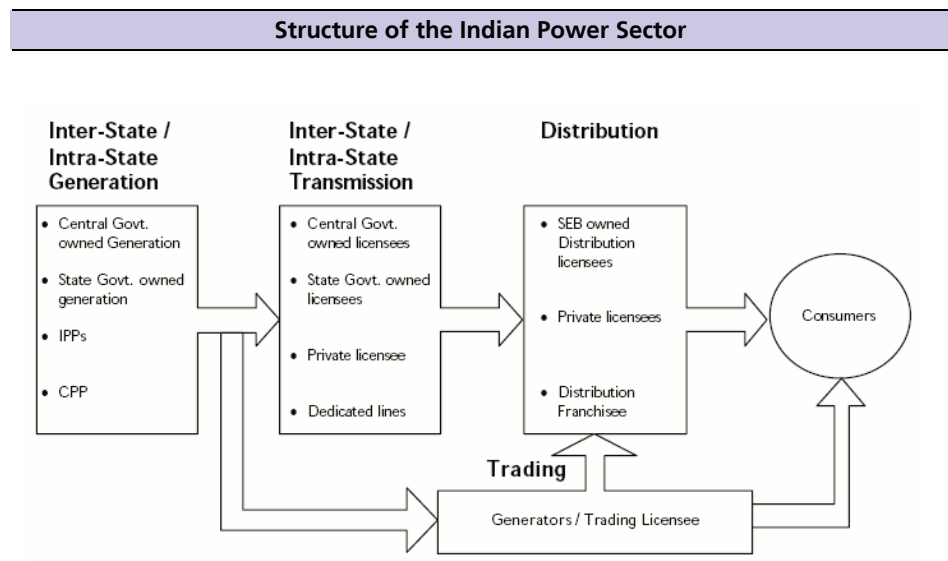
Introduction

The inability of the government to deliver on its five year plans, the financial health of the state electricity boards and the capital-intensive nature of the industry led to the recent shift in policy towards the inclusion of the private sector. The critical piece of legislation was the 2003 Electricity Act, which effectively deregulated the market.

Industry Structure

The following diagram depicts the current operational structure of the industry. The primary changes of interest are the new freedom of sale given to captive and independent power plants (IPPs) in the generation sector and the introduction of the power trading companies.

Power trading is a new activity aimed at providing a mechanism to assist the transfer of power from power rich states to areas of deficit. The Central Electricity Regulatory Commission (CERC) awards trading licenses. While still in its infancy, the percentage of power traded has risen to c.4.4%, according to latest figures (Jan 2010).



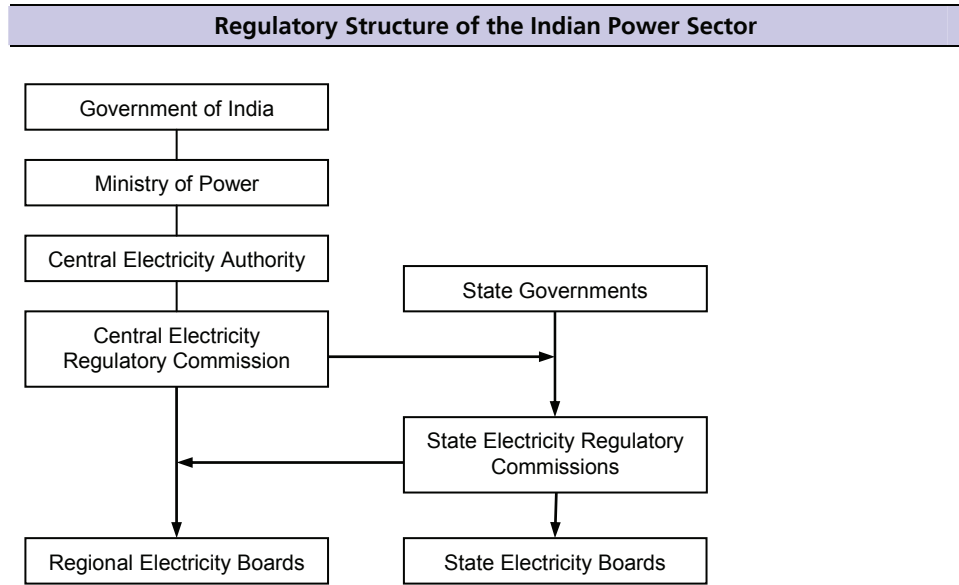
Source: CEA.

Key to diagram:

IPPs	Independent Power Plants
CPPs	Captive Power Plants

Regulatory Structure

The regulatory environment is split between central and state government. The following diagram provides a simplified view of the structure of the regulatory system although there are a number of other government bodies, such as the Ministry of New and Renewable Energy (MNRE), the Department of Atomic Energy, Ministry of Coal and the Planning Commission that also have input.



Source: Arden Partners.

Ministry of Power

The Ministry of Power is the government of India’s department overseeing power sector affairs. Responsible for planning, policy formulation, processing of projects for investment decisions and monitoring of the implementation of power projects.

Central Electricity Authority (CEA)

The Central Electricity Authority is primarily a policy advisory body assisting in establishing the overall framework and standards of the industry and performance measurement.

Central Electricity Regulatory Commission (CERC)

Established as part of EA 2003, Central Electricity Regulatory Commission is responsible for regulating tariffs of government-controlled generating companies and control of inter-state transmission and tariffs.

State Electricity Regulatory Commissions (SERC)

Responsible for formulating policies and guidelines for the effective functioning of the power sector at the state level. Policies are normally within the bounds of national policies and guidelines set by the government of India.

Regional and State Electricity Boards (SEB)

The country’s regional and state level operating entities.

Legislation

Legislative Timeline

1910 Electricity Act: Licensing of electricity generators.

1948 Supply Act: Formation of SEBs vertically integrated in generation, transmission and distribution.

1991 Supply Act Amendment: Allowing private participation in generation for captive plants.

1998 Electricity Regulatory Commission: Creation of an independent regulator for both state and national level.

2003 Electricity Act: Major legislative reform to introduce new structure for power industry.

2005 Electricity Rules: Specific rules on group captive power plants.

Pre-2003 Environment

The structure of the industry was based upon the Electricity Act 1910 ("Electricity Act") and the Electricity (Supply) Act 1948 ("Supply Act"). The Electricity Act required electricity generators to be licensed and the Supply Act encouraged state-owned electricity boards (SEBs), which were vertically integrated and responsible for generation, transmission and distribution. Electricity generation was regulated by individual states and all electricity had to be sold through the regulator at set tariffs; the government remained responsible for electricity supply in states where SEBs were not established.

To complicate the regulatory environment, under the Indian constitution both the state and central government retain the right to regulate the electricity industry.

Two amendments were made to the Supply Act in 1991 and 1998 to open generation to the private sector and allow private sector participation in transmission. Investments in these projects had capped returns on equity of 14%. The Electricity Regulatory Commissions Act in 1998 also provided for independent regulatory commissions at both central and state level.

Under the original legislation, industrial groups could produce and generate captive power. However, they were unable to sell excess, unused power from these operations. Generating capacity was still largely dominated by the SEBs, with little scope for profitable investments from private enterprise. The state of Orissa pioneered new legislation, which deregulated and commercialised the sector – the success of this move became the catalyst for the National legislation in 2003.

Electricity Act 2003

The Electricity Act 2003 has been the key piece of legislation in promoting private investment in the electricity sector. The aim of this legislation has been to create a market environment conducive to investment in power infrastructure in order to keep up with demand growth while also controlling the pricing regime.

The legislation introduced the multi-buyer and multi-seller model. It also gave freedom to the Central Electricity Regulatory Commission (CERC) and State Electricity Regulatory Commissions (SERCs) to set maximum tariffs without regard to rates of return.

This legislation removed the requirement to be licensed to generate electricity. However, a licence is still required for the transmission, distribution and trade of electricity. It was

amended in 2007 to exempt captive power plants from licensing for distribution to any licensee or consumer.

Any generating company can establish, operate and maintain a generating station if it complies with the technical standards relating to connectivity with the grid. Approvals from central government, state government and techno-economic clearance from the CEA are no longer required, except for hydroelectric projects. Generating companies are now permitted to sell electricity to any licensees and, where permitted, by the respective state regulatory commissions, to consumers.

The CERC and SERCs are empowered in EA 2003 to set the maximum tariff for electricity sold to retail customers and licensed distributors for up to a year. They are also empowered to set the tariff for transmission and wheeling. State regulators are guided by the principals of CERC, National Electricity Policy and Tariff Policy.

What does this mean in practice?

- ◆ The establishing of five different types of power-generating entities: captive, group captive, merchant, mega and ultra-mega plants (see below).
- ◆ The ability to sell power to the private sector and SEBs and, with the requisite license, on an inter-state basis.
- ◆ Opening up of the tariff structure for selling to the SEBs either through:

MoU route. Cost-plus pricing based upon a capacity charge, an energy charge, an unscheduled inter-change charge and incentive payments. While moving away from the previously permitted return basis, a good rule of thumb remains a 14% ROE post-leverage.

Bid route. Based on either known assets (coal or hydro) to be developed or on an open basis. Bids are based on a fixed or capacity charge and a variable or fuel charge with an escalation element.

In the Tariff Policy 2006, the regulation requires moving to the bid route for PPAs, although the MoU route continues to be used. The act also requires the opening of the transmission network to IPPs on both an inter-state and within-state basis, combined with the relevant connection and wheeling charges. In addition, trading and the resale of electricity has become a licensed activity.

Appendix II: Accounting Items

We have no concerns over the company's structure or accounts (Auditors: PWC) but it is worth pointing out a few issues that shareholders should be aware of.

Accounting for GEF Money

The GEF money is effectively a convertible instrument for which the company are still awaiting guidance from their accountants on how it should be accounted for. In order to simplify the position, Arden numbers simply take the stake as a converted equity investment to provide fully diluted earnings.

SPV Accounting

Each project is held in a special purpose vehicle. This is important for the planning and execution of projects and, in particular, for attaining the debt. This structure is also important as it is the level at which tax is paid – hence, the use of SPVs. As the company has a 100% interest in these SPVs these vehicles are all fully consolidated and there are therefore there are no off balance sheet issues.

Capitalisation of Costs

The development of projects can take as long as seven to eight years for a hydro project and include four to five years of construction. Capital spend tends to peak in the latter stages when the main equipment is installed. This provides a cash flow profile for the project. The cost of financing this investment is inevitably rolled up within the SPV with payments starting once the project has started operations. This is normal accounting practice but illustrates why the profit and loss interest charge does not intrinsically tally with the consolidated net debt position.

Glossary

CDM	Clean Development Mechanism
CEA	Central Electricity Authority
CER	Certified Emission Reduction
CERC	Central Electricity Regulatory Commission
ERU	Emission Reduction Unit
EU-ETS	European Emissions Trading Scheme
GBI	Generation-based Incentives
GEF	Global Environment Funds
GW	Giga Watt (1,000 Mega Watts)
IPP	Independent Power Producer
IREDA	Indian Renewable Energy Development Agency
kWh	Kilo Watt Hour
MAT	Minimum Alternative Tax
MNRE	Ministry of Renewable Energy
MW	Mega Watt
NAPCC	National Action Plan for Climate Change
PLF	Plant Load Factor
PPA	Power Purchasing Agreement
RPO	Renewable Purchase Obligations
SERC	State Electricity Regulatory Commission
tCO ₂ e	Tonne CO ₂ Equivalent
UNFCCC	United Nations Framework Convention on Climate Change
VER	Voluntary Emissions Reduction
VCS	Voluntary Carbon Standard



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