IRISH WIND ENERGY ASSOCIATION

IWEA Autumn Conference

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Address by Kevin Beary

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Context

Good evening ladies and gentlemen. On behalf of Dolmen Corporate Finance I am delighted to welcome you all here this evening as sponsor of the IWEA autumn conference dinner. I hope you all enjoyed your meal and are suitably relaxed at this stage.

Just to introduce myself - I speak to you this evening as your sponsor for the dinner and professionally as an advisor and fund raiser to the wind energy sector. I manage a corporate finance operation in Dublin called Dolmen Corporate Finance and we have been active in the renewable energy sector for many years. We have backed a wide range of clients in this fast growing sector. Indeed it is great to see some of those people present this evening. We have advised or completed transactions worth in excess of €500m over the past 5 years, both equity and debt financing. Dolmen is the only Irish corporate finance advisory business with a team wholly dedicated to the renewable energy sector. We also facilitate the interaction of the original project developers with larger industry players who have access to capital and turbines etc and our strengths are in delivering a fully integrated solution for wind developers of all sizes.

Turning to the financial markets today

As we are all acutely aware the financial markets are going through a period of unprecedented turmoil. From a financial management and risk perspective, the most important consequence is the serious credit crunch that is currently affecting all sectors of the economy. Stories about the credit crunch are in the news every day, whether its bank mergers and takeovers, equity market losses, the collapse of major investment banks in the US and in Europe and government bailouts both sides of the Atlantic.

This crisis represents a disruptive unwinding of liquidity which in turn is affecting the availability and the cost of capital. Over the past 4 to 5 years the low interest rate environment meant cheap capital was in ample supply. This

however resulted in investors accepting moderate returns for the risks they were taking. The abundance of liquidity led to highly leveraged buyouts financed at low interest rates and transactions which on occasion exposed investors to significant exchange rate risk

For the fist time in many months we have had good news this week. The recent decisive action taken by the Irish government is to be commended and is the bravest and most ambitious measure taken by any government since the crisis began more than a year ago. This initiative, which is being signed into statute today, sees the Irish government guaranteeing bank deposits, other securities and short term inter-bank borrowings. It is a clever, capital efficient and prudent measure. The key objective of the government guarantee is to maintain financial stability in the entire banking system and protect the Irish economy from freefall. This action considerably alleviates the near-term funding pressure which the Irish banking system was facing.

However despite the easing of near term pressures other systemic problems remain as the economy experiences a period of low or negative growth. Property prices in particular may continue to decline for another 6-12 months. This could lead to deterioration in asset quality and profitability within the banks. However, this week's decisive government action provides a clear stabilising influence in relation to funding and liquidity and I believe it may yet turn out to be the key turning point in the economic cycle.

The Irish government action has prompted a reaction from Gordon Brown who will take a bill before the House of Commons requesting an increase in the UK deposit insurance; President Sarkozy of France looks likely to follow the Irish example with a similar government guarantee. There are calls from around Europe for governments to follow the Irish example and provide a blanket guarantee rather than conducting individual bailouts.

In addition the US congress looks set to pass the $700b bailout bill this evening paving the way for global market stabilisation following the approval last night of the deal by the US senate. It also looks likely now that interest

rates may reduce by up to 50 bases points in the US and rate cuts in Europe and the UK look set to follow before the year end.

The restoration of confidence and liquidity in the banking system is crucially important so that banks can release funds back into the market, to fund businesses and individuals and keep this economy growing.

What about the Future?

This weeks actions by governments and central banks around the world will restore confidence to the banking sector and allow the bank's to start lending to each other once again. This in my view has been the single biggest flaw within the banking system.

However, it will take some time before confidence levels return to anything like the level they were at before the credit crunch took root. This will mean a slow and gradual improvement in global economies and in the renewed appetite for capital investment.

There will also be a need for real and rapid consolidation in the financial services sector and over time, this will eventually lead to the elimination of the toxic debt which still exists within the banking system. In the process you are likely to see an effective upward re-rating of the entire banking sector over time. In fact this rehabilitation process got underway today with the rating agency Fitch upgrading a number of the Irish bank's following the introduction of the government guarantee. This should lead to a reduction in the cost of capital going forward.

But what does all this mean to businesses?

The one thing we all know for sure is that the world has changed, most noticeably in banking where the aggressive leverage and lenient banking terms of the past will no longer be a feature of the banking system. The speed and size of banking collapses over the past 14 months have totally reshaped the banking process where today the words "risk management and

compliance" are the new buzz words. Banks will become more highly regulated in an effort to work-out the existing debt hangover!

However, probably the biggest challenge for the banks in my view will be their ability to shed the "battle scars" from its bad experiences and move away from the "fear culture" that has engulfed banking recently. To re-boot the economy in a meaningful way, the banks will need to move gradually towards a trading and risk taking mindset after the bad news has been washed through the system.

This will take courage and leadership but it is critical to allow sustained recovery. The Irish government has led the way and now banks need to show strong leadership and follow this example. There are some areas of banking practices that will have to change such as some of the outrageous bonus structures. Some of these executive bonuses, within the US banks in particular, reached the level of certain country's GDP. Equally the reckless strategy of lending to one or two asset classes just to drive up the loan book size and bottom line will need to be re-addressed. This hopefully will result in the banks focusing on lending to solid mature and well managed businesses in growing sectors of the economy, such as wind energy.

Turning to renewable energy finance today

It is commendable how the renewable energy sector and in particular the wind energy sector has performed. Despite all the financial turmoil global renewable energy attracted €150b of new investment in the last year, of which 43% was attributed to wind energy projects.

However, since the beginning of this year the credit crisis has also impacted on the wind sector as smaller developers. In some cases this has resulted in the smaller developers opting to sell their assets or work with a strong joint venture partner who can facilitate the development of wind assets during the project stage.

The banks have been dealt a huge break this week. The banks should now follow the lead of the Irish government in removing the noose from the neck of developing businesses in need of working capital financing.

The wind energy sector has continued to perform well during the crisis with very good valuations being paid for mature wind businesses with strong management teams and a nice balance of operating wind farms and project pipelines. Other factors propelling growth in the wind sector are the price of oil, the huge commitment at government level globally to all renewable forms of energy and the genuine emergence of an asset class which can provide generous and stable investor returns, particularly in a difficult market.

In Ireland we are particularly fortunate that we have such excellent wind speeds which will greatly improve investor returns.

Despite all the attractiveness of the wind energy sector to investors, the sector is not immune to the vagaries of the markets and, for another while at least, you will see higher cost of funding and reduced leverage available for both corporate and project financing as well as a shorter investment horizon. These are challenges to the wind energy sector which will force the wind sector to look to other efficiencies such as lower land costs, improved turbine purchasing terms and reduced capex costs. There will also be a better balance between utility providers developers for a more equitable share of upside revenues from off-take agreements to make up for higher funding costs.

In Dolmen Corporate Finance:

We share your vision, and like most people here tonight we have an understanding of the industry and have contributed towards its evolution. We provide our clients with access to a varied capital base, including high net worth clients, sovereign funds, utilities, BES schemes and banks. We are always exploring innovative solutions to all types of financing needs. We also

regard ourselves as truly independent advisors with an objective of maximising client value and we listen to our clients so that we can understand your challenges and help to resolve them.

I believe that the wind energy business is one of the most dynamic business sectors in Ireland at present. Paradoxically the financial crisis has positioned the wind energy business as one of the few credible alternatives for investors and banks alike – a safe haven in choppy waters.

Conclusion

Dolmen Corporate Finance is delighted to sponsor the dinner this evening, proud to be members of the IWEA, and to be able to make our contribution towards the growth of the wind energy sector in Ireland going forward.

Ladies and gentlemen I thank you for your time in listening to me this evening. I know that the IWEA autumn conference will once again be a highly productive workshop with ample opportunity for all delegates to discuss some of the current trends within the wind energy sector and influence its future.

Thank you.

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