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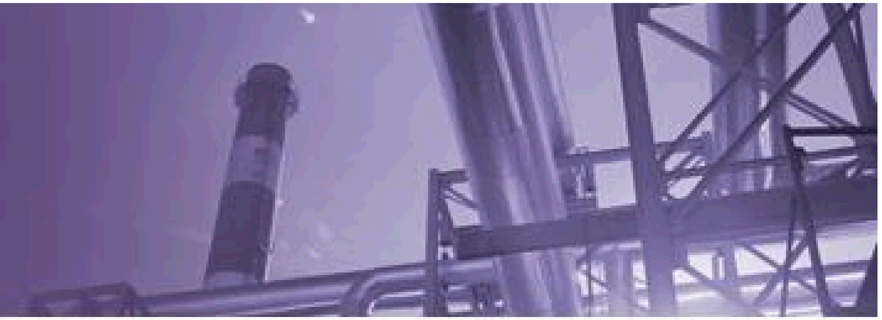

Telephone Briefing

Investment Opportunities in the German Solar Industry

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Content

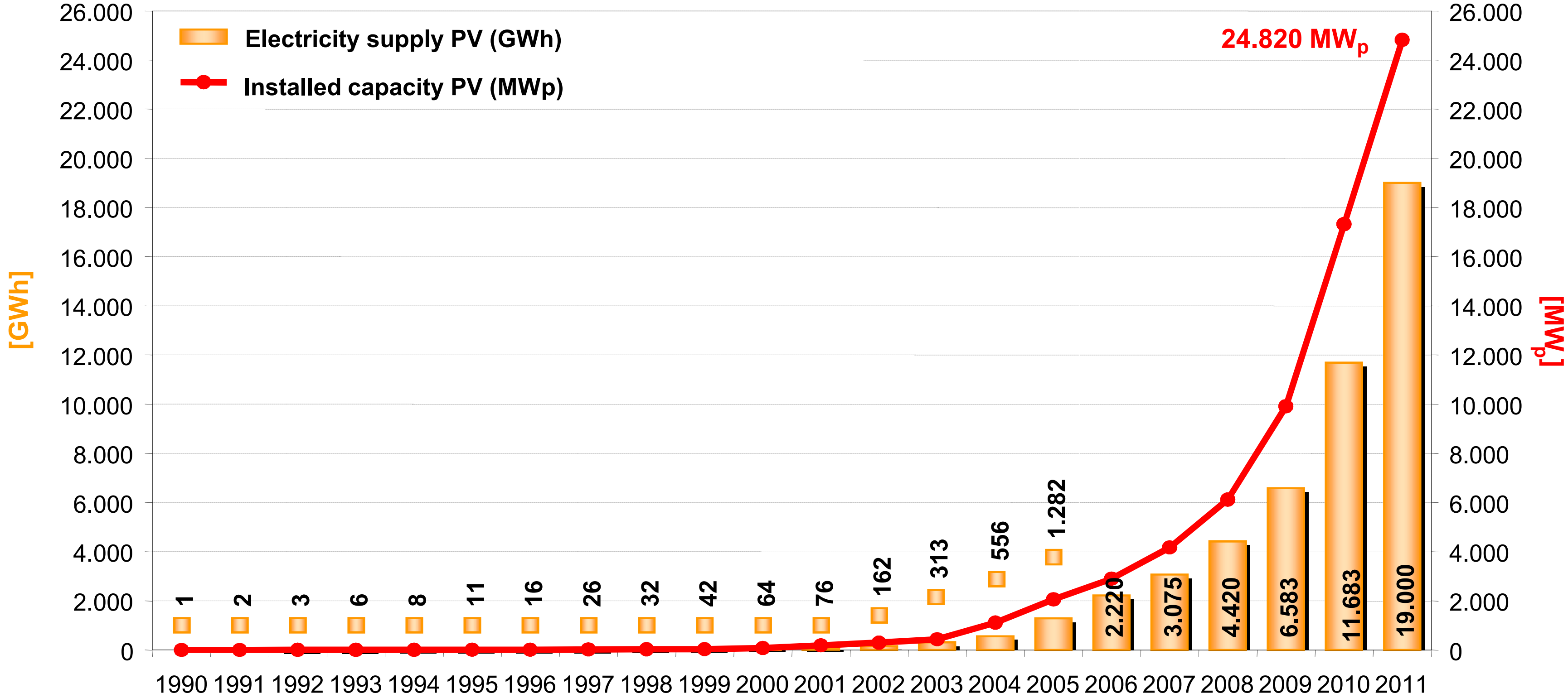
Market Overview Germany

- The German solar market (manufacturing, project development, operation) is consolidating
- Driving factors are:
  - Over capacities in production
  - Intense price competition from Asian manufacturers
  - Decline in European market demand
  - High leverage of many companies
  - Changes in German feed-in scheme combined with uncertainty regarding future reductions
- Insolvencies have occurred: Solar Millennium AG, SOLON SE, Solarhybrid AG (last week)

Market Overview Germany

- Reasons for investing in established German solar companies:
  - Well-known brand names
  - Good market access
  - Broad R&D resources and know-how
  - Advanced technology
  - Acquisition at reasonable prices
- Investments of Asian manufactures have occurred: LDK/Sunways, Microsol/SOLON
- So far: Increase in installed capacity in Germany and increasing share of renewable energy to total energy consumption

Market Overview Germany –
Development of Installed PV Capacity in Germany



Source: BMU-KI III 1 according to Working Group on Renewable Energy-Statistics (AGEE-Stat);
1 GWh = 1 Mill. kWh; 1 MW = 1 Mill. Watt; image: BMU / Bernd Müller; as at: March 2012, all figures provisional

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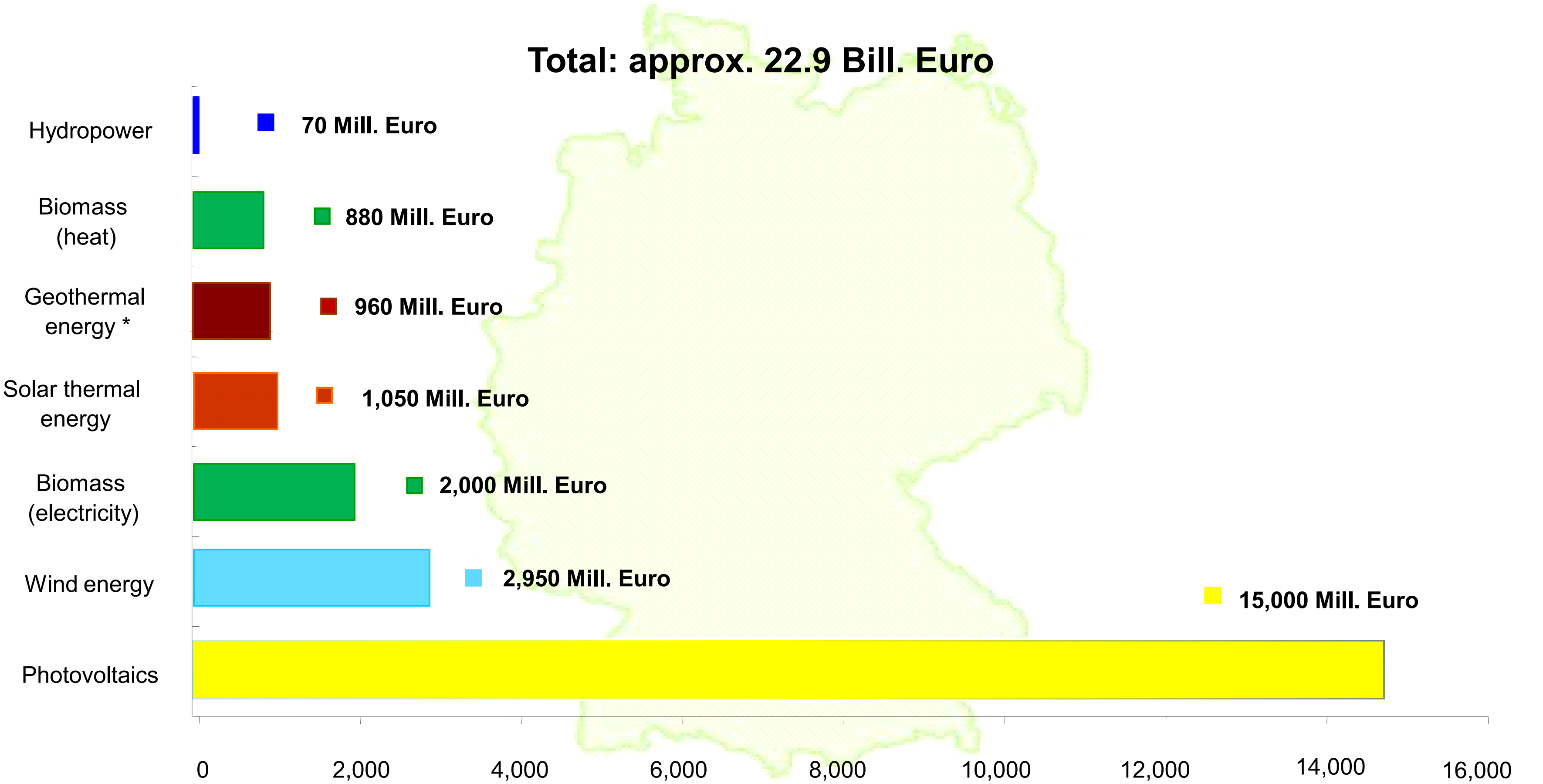
Market Overview Germany – Investments in Germany (2011)



* Large plants and heat pumps; deviations in the totals are due to rounding;
Source: BMU-KI III 1 according to the Centre for Solar Energy and Hydrogen Research Baden-Wuerttemberg (ZSW); as at: March 2012; all figures provisional

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Investment Structures – General Considerations

- **Goal of acquisition:** Horizontal expansion (increase production capacities) or vertical integration (combine cell production with module manufacturing and EPC business)
- **Intensity of integration:** Acquisition or cooperation/joint-venture
- **What is acquired:** Acquisition of shares (share purchase or capital increase) or acquisition of selected assets
- **Situation of target :** Going concern or distressed situation/ insolvency
- Investments in the German solar market will be mainly strategic investments, high probability that investments are done in a distressed situation of the target company

Investment Structures – Cooperation

- Setting-up of strategic joint venture to cooperate in production or sale of products
- Forms of joint ventures:
  - Contractual joint venture – mere contract to cooperate
  - Operational joint venture – setting-up of operative company to pursue the combined operations
- Disadvantages of joint ventures:
  - Only cooperation but no entire integration
  - Limited influence of joint venture partners

Investment Structures – Acquisition of Shares – Purchase of Shares/Takeover

- Investor becomes the owner of an existing company with all its assets and liabilities, brands, customer relationships, existing contracts, employees
- Continuation of business possible
- Majority shareholding required to influence business decisions and take over operational control
- If target is a listed company, takeover law applies and tender offer to outstanding shareholders may be required
- Majority shareholder exercises control over listed companies indirectly via the supervisory board
- Pooling agreements with other shareholders allow joint control

Investment Structures – Capital Increase

- In a distressed situation, an investment by way of a capital increase strengthens the liquidity and equity situation of the target (fresh money)
- Combination with capital reduction to cover losses possible, results in high dilution of existing shareholders
- Capital increase up to 50% of existing share capital generally possible from authorized capital
  - Exercised by management board/supervisory board
  - No shareholders involvement
- Higher increase amounts and capital reduction must be resolved by general meeting
- Outstanding bondholders can be forced to convert into shares

Investment Structures – Asset Deal

- Asset deal allows buyer to cherry-pick and to buy (parts of) seller's business without assuming existing liabilities
- Business to be acquired needs to be defined asset by asset in the purchase agreement
- Assumption of agreements of the seller requires the contractual partner's consent; if not granted, internal arrangements between buyer and seller possible
- Employees automatically transfer to the buyer with the business
- Joint-liability for tax liabilities of seller

Investment Structures –
Distressed Acquisition before Insolvency

- Sale from the target itself, no administrator involved
- Good position to negotiate purchase price
- Care to be taken if opening of insolvency proceedings are imminent:
  - Contestability of sales by the insolvency administrator
  - Could make sales agreements void so that assets have to be returned while repayment of purchase price is a normal insolvency claim
- Consequence: Seller's financial situation must be carefully considered before the acquisition

Investment Structures –
Distressed Acquisition in Insolvency

- Advantages:
  - No contestability of acquisition
  - No joint-liability for tax liabilities of seller
  - Transfer of employees, however, with limitation on outstanding liabilities; use of employee transfer companies possible; easier reduction of work force
- Disadvantages:
  - Administrator must conduct a bidding process
  - Administrator does not give reps & warranties, but sells assets "as is"
- Third party rights (for separation and recovery) might prevent a successful transfer of the sold assets or entitle the seller to reclaim

Investment Structures –
Distressed Acquisition in Insolvency

- Particularities to be tackled:
  - Possible harm to brand name due to insolvency and interruption of production/operation of business
  - Time pressure: If business shall be continued sale is made immediately after opening of insolvency proceedings
  - Lack of information: Short time for due diligence
  - Secured creditors' rights: Holders of rights for separation and recovery need to be identified and dealt with before closing
- Consequence: Acquisition generally more complex than regular asset deal, however, the right valuation of existing risks might allow for a reasonable purchase price
- Business may be continued by administrator until sale of assets

Regulatory – Subsidies

- Most companies of the solar industry have received public subsidies (for the acquisition of machinery, land etc.)
- Subsidies are always granted under various obligations:
  - Typical obligations are to create and/or to secure a specific amount of employee positions at a specific production site, not to sell or remove the investment goods purchased/produced by the subsidy and to use such goods in a manner as described in the investment plan, not to transfer the property of the company/production site to third parties or not to shut down the production site
- A breach of obligation may lead to repayment claim of state
- Repayment may be claimed from company but under specific conditions from the investor

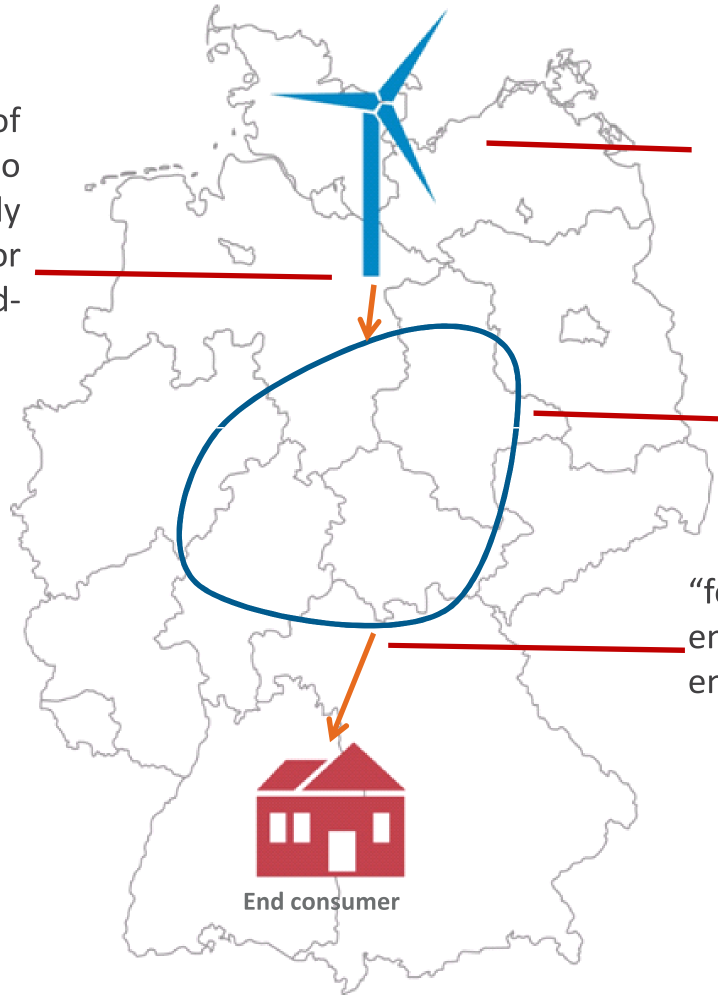
  → Before investing into or buying equipment from such company, legal assessment is necessary to analyse effect on subsidies

Regulatory – Development of Renewable Energy Generation

- The Renewable Energy Act (EEG) was enacted in 2000 to facilitate the development of renewable energy generation in Germany
- The following principles apply:
  - Installation operator receives for 20 years a legally guaranteed and defined feed-in tariff for the entire energy generated from its installation, operated on a renewable energy basis exclusively
  - Feed-in tariff must be paid by operator of the grid the installation is connected to
  - Installation operator is entitled to connect his installation with the local grid at the spot with the shortest distance
  - Grid operator is obliged to accept the entire energy fed-in by installation operator and must pay feed-in tariff
  - Due to nationwide equalisation scheme, feed-in tariffs are paid by end consumer → feed-in tariffs ≠ public subsidies

Regulatory –
Operating Mode of EEG

Legally guaranteed feed-in of entire produced energy into power grid and legally guaranteed feed-in tariff for 20 years to be paid by grid-operator



Operator of renewable energy installation, e.g., windmill

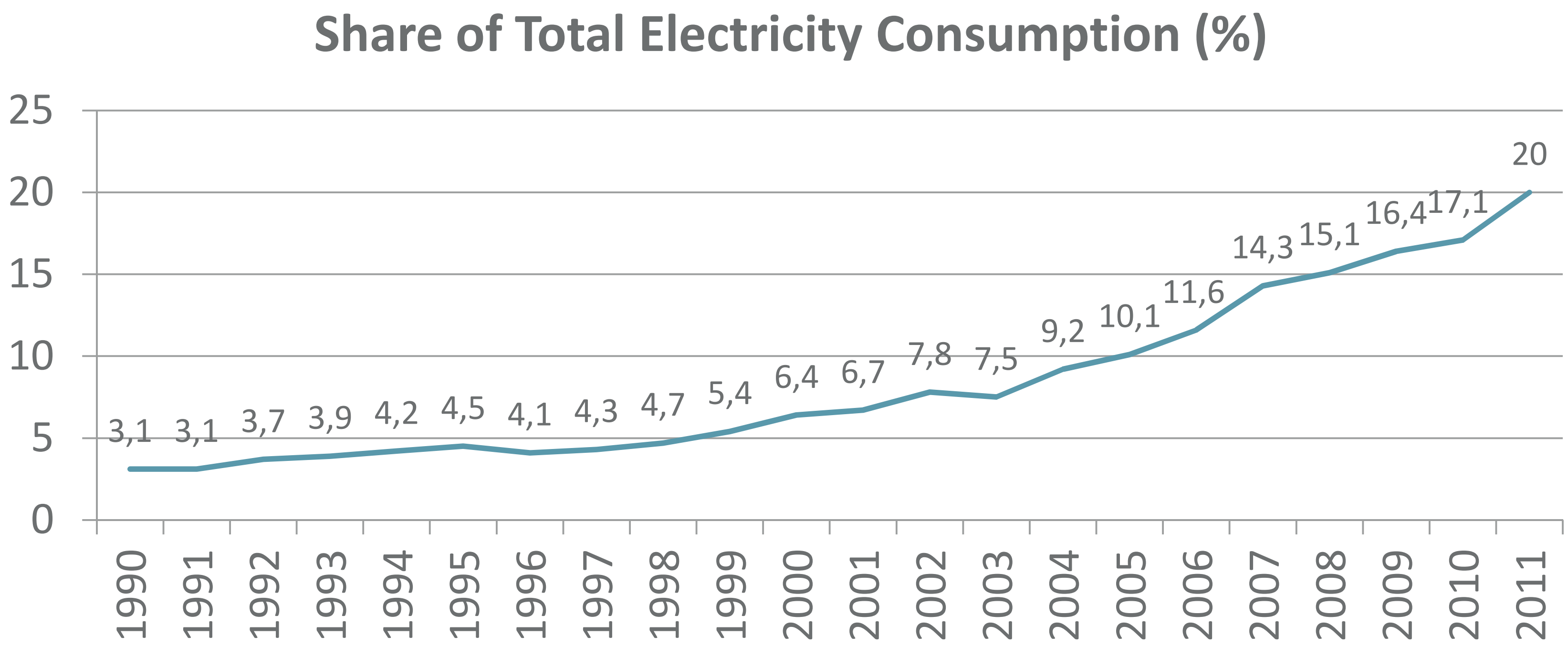
Power grid

“feed-in tariff " to be paid by end consumer as renewable energy contribution

Regulatory –
Feed-In Tariffs / General Principles

- Renewable energy sources (rules for each source):
  - Hydropower, wind energy, solar radiation, geothermal energy, energy from biomass, including biogas, biomethane, landfill gas and sewage treatment gas, as well as the biodegradable fraction of municipal waste and industrial waste
- Year of commissioning: Feed-in tariff being in effect in the year of commissioning will remain valid for 20 years, irrespective of subsequent change of law/tariffs
- Capacity of power plant
- Specification of power plant
- Degression: Feed-in tariffs are reduced periodically → the later an installation starts operation, the less is paid

Regulatory –
Contribution of Renewable Energy Sources



- According to EEG 2012, the following shares shall be achieved: **35%** by 2020, **50%** by 2030, **65%** by 2040, **80%** by 2050

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Regulatory –
PV Feed-In Tariffs are currently under Revision

- PV has been one of “best paid“ renewable energy sources, leading to massive increase of PV installations
- As end-consumer pays feed-in tariffs, legislator intends to avoid massive increase in energy price
- The EEG 2012 aimed to lower the PV feed-in tariffs in comparison to EEG 2009
- Legislator sees additional need for changes on current mechanism. PV feed-in tariff system as implemented 1 January 2012 is currently subject to legal amendment
- Amendment shall be legislated within the next few weeks

Regulatory –
Feed-In Tariffs for PV according to EEG 2012 & Changes

- Tariffs for free-standing installations:
  - Current regime:
    - Land formerly used for economic, transport, housing or military purposes 18.76 ct/kWh
    - Free-standing installations and structures which are not buildings and not on arable land 17.94 ct/kWh
  - Upcoming regime (draft):
    - Free standing installations (no differentiation as under current regime) without arable land 13.50 ct/kWh up to maximum 10 MW installed capacity

Regulatory – Feed-In Tariffs for PV according to EEG 2012 & Changes

- Tariffs for installations in, attached to or on top of buildings:
  - Current regime:
    - Up to 30 kW: 24.43 ct/kWh; up to 100 kW: 23.23 ct/kWh; up to 1 MW: 21.98 ct/kWh; above 1 MW: 18.33 ct/kWh
  - Upcoming regime (draft):
    - Up to 10 kW: 19.5 ct/kWh; up to 1,000 kW: 16.50 ct/kWh; up to 10 MW: 13.5 ct/kWh
- Other relevant upcoming changes (draft):
  - Degression: Currently flexible; upcoming -0.15 ct/kWh per month
  - Upcoming: Only 90% of energy generated in installations shall be subject to feed-in tariffs (85% in small installations up to 10 kW)

Business Opportunities?

- Recent development in solar market offers the opportunity to gain market access in short time and at reasonable costs by acquiring existing solar company
- Investments in existing installations might be preferable as already operating installations receive their original tariffs for 20 years
- Even though new installations receive lower feed-in tariffs, lower prices for components may lead to still profitable investment opportunities in new installations

For any questions you may have

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