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SOLAR POWER PROJECT M&A HITS RECORD IN 2011

Investors acquired approved and operating PV projects at record rates last year as investors sought high-yield assets despite subsidy cuts and a difficult financial environment

London, 10 July 2012. Investors bought a record 3.9GW of solar photovoltaic projects in 2011, worth an estimated \$10.8bn. The gigawatt capacity purchased was up 122% on the previous year, according to new research published by Bloomberg New Energy Finance.

The report, *The Solar Portfolio Hunters: Focus On The Acquisition And Valuation Of Solar Assets*, examined 221 deals from 2006 to 2011, and found that Italy was the most active market for transactions involving operating assets in 2011, with 540MW purchased. By contrast, the top five individual deals in megawatt terms took place in the US, all involving assets under construction rather than operating solar parks.

The surge in PV project acquisition activity was driven by attempts by governments in many European countries to slow down the hectic pace of solar development, coinciding with natural market consolidation as entrepreneurial developers sell to long-term asset holders. With fewer opportunities to start PV projects from scratch, utilities and infrastructure funds have opted to buy already-permitted, or already-operating, projects instead. The financial crisis has also made banks and equity investors more risk-averse, preferring to buy operating assets rather than take on construction risk.

Michael Liebreich, chief executive of Bloomberg New Energy Finance, commented: "The boom in solar PV in Spain and Italy, driven by unsustainable feed-in tariffs, left a pool of assets generating very attractive cash flows, and still owned by developers, manufacturers and contractors. These firms have a high cost of capital and many would prefer to recycle what funds they have into new projects. They are selling to longer-term investors with a lower cost of capital, who are happy with returns of between 5% and 15%, depending on the country concerned, over 20-25 years. PV projects can be a very attractive product for this type of investor, at the right price."

Some 2.8GW of the 3.9GW acquired in 2011 consisted of projects that either were completed and generating power for the grid, or were under construction at the time of purchase. The remaining 1.1GW of projects were permitted but not yet under construction.

Among the large solar assets changing hands last year were three operating Italian portfolios developed by Terna totalling 242MW, and First Solar's 550MW Desert Sunlight Solar Farm in California.

The valuations placed by purchasers on PV projects have fallen by around 44% from their peak in 2008, at the height of the Spanish boom. Bloomberg New Energy Finance's research shows that global average sale values declined from a peak of EUR 6.4m per MW in that year, to EUR 3.6m per MW in 2011.

"This reflected two influences," said Pietro Radoia, solar analyst at Bloomberg New Energy Finance and co-author of the report. "First, the subsidies for the average operating plant have become less generous,

and therefore the potential revenues are reduced. Second, the financial crisis has pushed up the cost of debt and equity.”

The average price of a solar PV module worldwide has fallen by three quarters since 2008, including a drop of nearly 50% last year alone. This has resulted from fierce competition in the solar manufacturing chain, particularly from Asia, and improving technology. The result has been to reduce the levelised cost of PV-generated electricity (i.e. the cost before any subsidies or support mechanisms) by more than 30% in 2011 alone, according to Bloomberg New Energy Finance.

The report is available to Bloomberg New Energy Finance Solar Insight clients. For further information on the report or its methodology, please contact Pietro Radoia on pradoia@bloomberg.net.

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