EDISON

Triodos Renewables plc
Triodos Bank
Deanery Road
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United Kingdom

25 September 2014

Dear Members of the Board:

You have commissioned Edison Investment Research Limited ("**Edison**") to write an independent valuation report (the "**Valuation Report**") on your business.

As per the scope of our engagement, Edison has evaluated Triodos Renewables' operating and pipeline assets and from that, we have developed our own financial model relating to these assets, using our own assumptions, as well as related earnings forecast and valuation. In addition we have undertaken sensitivity analysis to calculate the effect on EPS and implied equity value when key assumptions are flexed. This letter summarises the Valuation Report, which we delivered to you in September 2014.

Background on Edison

Edison, the investment intelligence firm, has a team of over 100 analysts and investment professionals who work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. Our services include: Equity Research, Investor Access; as well as Special Projects and Due Diligence.

Our analysts follow over 700 companies and we write independent equity research including valuations on more than 435 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington.

About Triodos Renewables

At the time of the Valuation Report, Triodos Renewables consists of a portfolio of renewable electricity generation assets in the UK, with a total of 53.4MW of net operational capacity in wind and hydro and a further 8.1MW capacity (net) of wind farms expected to be operational in the next two years. The company targets low financial risk projects that use proven technologies and operate on long-term contracts.

Basis of preparation

We have set out in the full Valuation Report to Triodos Renewables the main factors affecting the earnings and valuation of its renewable generation business. Below is a summary of the earnings forecasts, valuation approach used and key sensitivities. We also outline the key differences between our approach and Triodos Renewables' methodology.

Summary of earnings forecasts

Assuming wholesale power prices in line with the current forward curves (£46.6/MWh in 2014 and around £53/MWh for 2015 and beyond) and a load factor of around 29%, we forecast 2014e EBITDA of £9.225m, EPS of 10.6p, normalised EPS (pre exceptionals and intangible amortisation) of 16.6p and DPS of 6.7p. For 2015e, our EBITDA forecast is £11.525m, with EPS of 17.0p, normalised EPS of 23.1p and DPS of 10.6p. We forecast net debt of £36.1m and £47.7m for 2014e and 2015e respectively.

Valuation range 236-263p per share

We considered a number of approaches in order to establish a valuation range for Triodos Renewables, including a conventional DCF although we did not include a terminal value, a new entrant sum-of-the-parts (SOTP) analysis, peer group comparison and transaction multiples. Our analysis provides a range of values for the company, from 212p/share derived from an average of short-term trading multiples of its closest peers, to DCF of 263p/share, a new entrant SOTP approach of 236p/share and 344p/share based on recent trade transaction multiples.

We have narrowed this valuation range down further to 236-263p/share, by excluding the peer group short-term multiple based approach and the trade multiple approach. The peer group multiple method does not take into account future pipeline earnings and dividend growth, and can also fluctuate significantly depending on the point at which the reference of peers is taken. With no reason to believe Triodos Renewables will be subject to a bid, a transaction multiples-based valuation also seems less relevant.

Summary of key risks and valuation sensitivities

The main risks to our earnings forecast are our assumptions for UK power prices, load factors and operating costs (opex). We highlight the key assumptions and the sensitivities to our 2015 and 2016 EPS below:

- **Power prices:** With every £5/MWh change to the brown power price, around £53/MWh for 2015 and beyond, our 2015e EPS could change by ±14%, and our 2016e EPS could change by ±16%.
- **Load factor:** With every 1% change to the load factor assumption (around 29%), our 2015e EPS could change by ±13%, and our 2016e EPS could change by ±14%.
- **Operating costs:** A 10% reduction to our assumed opex of £41/kW for 2015 and £48/kW for 2016 would improve our EPS by 5.9% and 7.2% respectively.

We highlight below the key assumptions to our DCF-based equity valuation and sensitivities to these main drivers:

- **Power prices:** For every £5/MWh change to our brown power price assumption of £46.6/MWh in 2014 and around £53/MWh for 2015 and beyond, Triodos Renewables' equity value fluctuates by ±7% (18p/share).
- **Load factor:** Every 1% change to the load factor assumption (around 29%) would add to or subtract 8% (21p/share) from the implied equity value.
- **Operating costs:** Every 10% reduction to our long-term (from 2017) assumed opex of £48/kW would improve our equity valuation by 3.5%.

- **Discount rate:** Every 1% change to the discount rate of 8.2% we have used for our DCF would add or reduce our equity valuation by 31-35p/share or 12-13%.
- **Asset life:** Every additional year that the assets remain in operation (beyond the 20 years we have assumed for wind and 30 years for hydro) would add 7% to our equity valuation.
- **Inflation:** Every 0.5% change in the assumed annual inflation rate of 2.5% would alter our DCF based equity valuation by ±3%.

Below are the key risks and sensitivities to our generic new entrant model-based SOTP:

- **Pipeline growth:** Every additional MW of capacity brought into operation beyond those assumed in our forecast (Greenvale, Boardinghouse and Mellinsus projects) would add £0.5m (2.4p/share) to our equity value.
- **Value creation to existing assets:** We value operational capacity at construction cost of £1.3m/MW and consent value of £0.2m/MW. New capacity is valued at a premium of £0.5m/MW (value creation). We attribute no premium to existing capacity in our SOTP. However, if we were to attribute +10% of the £0.5m/MW to operational assets, this would increase our equity valuation by +6%.

Differences in valuation approach

There are many differences in the assumptions that Edison and Triodos Renewables use to form the basis for their respective DCF based valuations. We highlight the most significant differences below.

Discount rate

Using a DCF approach and an 11% post-tax nominal discount rate, Triodos Renewables values its equity at 228p/share. This approach has been applied consistently since the inception of the company. Our DCF valuation of 263p/share is based on an 8.2% post-tax nominal discount rate.

Triodos Renewables may have adopted such a conservative view to reflect the long-term nature of its investors and the fact that some of its assets are still under construction and therefore represent a greater risk than those that are already operational. Edison's approach uses the conventional methodology, incorporates prevailing market conditions and the valuation reflects our view of the current worth of the shares as at the date of the Valuation Report. We have also used the same discount rate for both operational assets and those under construction, as we believe such risk should be low given the company's track record. Given the current market evidence on cost of debt and equity, we believe a lower WACC is justified to calculate Triodos Renewables' current equity value. However, if the current capital market conditions were to change, we would then need to update our valuation to reflect these changes. We believe our approach is in line with how the market would value Triodos Renewables.

Treatment of debt

At an 11% post-tax nominal discount rate, our DCF implies an equity value of 178p/share. This is lower than Triodos Renewables' equity value of 228p/share using the same discount rate, mostly due to the different approaches to deriving equity value. In our DCF, we deduct the reported historic net debt from the enterprise value (based on the post-tax discounted cash flow of the wind farms), as opposed to discounting the cash flow net of debt repayments that Triodos Renewables uses to derive its equity value of 228p/share. To reflect the value of the shares today, we have used the current net debt approach. We believe our approach is in line with how the market would value Triodos Renewables. Discounting the cash flows net of debt repayments would result in a higher valuation and would reflect the value of holding the shares on a longer-term basis. This approach may also require a higher discount rate to reflect the longer duration of the debt repayment profile, as the company has used.

Although different in approach, both Triodos Renewables' and Edison's approach on the treatment of debt and assumed discount rate are equally valid. We note that our DCF valuation of 263p/share is not substantially different to Triodos Renewables' valuation of 228p/share.

The opinion of the Valuation Report and this letter are based on the information provided that was current as at 10 September 2014, when we submitted our Valuation Report to you. We have no obligation to update the Valuation Report or this letter or our conclusions for information that come to our attention subsequent to the date of this letter or the Valuation Report.

The Valuation Report was compiled by Jenny Ping, an experienced equity research analyst. Prior to joining Edison, Jenny had over 10 years of experience as an equity analyst in the City of London. She started her career at Goldman Sachs in 2002 as a utilities equity analyst, where she was ranked by STARMINE for estimate accuracy. After seven years as a writing analyst, Jenny then joined the highly-ranked Dresdner utilities team as a marketing analyst and continued the role at UniCredit. Jenny has recently joined Edison as an analyst on the industrials team, focusing on utilities and clean technology companies. The Valuation Report has undergone Edison’s normal peer review process.

Signed for and on behalf of Edison Investment Research Limited

Neil Shah

Director of Research

Appendix: Glossary and definitions

DCF:	discounted cash flow
DPS:	dividend per share
EBITDA:	earnings before interest, tax, depreciation and amortisation
EPS:	earnings per share
kW:	kilowatt
Load factor:	or otherwise known as capacity factor, is the ratio of a wind farm's actual output over a period of time vs its potential output if it were possible for it to operate at full capacity, or utilisation rate.
MW:	megawatt
MWh:	megawatt hour
Opex:	operating expenditure
SOTP:	sum of the parts
WACC:	weighted average cost of capital