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The Annual General Meeting of Greentech Energy Systems A/S – The Board of Director's Report

The Board of Director's Report

A few years from now, when we look back on Greentech's history, I am confident that 2007 will be remembered as a sharp turning point. In terms of financial performance, 2007 was nothing spectacular, but in terms of strategy it was a year in which we brought the company to a whole new level, laying the foundation for some very exciting developments.

Let's look at the events. We started the year by focusing on four strategic areas of activity which the Board of Directors and Management Board considered crucial prerequisites for Greentech to develop into a large international enterprise in the renewable energy sector.

The first key strategic area involved an expansion of our project pipeline – partly by commencing construction of new wind farms, partly by adding more promising projects under development. In 2007, we took giant strides in the efforts to develop our own projects as well as entering into agreements to buy a number of projects. As a result of these endeavours, we now have wind turbines in operation in four countries. We are building three wind farms in Italy that will increase our capacity in that attractive market more than eightfold. Also, we have a large pipeline in our key markets of Italy and Poland.

The next focus area was funding. The development and installation of wind farms is a capital-intensive business in which it is pivotal to be able to source project funding and equity. In this area, we also took important steps, but I'll return to that in a moment.

The third focus area was securing future supplies of wind turbines. In view of the growth witnessed in wind energy in Europe, demand for wind turbines constantly exceeds manufacturer capacity. It is paramount for Greentech that we can consistently ensure the supply of wind turbines to avoid long lead times when our projects are fully developed. We achieved strong progress in this area, and I'll also revert to that a little later.

Finally, the fourth focus area involved a strengthening of our organisation so that we possess the skills and the capacity to manage our growing portfolio. I will revert to this issue.

Building our portfolio

Let us first look at capacity and our efforts to build our portfolio. In 2007, we increased our power-generating capacity from 17 MW to 75 MW (gross) – or 68 MW net of project shares held by co-shareholders. And what is equally important is that we laid the foundation for initiatives that will multiply the power-generating capacity in the years ahead.

Our biggest acquisition was that of VEI 1 A/S: on 16 February, we took over a number of commissioned German wind turbines, a very exciting project portfolio in Italy and a single development project in Norway. The acquired companies and projects have been fully integrated and for one of the projects - the Minerva wind farm near Messina in Sicily - we have already reached the stage where we expect the wind turbines to be commissioned by the end of 2008.

The other acquisitions and purchase agreements were all in Italy, which is our key market.

- In November, we signed an agreement under which we received an option to acquire 80% of the shares of Parco Eolico, San Vito, which is developing a 58 MW project in Calabria.
- Also in November, we agreed on options to acquire two large project portfolios with a combined capacity of 435 MW in Sicily, Puglia, Campania and Calabria. We have screened the portfolios to identify the parts we wish to acquire. This screening process has been completed, and we have initially resolved to commit ourselves to four projects with a combined capacity of 129 MW. The two portfolios may generate more projects depending on geotechnical analyses and other factors.
- In August, we bought all the shares in the development company PMB Engineering, including two projects: A 60 MW project to be developed adjacent to our own Monte Grighine project in Sardinia and a 23 MW project in Carbonia in the southern part of the island.
- In June, we received an option to acquire 90% of the project company Bonorva Windenergy, which has received all the necessary permits to install an 80MW project in Sardinia.

Furthermore, in August we signed an agreement with an Italian firm of consulting engineers, which will be developing five projects in Calabria for us.

Following these acquisitions and agreements, Greentech now has more than 650 MW under development in Italy. This provides us with a strong foundation from which we can continue to grow in Italy, which is currently the most attractive market for wind energy in the European Union.

We also remain focused on the wind power market in Poland. We are developing our existing portfolio and remain on the lookout for new opportunities. Poland is a promising market that over the next few years will provide good opportunities for Greentech.

Financing

The next strategic field of activity was funding. In our line of business, the ability to source project funding and equity is paramount, and 2007 was a busy funding year. In fact, we have never been so busy.

Major developments have taken place over the past 12 months in the field of project funding. There is currently much talk about the international financial crisis, with many borrowers experiencing difficulty in obtaining adequate funding. Fortunately that is not the case for project funding for wind turbines, especially in Italy. On the contrary, banks are more and more willing to grant loans with longer maturities and at lower costs. We are also seeing banks that are willing to offer higher loan-to-value ratios and, above all, a higher number of players who are prepared to finance projects. That, of course, makes the market more competitive, which is to our benefit.

Last year, we signed a loan agreement for DKK 170 million for Energia Verde, from which the funds have still not been disbursed. This year, we entered into an agreement on project funding in Messina, under which we are currently seeking to comply with the conditions for drawing on the credit facility. Recently, we received an offer for funding of Cagliari II from the same bank that granted us the loans for Energia Verde, and we also expect to have funding for Monte Grighine in place before long.

Finally we have been offered a framework agreement for EUR 700 million for project finance and guarantees for Italian projects. Overall, therefore, our funding situation is positive and that lends support to our expansion plans in Italy.

If we turn towards our equity, we completed five capital increases last year. In February, we carried out a non-cash issue of new shares as consideration for the acquisition of VEI 1 A/S. In two other share issues, claims and debt were converted into shares. First, in March when the sellers of the Polish Wiatropol project converted a small claim into new shares, and then when debt of just over DKK 108 million in September was converted into new shares, reducing Greentech's net interest-bearing debt. Finally, in February and October we completed two cash issues, from which we received gross proceeds of approximately DKK 1.5 billion.

The two cash issues were instrumental for our continued growth. In view of the proceeds raised and the favourable conditions for obtaining project funding that we are offered, we currently have no plans to raise additional funds via the stock exchange. We will of course issue shares to sellers of projects that we have acquired previously when such projects reach pre-agreed milestones, but we have no plans to issue shares in the open market. In this context, it would be appropriate to announce that later today we will ask for authorisation to raise convertible loans. This is merely an extension of the existing authority so that we retain the possibility of raising such loans but we currently have no plans to exercise the authority.

It is important for Greentech to maintain an appropriate and efficient capital structure. To this end, we recently signed an agreement with the large international investment bank Goldman Sachs, which will henceforth be financial adviser, and we expect a lot from this arrangement.

Shareholder information

As a footnote to the capital raised via the stock exchange, I would like to emphasise that our management has spent many resources on meeting investors and analysts. Last year alone, they held about 100 meetings with investors and analysts.

Four international finance houses have started to cover Greentech, and we expect number five and, possibly, number six to start their coverage this year. Greentech is attracting decent interest in London and other European financial hubs, but also in the USA. We have been accepted into a number of international equity indices and receive many enquiries for arranging meetings. In the large share issue in October, two-thirds of the shares were sold to investors outside the Nordic region, and we estimate that approximately 30% of our shares are now held by international investors. Also, two out of our three largest shareholders are international. Foreign ownership in the company is expected to grow.

Of course, we will not neglect communications with our private investors and our shareholders. We have launched a new website that features what we consider to be a number of improvements. Our management team recently gave a roadshow presentation for banks in the Danish regions of Jutland and Funen and met with customers of these banks. We provide webcasts. We hold a large number of meetings across Denmark and generally seek to scale up our investor relations activities.

We aim to have an attractive share that provides our shareholders with a return through share price appreciation. Last year, our share gained about 40%. After the turn of the year, our share price unfortunately contracted in step with the general unrest in the equity market. However, the Greentech share has outperformed other MidCap+ shares.

Securing wind turbine shipments

I now return to the key strategic areas for 2007, and the next area involved securing wind turbines. As we all know, the climate and the environment rank very high on the political agenda, and the EU targets for renewable energy is a key driver in our industry. In Europe, installed capacity is expected to grow by more than 10% per annum, so obviously there is huge demand for wind turbines.

Greentech tries to minimise the risk of facing turbine shortages by maintaining close relations with the manufacturers and by planning in detail where and when we require capacity. We seek to become an important customer with the individual manufacturers, but still the lead times for wind turbines are so long that we have to order wind turbines for projects which have not yet obtained all necessary permits.

Over the past few months, we have negotiated with two manufacturers for the delivery of turbines for the projects that we expect to complete until the end of 2010. Negotiations with one of these manufacturers, Nordex, were finalised in February when we entered into

three contracts with an aggregate value of more than EUR 350 million. These contracts cover our expected demand for Nordex turbines until the end of 2010 – based on the project pipeline known at the present time.

We expect to enter into similar agreements with another wind turbine manufacturer to cover our combined demand for turbines until the end of 2010. However, to avoid straining our financial resources and avoid assuming too much risk, we will not sign such agreements until there is a higher degree of certainty that we will receive the permits necessary for the specific projects.

Building our organisation

Let me revert to the final key strategic area which is that of our organisation.

We are in the process of strengthening our organisation for the purpose of managing the growing project portfolio and optimising the economy of the various projects. We had 10 employees at the beginning of 2007. At the end of the year, we had a headcount of 21 and expect to reach about 30 employees in three countries in the course of 2008.

We are increasing our headcount especially in the fields of project development, construction management and finance. In these areas, the workload continues to grow, and our experience from the Energia Verde project taught us that, especially in the field of construction management, we must ensure closer follow-up and management of sub-suppliers, and going forward we will handle construction management ourselves. We will do so from locations such as our new offices in Italy, where our own supervisory engineers will visit the sites. Our offices in Italy will of course be expanded as we start installing more and more wind energy plants.

Greentech's growth dictates the pace of our expansion process, but we retain the strategy of keeping a lid on fixed expenses and outsourcing assignments better solved by others.

As we run a lean organisation, it is paramount that we are able to attract and retain experienced and competent employees who are specialists in their fields. We do not require very many people, but we must have the right candidates with the right qualifications. To achieve this, we must be able to offer attractive employment conditions, and in this context the Board of Directors will later today present overall guidelines on incentive pay and a proposal to issue warrants.

So far, Greentech has not offered share-based remuneration. In the opinion of the board members, it was best for us to wait until we had sufficient production capacity. As we are approaching that milestone, we are tabling the proposal now. The Board of Directors finds that warrants are a good way of aligning the interests of employees and shareholders as both parties will benefit from an appreciating share price. I will revert to the specific proposals later.

We have also strengthened our management team. A couple of weeks ago, we appointed Mark Fromholt Chief Financial Officer (CFO) and a member of our Management Board. Mark is a state-authorized public accountant and has 14 years of audit experience. Before joining Greentech on 1 May 2007, he had been a national partner with Pricewaterhouse-

Coopers for three years. Mark is in charge of Greentech's combined finance and treasury function.

But allow me first to sum up the highlights of 2007: Our projects are now in place. We have the required equity and are in the process of obtaining project finance. We have secured a large part of the wind turbines we need. And finally, we have the human resources to manage our operations efficiently. Based on our strategic endeavours in 2007, Greentech is ready for profitable growth.

Income Statement

For the sake of good order, I would like to emphasise that the annual report has been provided with an unqualified auditors' opinion, as you can see on page 34 of the annual report. I would also like to mention that our accounting policies are more or less unchanged from last year. We have implemented a few new standards, but they had no material impact on our financial figures.

The financial figures reveal that Greentech is still in a build-up phase. The production capacity we had last year is modest compared to the capacity we are building and, as a result, so was our earnings. Nevertheless, we posted an improvement.

Our revenue rose by almost 250% to just over DKK 51 million, because more turbines were commissioned. The German wind turbines started to generate revenue from mid-February, and the Energia Verde wind farm started to generate revenue in July although its output never reached the level we had anticipated. In addition to the increase in capacity, we enjoyed good wind conditions during the first three quarters of the year – winds were quite strong, especially in Northern Europe.

Our revenue was almost equally divided between Denmark, Germany and Italy, with Poland making a small contribution. Going forward, Italy will become the largest contributor by far.

Production costs rose to DKK 28 million. These costs include operating costs for wind turbines and depreciation on the turbines, which is by far the highest amount. The higher number of turbines in operation was the reason for the higher costs.

Administrative expenses rose to DKK 20 million because of a higher number of employees, the opening of our new office in Italy, the many transactions during the year and the high level of activity.

We achieved an operating profit before financial items (EBIT) of approximately DKK 3.5 million, which is our first operating profit since 2002.

Financial items were a net expense of DKK 9.4 million because of our strategy of obtaining the highest possible external project funding.

As a result, we recorded a small loss after tax of DKK 90,000. This result is unsatisfactory compared to our full-year expectations. The reason why we fell short of expectations was primarily the problems suffered in connection with Energia Verde, first a heavily delayed start-up and subsequently operating problems. However, these issues are now behind us.

On top of the delay with Energia Verde, poor wind conditions prevailed during the final quarter of the year.

Balance sheet

Our total assets increased from about DKK 420 million to more than DKK 2.2 billion.

The largest single entry is property, plant and equipment, which rose to nearly DKK 1.4 billion. This item includes wind farms in operation with a carrying amount of about DKK 445 million, calculated as cost less depreciation and impairment. This is a conservative valuation compared to the market values. For example, we recognised Energia Verde at the amount of DKK 234 million but have received an offer for the wind farm of about DKK 450 million.

Wind turbines under construction are recognised at about DKK 938 million, and there has been no indication of impairment of these assets. Total non-current assets amounted to just over DKK 1.45 billion.

Current assets also rose substantially – from DKK 47 million to almost DKK 765 million, primarily because we increased our cash resources from DKK 35 million to nearly DKK 700 million.

On the liabilities side, equity was the largest single item. Equity rose to just over DKK 1.9 billion because of last year's capital increases, especially the October share issue. We have non-current liabilities of nearly DKK 189 million – debt to credit institutions – and short-term liabilities of just over DKK 100 million, and total liabilities thus total just over DKK 294 million. In other words, equity accounted for 86.5% of liabilities at the end of the year, and this substantial solvency provides us with a strong foundation from which we can realise the promising growth potential that lies in Greentech's project pipeline.

Strategic perspectives

Let us now look ahead at the global development trends that support our strategy:

1. The climate changes are setting the political agenda all over the world, and more and more countries will actively reduce the proportion of imported fossil fuels used in their energy consumption.
2. A growing and more affluent population will lead to increasing energy consumption – even though efforts are made to save energy.
3. The EU targets for renewable energy promote wind energy although the bulk of our electricity consumption will be based on fossil fuels.
4. The harmonisation of the electricity markets in the EU will gradually align the tariffs for wind-based energy in the various countries.
5. Technological advances achieved by the wind turbine manufacturers will make wind power increasingly profitable, while fossil fuels become more and more expensive.

More specifically, this leads us to expect a very positive trend in the European wind energy market over the next ten years. We forecast average annual growth of more than 10% in installed capacity, although there will be major regional differences. Growth will be strongest in Southern and Eastern Europe, where Greentech has a strong foothold.

Wind power is set to become an increasingly competitive alternative to fossil fuels. We expect to see intensifying competition for attractive wind power projects and sites, and we also expect the markets to be dominated by the professional energy giants on the one hand and, on the other, medium-sized dedicated players such as Greentech with an integrated business model.

As previously mentioned, tariffs will be gradually aligned, but in certain periods some countries will offer highly attractive prices in order to promote wind power installation. That is the trend we are currently witnessing in Italy and which we expect to see in Poland going forward.

Strategy

Consequently, it makes good sense for us to continue focusing on Poland and Italy, which both offer satisfactory wind conditions and a recognised need to expand wind power operations and, not least, political will to back the intentions with attractive tariffs. We have gained valuable experience in these two countries and have built local organisations and relations that give us a solid foothold.

In broad terms, our strategy will be to convert our development pipeline in the two countries into power-generating wind energy plants and thereby create the foundation for achieving considerable and profitable growth. We will continue to develop projects all the way from the greenfield stage ourselves or buy projects, but in the near term we intend to ease off our pace of acquisitions compared with last year. Our primary focus will still be 25-100 MW projects, which we take in as early as possible to gain the largest possible share of the value creation.

Targets for 2008 - 2009

Our goal is for Greentech to have an installed production capacity of at least 200 MW by the end of 2008. We will accomplish that target with our ongoing construction in Sardinia and Sicily.

Looking one year ahead – at the end of 2009 – we aim to have increased our capacity to at least 400 MW. This will require a lot of hard work, but it is a realistic goal given the progress we are witnessing for our most mature projects both in Italy and Poland.

We intend to maintain a pipeline under development of at least 600-700 MW and will as a minimum install 150 MW per year. By comparison, we currently have 171 MW under construction.

In terms of financial performance, our target is to achieve a return on assets of more than 15% from wind energy plants in operation. We define the return on assets as the operating

result of the wind energy plants before depreciation and financial items, or EBITDA, relative to total capital invested.

We have also defined a goal of entering a new key market to complement our activities in Italy and Poland. It is still too early to say which market we will select, but analyses are underway.

Finally, our overall goal is of course to achieve a reasonable return for our shareholders through permanent share price appreciation.

Outlook for 2008

No more about our targets. In the near term, we expect a pre-tax profit for 2008 of about DKK 5 million. This is an indication that we are still in the build-up phase and that things are moving in the right direction.

The estimate is based on the following assumptions: Normal operations and normal wind conditions for the turbines we have commissioned in Denmark, Germany and Poland. Next, we assume that Energia Verde will contribute normal earnings for a 10-month period. Finally, we expect that the 21 turbines at the Minerva wind farm in Sicily will produce power and generate revenue in the final two months of 2008.

The estimate does not include earnings from Monte Grighine and Cagliari II in Sardinia, where construction is well underway. These projects are not expected to generate earnings until in 2009.

So much for the income side. With respect to expenses, we budget for higher financial expenses because more of our projects will be funded through project finance. Depreciation charges will also go up because our German and Italian wind turbines will be recognised for the full year. Finally, a higher level of activity and more employees will again push up our administrative expenses.

Closing remarks

A few commentators have criticised us for providing conservative financial guidance for 2008. I believe that our guidance is realistic based on the assumptions we have applied. Of course, we would like for our assumptions to change – for example that Minerva will start generating power before the beginning of November. However, we have opted only to provide the guidance that we are confident about, and if the assumptions change, we will of course update our guidance in the course of the year.

Accordingly, 2008 will not represent a giant leap in terms of financial performance. The leap will present itself in 2009 when we hope to generate DKK 370 million in additional revenue from the Minerva, Monte Grighine and Cagliari II projects, and at which time Energia Verde will be in normal operation year round. At that time, we will be running a whole different business with a much different financial position.

However, we will not have reached our goals in 2009. Greentech is a growth business. Given our current portfolio, growth will continue, and growth can continue for many years.

Also, as a result of growth, we hope to create considerable value – both in and off the balance sheet. As mentioned we currently recognise our projects in operation at a value that reflects the cost price – which is costs of development and construction – less depreciation and impairment. The market value of our projects, especially in Italy, is higher, however. The offer we received for Energia Verde of about DKK 450 million equals a price of EUR 2.85 million per MW, and that is on a level with the prices of EUR 2.8 to 2.9 million per MW seen in other transactions in Italy. Thus, a revaluation of Energia Verde to market value alone would mean an extra DKK 200 million in equity.

The off-balance sheet added value will rise once Minerva, Monte Grighine and Cagliari II are recognised in the balance sheet as wind farms in operation. Broadly speaking, the three projects may involve an added value of about DKK 1 billion provided the market conditions in Italy and demand for wind farms in operation remain unchanged. I find that it is appropriate to highlight this issue in order to provide our shareholders with a true overview of Greentech's value creation.

I would like to end my report by thanking my colleagues on the Board of Directors, the Management Board and the employees for a job well done, and thank you all for your attention.

Best regards

The Boards

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