ECOHZ

ECOHZ AS

2010 Annual Report

7 March 2011

Report from the Board of Directors 2010

1. Background and history

ECOHZ AS was founded on 8 October 2002. On foundation the company's name was Enviro Energi ASA, but the company changed its name to ECOHZ ASA in February 2007. The company changed its legal structure to a limited company (an AS) at an extraordinary general meeting on 11 October 2007.

2. The company's business

ECOHZ's business concept is to offer renewable energy with guarantees of origin to businesses and organisations in Norway and other European countries.

The continued use of fossil fuels to generate electricity is contributing to an increase in both local and global greenhouse gas emissions, and thus to global warming. Energy consumption often represents businesses' largest single contribution to greenhouse gas emissions. Electricity generated from renewable energy sources such as hydropower, solar power, wind power and biomass can play an important role in reversing this situation.

ECOHZ documents that its electricity is generated from renewable energy sources. The company's strategy is underpinned by the establishment and use of professionally documented methods and being acknowledged as "reliable, high-quality, and thorough" by the market and relevant expert bodies.

ECOHZ also guarantees that payments for electricity with guarantees of origin go to the producers, thus giving them an incentive to continue to develop and increase their production of renewable energy.

The company's aim is to be Europe's leading company within the sale of renewable energy with guarantees of origin. For ECOHZ, being a leading company means: 1) being the market leader in selected markets, 2) offering comprehensive product ranges and 3) gaining high levels of recognition among customers, NGOs and authorities. In 2010 ECOHZ managed a renewable energy portfolio of more than 36 TWh, making the company one of Europe's largest independent suppliers.

ECOHZ's portfolio includes renewable electricity generated by nearly 200 power plants, based on fixed supplier agreements with 30 power producers. Most of the power producers are based in Norway, but during 2010 ECOHZ also offered renewable electricity from power plants located in the other Nordic countries, as well as from several other countries in Europe. The portfolio comprises renewable electricity generated from hydropower, wind power and biomass. ECOHZ can offer renewable energy from environmentally certified power plants.

ECOHZ has focused on ensuring increased traceability and improved documentation in connection with the purchase of electricity with guarantees of origin, and it has established its own CleanPower product portfolio.

In partnership with DNV (Det Norske Veritas), ECOHZ has verified the company's value chain, with a focus on tracing the flow of goods and funds.

The ability to offer a wide, differentiated and well-documented product portfolio is especially important for ECOHZ.

The company's distribution strategy is primarily geared to reaching businesses through a reseller network. The company has around 60 active resellers in 12 countries, including Norway. In a parallel development, the company has established a clearer profile and increased its focus on direct communication with selected target groups.

3. Framework conditions and market development

Following unsuccessful political negotiations on binding international climate agreements, both in Copenhagen (2009) and in Cancun (2010), part of the work has been entrusted to individual countries and regions, as well as to ambitious companies and organisations. The importance of finding solutions that reduce global warming has not diminished. Within this picture, energy is key, and replacing fossil sources with clean, renewable energy sources stands out as an absolutely vital measure. In order for this to be achieved, a broad menu of solutions and instruments – both technical and financial – is needed. Renewable energy with guarantees of origin is one such instrument among many, but it is now well established and accepted among European customers and stakeholders.

The Norwegian and Swedish authorities reached an agreement in 2009 on establishing a joint support scheme, which is planned to come into operation as of 1 January 2012. The system aims to finance the production of 13–14 TWh of new renewable energy in each country by 2020. It is a precondition of the law coming into force that Norway accedes to the EU's directive on renewable energy. ECOHZ is positive to this development, but the proposed support scheme does not directly affect the market for electricity with guarantees of origin. ECOHZ follows developments closely, and is evaluating whether this represents relevant business opportunities for the company.

In 2010 the total volume of renewable power produced in Norway amounted to approx. 120 TWh, compared with 130 TWh in 2009. Of this volume, 104 TWh was certified as electricity with guarantees of origin, and 102 TWh was sold in Norway or exported.

In 2010 ECOHZ confirmed its position as leading European provider of renewable electricity with guarantees of origin. The company sold a total volume of 36 TWh.

The gap between supply and demand for electricity with guarantees of origin has decreased during the last year. This is reflected in both Norwegian and European statistics. Production and supply both levelled out in 2010. Demand continues to show a steady upward trend, resulting in increased prices towards the end of 2010. Within certain product categories and qualities there is now a balanced market.

The market for renewable electricity with guarantees of origin is maturing and becoming more differentiated. The market is increasingly demanding specialist products and qualities. Increasing differentiation is generally found to lead to a balanced market for a number of products and qualities. Customers tend to be willing to pay more when renewable production is linked to small-scale power plants, new power plants, new technology or environmentally certified power plants.

As a result of increased international trade in electricity with guarantees of origin in 2010, the Norwegian electricity mix (product declaration) continues to evolve. The Norwegian Water Resources and Energy Directorate (NVE) does not publish the 2010 residual mix for Norwegian electricity, until March/April 2011, but it is estimated that the percentage of renewable energy in electricity will fall further. The share of renewable energy in 2009 was 48%, compared with 71% in 2008 and 83% in 2007.

4. Ownership and equity information

There were no changes in the ownership structure in 2010. The company has the following shareholder structure:

Home Capital AS	50.3%	
TrønderEnergi Kraft AS	11.0%	
Troms Kraft Marked AS	8.33%	
Troms Kraft AS	2.67%	
Eidsiva Vannkraft AS	11.0%	
Ecovekst AS	16.7%	(Home Capital 1% / ECOHZ employees 99%)

5. Income statement and balance sheet

Total sales increased from NOK 60.7 million in 2009 to NOK 75.7 million in 2010. The result for the year changed only slightly, from a profit of NOK 5.4 million in 2009 to a profit of NOK 5.3 million in 2010.

At the end of the year, total assets amounted to NOK 45.3 million, compared with NOK 34.0 million twelve months previously. As of 31 December 2010 the equity ratio was 32.7%, against 28.1% as of 31 December 2009.

The board is of the opinion that the company satisfies the going concern assumption.

6. Operational risk

89% of ECOHZ's total sales are generated in foreign currency. The company's results are only subject to limited foreign exchange risk due to the fact that purchases and sales are made in the same currency, and due to fixed pricing deals with the company's suppliers and hedging by means of forward currency contract.

The company's trading activities are based on sales commissions and limited purchases for own inventories, which means that the commercial risk associated with the established processes is small.

The company's development is to a large extent contingent on possessing outstanding expertise in trading, markets and framework conditions for renewable energy and climate issues. The company did not recruit any new staff in 2010, and primarily focuses on retaining and further developing its existing expertise.

7. Research and development

In 2010 ECOHZ continued the development of a model for calculating energy-related greenhouse gas emissions/carbon footprint analyses for businesses. A charge of NOK 0.2 million has been recognised in the financial statements in 2010 in respect of this project.

8. Board and employees etc.

The board is comprised of a total of six members, one of whom is a woman. Two observers also sit on the board.

The company's Managing Director is Tom Lindberg. At the end of the year the company employed a staff of ten, including four women. The company's recruitment and salary policies are gender-neutral, and the company continually strives to promote equality and equal opportunities among its employees. New staff is recruited on the basis of individual expertise.

The company employed 10.3 full-time equivalents in 2010.

The company operates its business from leased premises in Oslo.

9. Social responsibility and HSE

ECOHZ takes social responsibility seriously, and believes there to be a clear correlation between the way a company is run and its relationship with society as a whole.

The company has an active environmental policy, which is also of importance for the company's external profile. The company does not pollute the external environment through direct emissions, but does generate indirect greenhouse gas emissions through business travel, energy consumption and waste management.

In 2010 the company continued a series of measures to map, manage and reduce its impact on the environment and the climate. In 2010 the company carried out a first-year audit of its environmental management system, based on the international standard ISO 14001. The certification was carried out by Det Norske Veritas.

As part of the environmental management system, ECOHZ has an established an environmental policy:

ECOHZ is committed to being a leading company with regard to initiating activities intended to minimise local and global environmental impact.

ECOHZ shall take special responsibility for communicating by its own actions the need for – and benefits of – carrying out commercial activities in a sustainable manner.

Sustainability shall have a key influence on all decision-making within the organisation.

Prioritising sustainability shall secure ECOHZ a long-term competitive advantage and be a motive for customers' choice of partner.

ECOHZ shall comply with, and where possible exceed, minimum requirements contained in relevant environmental legislation and regulations.

The company has defined targets and action plans covering areas including energy consumption, purchasing and consumption, waste/cleanliness and employees' business travel.

A carbon footprint analysis was drawn up for the business for 2010. The analysis was based on a life cycle analysis (LCA) and the principles of the Greenhouse Gas Protocol (GHG Protocol).

The carbon footprint analysis for 2010 has not been finalised, but provisional calculations show a level of emissions somewhat lower than the emissions in 2009, of 29 tonnes of CO_2 equivalents.

The company also purchases renewable electricity with guarantees of origin and climate credits to offset its residual emissions of greenhouse gases, and it participates in the Norwegian government's Climate Pledge campaign.

The company works actively on health, safety and environment issues (HSE). The company has defined three target areas: 1) acute illness/first aid, 2) the psychosocial environment and 3) fire safety. Regular HSE meetings are held and agreed activities are followed up.

The sickness absence rate in 2010 was 2.2%, compared with 4.6% in 2009. Of this, 0.7% was related to long-term absence.

10. Outlook

Climate problems are increasing in scope, and there is a growing recognition that more people need to take responsibility for solving climate problems. To an increasing extent, this is a question of ethical choice, but it is also an area that impacts on the competitiveness of individual businesses.

ECOHZ is favourably positioned, and it is experiencing rising demand for renewable energy.

The company is in a rapid growth phase and is suitably staffed with highly skilled employees. Consequently, the company is well positioned for a continued positive development.

11. Allocation of profit for the year

The board proposes to the annual general meeting that the profit of NOK 5,300,045 be transferred to other equity in its entirety.

Date: 7 March 2011

Bente Rathe, Chairman of the Board	Tobias Langseth
Kenneth Andersen	John Ravlo
Ove Gusevik	Stig-Morten Løken
Tom Lindberg	

Income statement for 2010

ECOHZ AS

	Note	2010	2009
Sales revenues		75 695 250	60 596 779
Other operating revenues		4 873	93 755
Total operating revenues		**75 700 123**	**60 690 534**
Cost of goods sold		(48 394 394)	(39 430 754)
Salaries and payroll costs	2, 5	(13 908 193)	(13 257 651)
Depreciation of property, plant and equipment	3	(378 592)	(224 579)
Other operating expenses	2, 6, 11	(5 085 978)	(6 046 738)
Total operating expenses		**(67 767 157)**	**(58 959 722)**
Operating profit/loss		**7 932 966**	**1 730 812**
Other finance income		704 485	145 302
Other finance cost		(1 281 434)	(1 674 830)
Profit/loss on ordinary activities before tax		**7 356 017**	**201 284**
Tax expense	8	(2 055 972)	5 155 725
Profit/loss on ordinary activities		**5 300 045**	**5 357 009**
Profit/loss for the year		**5 300 045**	**5 357 009**
Transfers			
Premium			
Other equity		5 300 045	3 544 805
Uncovered losses			1 812 204
Total		**5 300 045**	**5 357 009**

Balance sheet as of 31 December 2010
ECOHZ AS

	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets			
WEB – Homepage	3	338 349	540 992
Deferred tax assets	8	3 099 753	5 155 725
Total intangible assets		**3 438 102**	**5 696 717**
Property, plant and equipment			
Fixtures and fittings etc.	3	216 979	357 247
Total property, plant and equipment		**216 979**	**357 247**
Non-current financial assets			
Investments in shares and shareholdings		33 183	19 756
Total non-current financial assets		**33 183**	**19 756**
Total non-current assets		**3 688 264**	**6 073 720**
Current assets			
Inventories	4	**575 973**	**389 760**
Receivables			
Trade receivables	11	32 595 873	21 593 473
Other receivables		3 496 744	3 147 474
Total receivables		**36 092 617**	**24 740 947**
Cash and cash equivalents	12	**4 926 620**	**2 773 788**
Total current assets		**41 595 210**	**27 904 495**
Total assets		**45 283 474**	**33 978 215**

Balance sheet as of 31 December 2010
ECOHZ AS

	Note	2010	2009
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital (240,001 shares at NOK 25.00)	10	6 000 025	6 000 025
Total paid-in equity		**6 000 025**	**6 000 025**
Retained earnings			
Other equity		8 844 850	3 544 805
Uncovered losses		0	0
Total retained equity		**8 844 850**	**3 544 805**
Total equity	9	**14 844 875**	**9 544 830**
Liabilities			
Provisions for liabilities and charges			
Pension liabilities	5	707 146	440 830
Total provisions for liabilities and charges		**707 146**	**440 830**
Other long-term liabilities			
Subordinated loans	7	3 000 000	3 000 000
Total other long-term liabilities		**3 000 000**	**3 000 000**
Current liabilities			
Trade payables		1 479 572	2 933 816
Public charges payable		768 117	788 367
Liquidity loans	7	0	2 000 000
Other current liabilities	13	24 483 764	15 270 372
Total current liabilities		**26 731 453**	**20 992 555**
Total liabilities		**30 438 599**	**24 433 385**
Total equity and liabilities		**45 283 474**	**33 978 215**

OSLO, 7 March 2011
ECOHZ AS

Bente Rathe Board Chairman	Ove Gusevik Board member	Stig-Morten Løken Board member
Kenneth Andersen Board member	Tobias Langseth Board member	John Ravlo Board member
Tom Lindberg Managing Director		

Note disclosures for 2010

Note 1 Accounting policies

The annual financial statements have been prepared in accordance with the Norwegian Accounting Act. They have been prepared in accordance with Norwegian accounting standards and recommended good accounting practice for small businesses.

Revenue on the sale of certificates is recognised at the time of delivery. Services are recognised in income in line with performance.

Current assets and current liabilities include items that fall due for payment within one year of the time they are acquired or incurred, and items connected to goods circulation. Current assets are valued at the lower of cost and fair value. Current liabilities are recognised in the balance sheet at their nominal amount at the time they are incurred.

Balance sheet items denominated in foreign currencies are translated using the exchange rate in force at the balance sheet date.

Trade and other receivables are recognised at nominal value less provisions for expected bad debts. Provisions for bad debts are recognised on the basis of an individual assessment of the receivables concerned.

The company purchases some certificates for own inventories. These are valued at the lower of cost and net realisable value as of 31 December.

The tax expense in the income statement comprises taxes payable for the period and changes in deferred tax. Deferred tax is calculated as 28% of the basis of temporary differences that exist between the accounting and tax written-down values, and tax loss carryforwards at the end of the accounting year. Tax-reducing and tax-increasing temporary differences that reverse or could reverse in the same period are offset. Net deferred tax assets are recognised in the balance sheet where it is probable that these can be utilised.

Pension expenses and liabilities are calculated using the linear earnings method based on expected final salaries using a series of assumptions, including those relating to the discount rate, future salary adjustments, pensions and payments from the Norwegian national insurance scheme, the future return on pension assets and actuarial assumptions on mortality and voluntary departures. Pension assets are valued in the balance sheet at fair value less net pension liabilities. Changes in liabilities attributable to changes in pension plans are allocated over the expected residual vesting period. Changes in liabilities and pension assets attributable to changes and deviations in calculation assumptions are allocated over the expected average residual vesting period, if the deviations at the start of the year exceed 10% of the larger of gross pension liabilities and pension assets.

The accounting policies are discussed in further detail in the associated notes to the individual accounting items.

Note 2 Salaries, number of employees, remuneration, employee loans, etc.

Salaries and payroll costs	2010	2009
Remuneration, holiday pay and board fees	10,853,036	10,358,505
Employer's national insurance contributions	1,678,882	1,693,007
Pension expenses	1,155,542	1,047,673
Other benefits	220,733	158,466
Total	**13,908,193**	**13,257,652**
Number of full-time equivalents	10.3	11.5

Salaries and remuneration paid to the Managing Director
The Managing Director received a salary of NOK 1,548,364 and other remuneration of NOK 8,600.

The Managing Director is covered by the company's pension scheme and estimated pension premiums paid on his behalf in 2010 amounted to NOK 75,594.

Remuneration paid to the board
Board fees totalled NOK 435,000.

Auditors
Auditors' fees comprised the following:

Statutory auditing	78,000
Other non-auditing services	6,000
Total auditors' fees	**84,000**

Employee loans
No loans have been extended to and no security has been pledged on behalf of employees, the Managing Director, Board Chairman, board members or other related parties.

The Managing Director has the right to severance pay equal to one year's basic salary should the board deem it necessary to terminate his employment relationship.

All employees have a bonus agreement. Bonuses are calculated based on a percentage of basic salary and are partly linked to the company's operating result and partly to target achievement in line with the company's strategies, action plans and objectives. Based on achieved results and other targets, an amount of NOK 2,558,122 has been provided for bonuses for the 2010 accounting year (including social security costs).

Note 3 Operating assets

Operating assets	Intangible assets	Fixtures and fittings	Total non-current assets
Cost 1 Jan 2010	608,540	673,634	1,282,174
Additions, purchased operating assets		35,680	35,680
Cost 31 Dec 2010	**608,540**	**709,314**	**1,317,854**
Cumulative depreciation, amortisation and impairments 31 Dec 2010	270,191	492,335	762,526
Book value as of 31 Dec 2010	**338,349**	**216,979**	**555,328**
Depreciation, amortisation and impairments for the year	202,644	175,948	378,592
Useful economic life	3 years	3–5 years	3–5 years
Depreciation/amortisation method	Straight-line	Straight-line	Straight-line

Note 4 Inventories

The company purchases certificates for its own inventories. These are valued at the lower of cost and net realisable value as of 31 December.

These certificates must be redeemed before they mature. The maturity terms can differ by country. There is not deemed to be any obsolescence in the inventories, as the certificates are expected to be sold before they mature.

Note 5 Pension expenses, assets and obligations

The company is obliged to operate an occupational pension scheme in accordance with the Norwegian Act on Mandatory Occupational Pension Schemes. The company's pension schemes satisfy the requirements laid down in this legislation. A total of ten employees are covered by the pension schemes. The schemes grant the right to defined future benefits. The liabilities are covered through an insurance company.

	2010	**2009**
Present value of accrued pension entitlements for the year	1,319,671	904,821
Interest expense on pension liabilities	390,216	294,163
Yield on pension assets	-272,861	-213,955
Estimate changes recognised in income statement	81,670	17,094
Administration expenses	52,006	44,705
Employer's national insurance contributions on net pension expenses including administration expense	209,954	145,192
Planned changes recognised in income statement	-503,338	0
Net pension expense including employer's national insurance contributions	1,277,318	1,192,020

Accrued pension liabilities	8,122,067	5,365,941
Estimated effect of future salary adjustments		
Estimated pension liabilities	8,122,067	5,365,941
Pension assets (market value)	-4,946,466	-4,404,636
Estimate deviations not recognised in the income statement	-2,555,841	-574,951
Employer's national insurance contributions	87,386	135,544
Emp. nat. ins. contr. on estimate deviations not recognised in the income statement	0	-81,068
Net pension liabilities incl. employer's national insurance contributions	707,146	440,830

Economic assumptions:	**2010**	**2009**
Discount rate	4.00%	5.80%
Expected salary growth	4.00%	4.00%
Expected adjustment to National Insurance Scheme's Basic Amount (G)/pension adjustment	3.75%	3.75%
Expected yield on pension assets	4.60%	5.80%

Note 6 Leases

The company leases offices. The total lease cost for 2010 amounted to NOK 875,755.

Note 7 Subordinated loans/Liquidity loans

Subordinated loan

The company has a subordinated loan of NOK 3,000,000. The entire loan matures on 1 July 2011. The interest rate on the loan is three months' NIBOR + 3.0%. No security has been pledged. The loan can be converted into shares. Part or the entire loan, can be converted to shares in the period 1 May 2011 to 31 May 2011. Conversion can also be effected separately by each individual lender. The company's board has been authorised to establish a final subscription rate on conversion. However, the subscription rate cannot be lower than NOK 100 per share.

Liquidity loans

In 2009 the company entered into a loan agreement with its shareholders under which a total liquidity loan of NOK 4,000,000 could be drawn down in two tranches of NOK 2,000,000 each. The entire loan matured on 31 December 2010. The interest rate on the loan was three months' NIBOR + 3.0%. No security was pledged for the loan. In 2009 the company drew down one tranche of the loan commitment. The loan was repaid in its entirety on 31 December 2010.

Note 8: Taxes

Taxes are recognised as expenses as they are incurred; i.e. the tax expense is based on the accounting result before tax. The tax expense comprises taxes payable (tax on the year's taxable income) and changes in net deferred tax. The tax expense is allocated to the ordinary result and the result of extraordinary items in accordance with the tax basis.

Tax payable for the year comprises the following:

Profit on ordinary activities before tax	7,356,017
Permanent differences	-20,848
Change in temporary differences	333,539
Tax payable basis, loss for the year	7,668,708
Change in tax loss carryforwards	-7,668,708
Tax payable basis	0
Tax payable 28%	0

Breakdown of deferred tax basis

	2010	2009
Differences that cannot be offset		
Non-current assets	-92,221	-24,998
Current assets	0	0
Pension liabilities	-707,146	-440,830
Tax loss carryforward	-10,271,179	-17,947,474
Total	-11,070,546	-18,413,302
Deferred tax assets	-3,099,753	-5,155,725

It is likely on the balance of probabilities that the company will be able to realise its deferred tax assets against positive earnings in the coming years. The deferred tax asset has therefore been recognised in the balance sheet.

Note 9 Equity

	Share capital	Premium	Other equity	Total
Equity as of 31 Dec 2009	6,000,025	0	3,544,805	9,544,830
Profit for the year			5,300,045	5,300,045
Equity as of 31 Dec 2010	6,000,025	0	8,844,850	14,844,875

Note 10 Share capital and shareholder information

Ownership structure

ECOHZ AS shareholders as of 31 Dec 2010 were as follows:

	Number of shares	Shareholding	Voting rights
Home Capital AS	120,801	50.3%	50.3%
Ecovekst AS	40,000	16.7%	16.7%
Eidsiva Vannkraft AS	26,400	11.0%	11.0%
TrønderEnergi Kraft AS	26,400	11.0%	11.0%
Troms Kraft Marked AS	20,000	8.3%	8.3%
Troms Kraft AS	6,400	2.7%	2.7%
Total number of shares	240,001	100%	100%

The company has one share category and all shares confer equal voting rights. The Managing Director indirectly owns 8,000 shares in the company through his 20% shareholding in Ecovekst.

Note 11 Trade receivables

The company experiences high seasonal sales variations. In 2010 over 45% of operating revenues were invoiced after 1 December. The company did not experience any bad debts on its receivables in 2010.

Note 12 Restricted funds

Restricted funds comprise tax deductions in the amount of NOK 542,208, rental deposits of NOK 548,384 and bank guarantee deposits pledged for customers of NOK 96,701.

Note 13 Other current liabilities

The cost of goods sold from the company's partners for the fourth quarter is not finally calculated until January the following year. Consequently, a provision of NOK 16,787,219 was recognised for cost of goods sold as of 31 December 2010.