

Profile



PROMETHEUS
ETHICAL FINANCE

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A modest step toward a Sustainable Future

One of the key objectives for Prometheus Ethical Finance is to provide loans for projects that either directly enhance our natural environment or otherwise support a transition in our society and our economy toward a sustainable future. For too long now our society has focused on short-term benefits with little appreciation of the necessity for a longer-term "generational" view, where the dependence of human society on a healthy natural environment is understood and appreciated.

At this time in the early 21st century, reflecting on sustainability forces one's thoughts towards the heavy energy-dependence of the world's major economies and the impacts and insecurities that exposes us to. It is now increasingly accepted by the majority of climate scientists that human-generated increases in greenhouse gas levels are leading to global warming and are projected to result in potentially very destructive climate change. Perhaps less well recognised is the growing agreement among energy experts that the time is fast approaching when demand for oil will outstrip available supply and lead to significant increases in the price of oil. That outcome could lead to a potentially dramatic downturn in the world economy with significant impacts on 'western' living standards.

The magnitude of these potential negative impacts will continue to grow the longer we stay on our present course of fossil-fuel dependence. To move toward a sustainable future we must wholeheartedly explore and embrace renewable energy technologies that will allow us to avert both the potential collapse in living standards and the potential environmental and economic destruction threatened by the above factors.

Solar Water Heating Grant Scheme

In view of these prospects, Prometheus has long been committed to lending for renewable energy projects and technologies. We were, therefore, very pleased to have been given the opportunity to again be a part of the Energy Efficiency and Conservation Authority's (EECA) efforts to promote the uptake of solar water heating by New Zealand homeowners.

The latest form of their solar promotion efforts, the EnergyWise Solar Water Heating Grants Scheme, was discussed in detail in the April 2004 edition of this newsletter. That scheme was introduced at the start of the year and is intended to encourage the installation of this renewable energy technology. It is hoped that this EECA scheme will advance the Solar Industry Association's goal of increasing the number of solar installations from the current 2,000 per annum toward their medium-term target of 10,000 per annum. This is still only a very modest proportion of the 70,000 new water heating systems installed each year.

LATEST NEWS

There has been such a strong demand for solar water heating loans under the latest EECA scheme that we have decided to extend our high-interest (6.5%) EnergyWise Term Investment Account into next year.

The EnergyWise term account, which was launched in April this year, has attracted a steady inflow of funds over the past six months. That inflow, together with surplus funds outstanding at the start of the year, has enabled the financing of a projected total of \$1.1 million in solar water heating loans under the current scheme. However, that high volume of loans has reduced our surplus funds significantly and in order to replenish those we have decided to extend the offer period for our EnergyWise term account on the same conditions as have applied to date.

energywise
TERM ACCOUNT 6.5% p.a.

Secured term investment

Three year fixed rate

Supporting solar water heating installations



People who take out a loan to purchase a solar water heater from any participating Solar Industries Association (SIA) supplier were eligible for a \$450 grant. That grant funding is being used by suppliers, often together with a supplier subsidy element, to offer low interest or interest-free loans to purchasers.

In this latest round of the scheme Prometheus has been providing finance for the majority of the SIA suppliers participating in this scheme, including Synergex Systems NZ Ltd, Sensible Heat Ltd, SUNZ Ltd, Solar Energy Solutions Ltd and Negawatt Resources Ltd. Prometheus has had extensive experience with the precursors to this scheme, though this has been solely in the provision of finance to Synergex Systems. We have welcomed the opportunity to be involved in this extension of the EECA grant scheme making it available to a broader range of SIA suppliers.

The current version of the scheme has proven as popular with homeowners as its precursors. Prometheus has received 250 loan applications under this scheme with over \$600,000 in loans already disbursed and a projected total of close to \$1.1 million by the time all the approved loans are finalised.

To finance these loans we launched our new Energy-Wise Term Investment Account in April of this year. This is a 3 year high interest (6.5%) investment account. This new account has attracted a steady response over the past six months and has allowed Prometheus to comfortably finance the EECA scheme loans while maintaining sufficient surplus funds for other loan projects.

Organic Career

As readers will have noted from this edition of Profile, we continue to receive a steady stream of loan applications from organic growers. Another of these applications in the past six months was from Nathan Davis who is in the early stages of a career in organic growing. After finishing secondary school Nathan completed a one-year certificate in Organic Growing at Christchurch Polytechnic and then went on to a position working on a well established organic property.

The experience he gained there has proven invaluable in his current position where he has been employed for the last 2 years managing a 14 acre property in Otago on behalf of owners who are overseas. When he arrived on the property it was being run as a conventional market garden.

Since then Nathan has been developing it into an organic system and has achieved C1 certification with OrganicFarmNZ (OFNZ), an early stage in the transition process

He has planned and planted the whole property and has established a fruiting orchard, a large greenhouse, substantial vegetable plots and developed a large raspberry block. When he applied for the loan with us he was in the middle of planting a 1000 tree hazelnut orchard (2.5 ha) and a 1 ha medicinal/culinary herb area.

In the course of managing this property Nathan has established good relationships with local organic retailers and restaurants who buy the majority of the available produce. The relationships he has built here allow him to grow produce according to their requirements.

Northland Resource Recovery

We reported in our October 2003 Profile about a new loan to establish a Northland waste recovery and recycling operation, Clean Stream Northland. That operation was established as a joint venture between Community Business and Employment Centre Co-op Ltd, a community-owned company, and local iwi organisation Te Runanga O Te Rarawa.

Clean Stream Northland (CSN) had been successful early last year in its tender application to the Far North District Council (FNDC) for the Northern Area waste management contract. This was the first time that a waste management contract for the Northern Area had been awarded in favour of a tender which had resource recovery and waste minimisation as central components of its proposal.

However, that successful tender was very much a trial process as it was only for a one-year contract with the FNDC. A new tender process was, consequently, initiated earlier this year for a more standard three-year contract to follow the expiry of the existing one.

The key to the outcome of that new tender was always going to be CSN's performance over their one-year contract. CSN not only met FNDC's targets and expectations but significantly exceeded them in many areas. In particular, the target set for resource recovery from the waste stream had been 50% - they achieved 65% recovery. The contract required that they extend the provision of recycling facilities from one to four of the twelve transfer stations in the region - they extended that provision to ten of them. In addition, they exceeded FNDC's expectations with regard to revenue collection for user pays services and were very successful with their waste reduction community education programme.

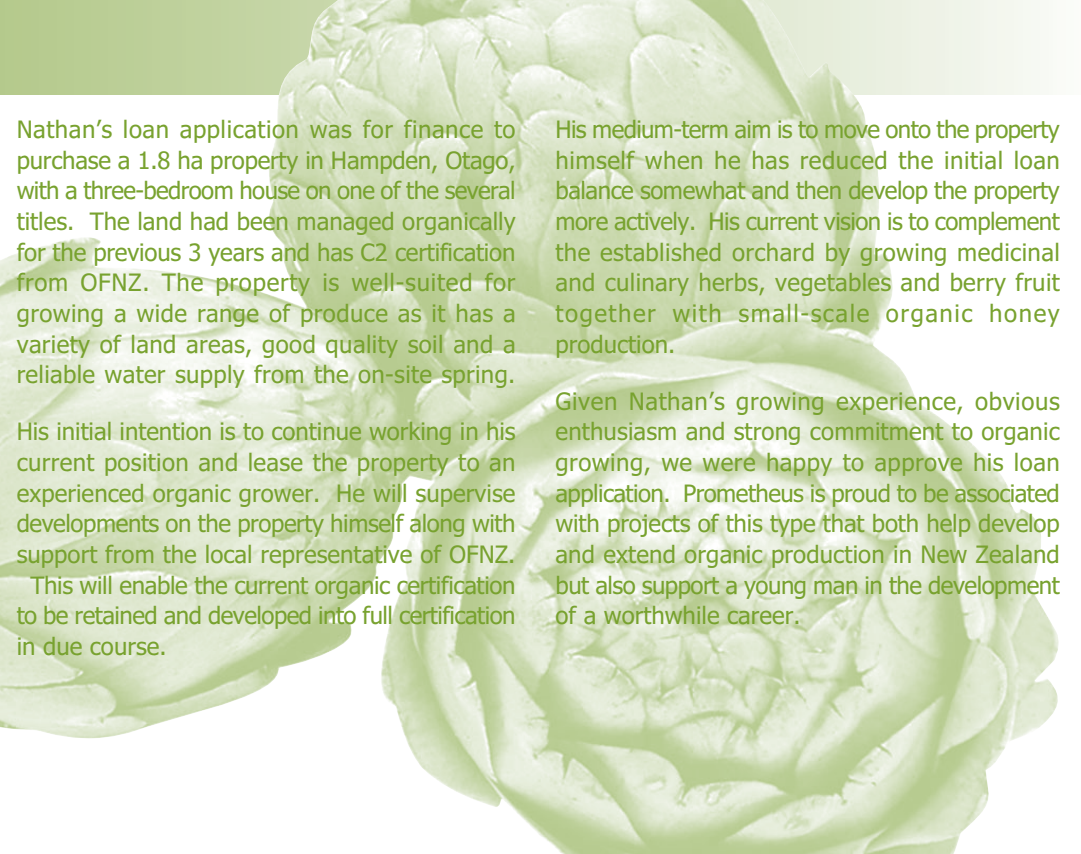
The key benefit of these outcomes for the FNDC is the resultant reduction in waste to landfill. This is a particularly significant issue in Northland with the proposed closure of the existing landfill at Ahipara within the next few years. The lack of a suitable alternative local site had highlighted the waste management issue strongly, given the projected costs to FNDC of transporting waste to landfills outside the region.

Windpower - A Sound Solution

We reported a further loan to Geoff Henderson, CEO of Windflow Technology Ltd. (WTL), in our October 2003 edition of 'Profile'. That loan was for a range of purposes including to enable Geoff to purchase a portion of shares in the 'rights issue' of Windflow shares at that time and to allow the fencing and covenanting of a section of bush on the proposed Te Rere Hau windfarm site in the ranges between Woodville and Palmerston North.

At that time Windflow had just succeeded in commissioning its first Windflow 500 turbine at Gebbies Pass outside Christchurch. However, neighbouring residents in Gebbies and McQueens Valleys had experienced some problems with noise from the turbine. This was of considerable concern to the company as they were expecting the turbine to outperform the industry standard on sound levels as well as the usual measures of performance and efficiency.





Nathan's loan application was for finance to purchase a 1.8 ha property in Hampden, Otago, with a three-bedroom house on one of the several titles. The land had been managed organically for the previous 3 years and has C2 certification from OFNZ. The property is well-suited for growing a wide range of produce as it has a variety of land areas, good quality soil and a reliable water supply from the on-site spring.

His medium-term aim is to move onto the property himself when he has reduced the initial loan balance somewhat and then develop the property more actively. His current vision is to complement the established orchard by growing medicinal and culinary herbs, vegetables and berry fruit together with small-scale organic honey production.

Given Nathan's growing experience, obvious enthusiasm and strong commitment to organic growing, we were happy to approve his loan application. Prometheus is proud to be associated with projects of this type that both help develop and extend organic production in New Zealand but also support a young man in the development of a worthwhile career.

His initial intention is to continue working in his current position and lease the property to an experienced organic grower. He will supervise developments on the property himself along with support from the local representative of OFNZ.

This will enable the current organic certification to be retained and developed into full certification in due course.

passionately in resource recovery and waste minimisation. It is not 'just a business' to the two joint venture partners. In a normal business model one might think that exceeding one's contract obligations too well would simply 'raise the bar' for future contract rounds and reduce profit opportunities. However, CSN's motivation is clearly to achieve the waste-minimisation and employment objectives they hold and while making a healthy profit is important it is not the highest or only priority.

This focus was reflected in CSN's new tender where they have reaffirmed their commitment to work to achieve FDNC's target of zero waste to landfill. They have also proposed an extension to the range of recyclables collected at the transfer stations to include a range of building and other materials not hitherto recycled. Their other core commitment is to maximise employment opportunities by researching and developing industries based around the recovered materials

Given their good performance with the first contract and the objectives proposed in their new tender CSN was successful in winning the waste management contract for the next three years for this region. This new contract is not only framed over a longer time period than the previous one but is also considerably broader in scope. The contract includes not only the management of the transfer stations and the recycling operations that CSN has established, but also all the waste collection and transportation throughout the Northern Area.



As a result Clean Stream Northland approached Prometheus earlier this year for a significant loan to purchase the additional plant and machinery needed for this expanded operation. We were impressed with CSN's performance in their first year of managing waste recovery in this region and were pleased to see that they exhibited the same good standards of operational and financial management as their sister venture, Clean Stream Waiheke. Consequently, we were more than content to approve this new loan and pleased to be able to further develop our relationship with this forward-thinking organisation with its 'not-for-profit-only' approach to business.

Gearbox vibration was identified as the main noise source and after extensive investigation it was found that the tone was being amplified by the low speed shaft and then propagated by the blades. The result was a single monotonous note (apparently an E flat above middle C) which carried rather effectively in the uniquely quiet environment of the McQueens Valley.

After substantial engineering work the gearbox and shaft vibration are reported to have been eliminated, resulting in a 7 decibel reduction in sound levels with just the 'swish' of the blades remaining. The company is understandably very pleased with this outcome, not just because it eliminates the problem for their immediate neighbours but because it has achieved their goal of outperforming the industry standard in this respect as well, thus supporting their aim of producing the world's best wind turbine.



Awaawaroa Bay Eco-Village

This eco-village started in 1994 with the purchase of 420 acres of land in Awaawaroa Bay on the southern coastline of Waiheke Island. Over the past decade the eco-village has been developed around a vision of living in harmony with the land, conserving and enhancing its ecosystems, adopting organic and sustainable land management practises and establishing a community based on co-operation that aims for consensus decision-making.

Prometheus has made loans to members of the eco-village over the years for a variety of purposes, although until recently most of these loans had been relatively small as arranging adequate security had proven to be a limiting factor.

This restriction derives from Awaawaroa's legal structure which is quite different from the majority of eco-villages. The land that the eco-village is situated on is owned by Awaawaroa Bay Ltd (ABL), a company which members of the community buy into as shareholders which entitles them to a plot of land to build on and a range of other rights as shareholders and residents.

The key disadvantage with this structure is that it does not allow for the provision of mortgages over individual titles for loan security purposes. Fortunately, as a result of considerable discussion with ABL's shareholders and their solicitor we were able to find a way forward. This required a few amendments to the company's constitution which then enabled Prometheus to use an individual's share in the company as a registerable security, much akin to a standard mortgage over land and buildings.

The next stage of development is the production of the first turbines for the windfarm site at Te Rere Hau. Building is planned to start on that site this summer and will be managed by NZ Windfarms Ltd, currently a wholly owned subsidiary of WTL but due to be separated shortly from its parent company.

Prometheus News

As a result of the restructuring of Prometheus on 31 March this year all financial results reported in this newsletter from now on will be consolidated results for The Prometheus Foundation and its wholly owned subsidiary Prometheus Finance Ltd.

Financial results

Consolidated figures over the financial year to date show a largely unchanged balance sheet position and a continuing strong financial performance. Total lending is expected to be around \$6.2 million at the end of the September quarter, a similar level to that seen six months ago. This lack of apparent change, disguised some significant movements within the loan portfolio - several large loans were repaid and these funds were then used to finance EnergyWise solar water heating loans and a range of other new loan projects as reported in this newsletter.

Total deposits, at \$7.8 million, are also largely unchanged since end March, although that fact also disguises the underlying story. Deposits actually fell steadily in the June quarter due to large withdrawals to facilitate property purchases. Over the September quarter, as interest rates have increased and the property market has slowed, total deposits started to increase again, particularly due to an inflow of funds into our new EnergyWise Term Investment accounts.

Against this background of relatively stable balance sheet totals Prometheus has been experiencing an improving net operating surplus. This has largely been expected as while there are some residual restructuring costs these are significantly less than last year. Furthermore, the shift in the loan portfolio toward EnergyWise loans has improved our interest margin over the past six months.

As a result, Prometheus is currently on track to realise a net operating surplus somewhat better than the \$50,000 result projected at the start of this financial year.

Outlook

Our key challenge at present is to return to the sort of steady growth in deposits that Prometheus experienced over 1999 - 2002. We expect this to be helped by the current softening in the residential property market and recent increases in interest rates which is expected to attract investors back into fixed-interest investments. The new longer-term high-interest EnergyWise Term Investment account is starting to attract new investors to Prometheus. We are currently looking at expanding the range of accounts we offer in regard to both term of investment and interest rates offered.

Our strategy remains to raise awareness of Prometheus' ethical investment offerings across a wider spectrum of investors in New Zealand. There are a number of factors working strongly in our favour in this regard, namely energy security and supply issues, climate change concerns and a resultant awakening to our society's dependence on environmental sustainability.

The net result of all these factors is a growing awareness about and acceptance of the need for a significant shift toward renewable energy sources and technologies. Prometheus will continue to be involved in facilitating projects and businesses that lead the way toward a sustainable future. However, for Prometheus to play the role it has set for itself requires the involvement of all those associated with us, both as direct investors and as informal promoters of ethical finance. It is only through strong and steady growth in deposits and investments that we will be enabled to finance the growing range of projects that we expect to be needed throughout New Zealand over the coming decade.

"To become the leading supplier of wind turbines for wind power projects in New Zealand and Australia"..

For further information
see the company website www.windflow.co.nz.

Our first loan using this new capability was at the end of last year in response to an application from prospective shareholders Aran Knight and Heike Sonnenschein. They required finance to purchase a share in Awaawaroa Bay Ltd from a previous Prometheus borrower, Karen Henke. There were several interested buyers when Karen decided to leave Waiheke and sell her share in the company along with the house which was attached to that share as an 'improvement'. The community was particularly interested in accepting Aran and Heike into the eco-village, in part for their mix of practical skills and experience in winemaking, viticulture and engineering.

With the recommended changes to the company's constitution having been adopted and registered we were able to provide the necessary loan finance with a mix of primary security over their shareholding in Awaawaroa Bay Ltd and a second mortgage over Aryan's mother's house elsewhere on Waiheke. Although it had taken some time for the constitutional changes to be actioned by the solicitor it finally paid off when we were in a good position to secure this loan.

Our second loan under this capability was made earlier this year to Ian Upton, another shareholder in this eco-village. In Ian's loan application he displayed an interesting variety of jobs, testifying to his involvement with the community at large on Waiheke. Ian initially bought his share using a bank loan with the support of friends providing security for that loan by way of a mortgage over a property of theirs. A change in their circumstances recently led to them asking Ian if he would be able to refinance his loan so that that mortgage claim could be discharged. We were pleased to be in the position to be able to help with that and happy to support another member of this community.

There will be a capital raising process this summer to finance that building program and investors will have an opportunity to buy shares in this newly independent company. NZ Windfarms has entered into a preferred supplier agreement with WTL to use the Windflow 500 turbine to develop this 104 turbine, 52 MW renewable energy project. This will be a key step on the road to proving this technology and achieving WLT's mission statement:

Forest Restoration & Heirloom Permaculture

In March of this year we received an application from Dean Baigent-Mercer for finance to purchase a block of land in the Far North to pursue his interest in native forest restoration and permaculture development. Dean has had a long-standing interest in conservation of New Zealand's native environment. This is amply demonstrated by his direct involvement over the past decade in rainforest restoration and preservation of threatened plant species and his work as a freelance and staff conservation writer for Forest and Bird. He is currently employed as communications officer for Greenpeace NZ.

In his application Dean explained that he had held "an evolving dream" for at least 10 years to put the plan outlined below into action. It has taken him that long to find a block of land with a mix of native forest, orchard space and a



Dean's northern idyll

good stream running through it that is at the same time affordable. Dean has actively campaigned on many environmental issues in New Zealand over the last decade but had realised a need to balance those intense political activities in a way that allows him to put his ecological values into practise in a more hands-on way.

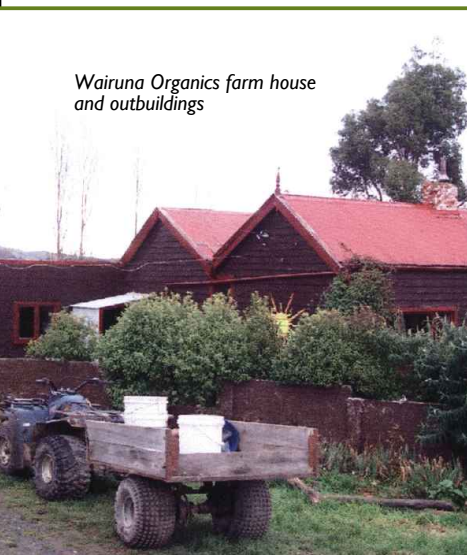
The block of land that had caught Dean's attention was inland from Kaeo and included 21 ha of native forest and 3.7 ha of north-facing rolling farmland. The native forest had been logged for Kauri 80 years ago but much of it is still intact and relatively healthy. The canopy consists of northern rata, taraire and puriri - some of which appear to be over 300 years old.

Dean reports that the forest is too healthy to have goats or pigs and that DoC has culled nearly all the wild deer in Northland. However, there is little control of other pests and so he plans to trap possums, rodents and mustelids. He also plans to consult with DoC ecologists about the possibility of reintroducing some at-risk plant species into the forest. The forest has a resident population of regionally endangered kukupa (kereru) and Dean sees it as a potential habitat for the threatened North Island brown kiwi.

His plan for the 3.7 ha of currently cattle-grazed farmland is to gradually convert it into growing organic fruit and vegetables using permaculture principles. In particular, he is keen to plant an orchard of heritage fruit trees (subtropical orchard and pip fruit) and use heirloom vegetable varieties in the garden. Dean's intention is to continue on in his current employment while gradually developing the property so that he is not under any pressure to generate income from the property to cover his loan repayments.

We thoroughly endorse Dean's ambitions with regard to this block of land and were very pleased to receive and approve his loan application. We wish him every success with his plans and hope that he has many willing friends and colleagues to help him with the planting and pest control work.

Wairuna Organics farm house and outbuildings



Wairuna Organics

Prometheus was first approached by Pia Dickhaut and Sean McVicker in mid-2001 when they needed finance to purchase equipment for an organic farm they were developing in Clinton, Otago.

The farm covers 3.5 ha and produces a wide variety of organic vegetables, including quite a wide range of exotic vegetable varieties, and a limited range of fruit. Pia and Sean have been selling their organic produce principally in Dunedin for the past four years though of late they have started to receive enquiries in regard to supplying Gore and Invercargill as well.

They have established a website advertising the farm that is aimed at attracting wwoofers and backpackers to come and stay. The former are a welcome support for the farm work while the latter are a welcome additional source of income. Pia and Sean offer an attractively fitted-out housetruck as accommodation for their backpacking guests and feel that for adventurous travellers they offer quite a unique experience. In addition to the rural setting, guests (and wwoofers of course) get to sample a wide range of organic farm produce, can learn leadlighting and pottery in the farm workshops and can explore the other attractions of this part of Otago.

Eco-building and Re-forestation

Prometheus received a loan enquiry late last year from conservationists Michael North and Keryn Squires who had long held a dream of establishing a native forest restoration project whilst living sustainably on the land. They both have an excellent background for such an endeavour, with strong educational qualifications and considerable work experience in conservation and environmental management. Michael is currently working for the Department of Conservation and Keryn is working in environmental education for the Nelson Environment Centre.

The first step in putting their dream into action was the purchase of a 1.7ha block of land in Todd Valley, Nelson, in September 2002. They had particular interest in this land as it had a significant remnant of podocarp-broadleaved native forest which harboured 67 native plant species and was bisected by a pristine stream. Much time has since been spent grubbing out banana passion vine and old man's beard. A tree nursery is being developed and part of the property is in the process of being covenanted with the QEII Trust.

Their next step was to start planning towards building an eco-house that would have minimal impact on the environment. They engaged Richard Walker (Earth Building Association of NZ) as engineer and designer on the project and made their first approach to Prometheus to enquire about the possibility of loan finance. They also contracted a reputable local builder to work with Michael on the house construction.



Michael & Keryn

The house incorporates passive solar design and eco-friendly building materials, with earthen tile floor and mud brick construction. The mud bricks will be made using local clays and with the help of local company Solid Earth. The roof will be supported by hardwood poles (recycled jarra electricity poles) and some internal walls may use 'cordwood' construction (see issue 27 of Profile). The roof itself will be corrugated iron for ease of rainwater collection and there will be a grey water conservation system. A council-approved woodfired oven with wetback will be installed along with a solar water heating system.

Michael and Keryn aim to develop sustainable living practices on the land. The revegetation project will be organic, they are planting with native birdlife in mind and planning to adopt permaculture design for the proposed orchard and garden. They are also planning crops for microclimates (frost free areas), and beehives for pollination. Their aim is to create a

vision of sustainable living for visiting 'Wwoofers', 'Sustainable Household Workshop Tours' and 'Ecobuilding Tours'.

The detail and thoroughness of the information provided in their application was impressive. After following our standard procedure of requesting an independent evaluation

of the budget for this building project from the consulting engineer, Prometheus was very pleased to approve this loan and support the realisation of Michael and Keryn's fabulous vision.

With the establishment of the OrganicFarmNZ certification scheme for small organic producers, Pia and Sean were able to apply for registration and have received full organic certification for the farm under their trading name Wairuna Organics.

Throughout the development of the farm the land had been owned by a family trust and Pia and Sean had an arrangement with the trust to purchase the property outright. They had been doing that in stages as they built up the business. Earlier this year they felt the business had developed sufficiently to support a formal loan to pay off the remainder due on the property. They then approached us for a loan for that purpose and also to allow them to buy plastic covers for a further three tunnel houses which would then give them 1000 m2 under cover.

Given the history Prometheus has with Pia and Sean we were pleased to be able to help them complete the purchase of the farm and also further expand its ability to meet the growing demand they are experiencing for organic produce in the deep south.



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Investors may obtain from our office a free copy of our investment statement and our registered prospectus.