EQUITY DEVELOPMENT
Objective Effective Regulated

8 April 2010

# Renewable Energy Holdings

## FOCUS ON WIND ENERGY

***Renewable Energy Holdings, REH, is the AIM quoted investor and operator of European wind farms.***

- REH has responded to the harsh financial market conditions that prevailed throughout its last financial year to 31 December 2009 by focussing on its wind energy assets in Germany, Poland and Wales. In addition to the focus on wind energy, REH is emphasising the active management of its assets to secure enhanced returns.
- During the course of the year REH sold CETO to Carnegie Wave Energy, removing the obligation to fund development of CETO, and initiated the disposal of Bryn Posteg, the Welsh landfill site, which saw completion post year end.
- REH is CWE's largest shareholder, with a holding of around 30% which allows REH's continued participation in CETO.
- Although the German wind regime was significantly below average in the first half of 2009, it also became apparent that while the three German windfarms were geographically close, Kesfeld II (20.7 MW capacity) has continually underperformed the other two, and its sale is now being sought.
- REH acquired Gamar GHL, a Polish windfarm development company fully permitted to build a 30 MW windfarm in Poland. The adverse capital markets have led to a delay in the Polish project, and construction is now expected to commence towards the end of 2010, with the site becoming operational towards the end of 2011.
- The Welsh windfarm project is about three years away from becoming operational, and REH is seeking to enter a joint development agreement which would considerably ease the financing burden of this project.

**REH's share is trading at a considerable discount to its fair value. The benefits of the recent rationalisation and strategic focussing on European wind energy should become apparent in the next few quarters, and we would expect the discount to narrow with news flow**.

**Please refer to the important disclosure shown on the back cover**

### Company Details

| | |
|---|---|
| Share price p | 17 |
| 52 week High/Low p | 37/16.5 |
| Issued share cap m | 69.6 |
| NAV / share p | 47.7 |
| Market cap £m | 11.8 |

All our research is available at www.equitydevelopment.co.uk


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# PRELIMINARY RESULTS

The year to 31 December 2009 for REH was marked by the impact of weak capital markets, and wind speeds in Germany significantly below the 20 year index. In common with the sector, REH has suffered from the drastically reduced funding made available which has led to a wide range of renewable projects stalling. In REH's case this will result in a significant lengthening of the Polish wind farm project.

Following a strategy review, REH is now focussing on European wind farms, and completed the disposal of Bryn Posteg, its Welsh landfill gas asset, following the year end, having sold CETO Wave Technology to Carnegie Wave Energy in an advantageous transaction during the year (May 2009).

REH's operating assets now comprise the 40.5MW of wind assets (three sites) in Germany, and it has a 30% shareholding in Carnegie Wave Energy, listed on the Australian Stock Exchange. This stake was valued at £15.8m on 1 April 2010.

Breaking down the results:

| Income Statement, £ | | |
|---|---|---|
| | 12 months to Dec 31 | 12 months to Dec 31 |
| | 2008 | 2009 |
| Revenue | 4,798,279 | 8,406,103 |
| Cost of sales | -748,287 | -990,013 |
| Gross profit | 4,049,992 | 7,416,090 |
| Other operating income | 59,220 | 282,501 |
| Administrative expenses | -5,098,099 | -5,801,100 |
| Profit/(loss) from operations | -988,887 | 1,897,491 |
| Profit on disposal of intangible assets | | 11,110,597 |
| Finance costs | -1,215,389 | -1,605,164 |
| Finance income | 288,207 | 77,568 |
| Share of losses in associates | -195,660 | -322,409 |
| Profit/(loss) before tax | -2,111,729 | 11,158,083 |
| Tax expense | 86,710 | -1,015,767 |
| Profit/( loss) from continuing operations | -2,025,019 | 10,142,316 |
| Net profit on discontinued operations | 121,794 | 149,617 |
| Profit for the year | -1,903,225 | 10,291,933 |
| Basic and diluted EPS, p | -2.91 | 15.3 |
| EPS continuing operations | -3.1 | 15.08 |

*Source: Company*

The release of deferred revenue (£3.9m) from the CETO transaction augmented the lower revenue from the German wind assets, which generated 4% less power in 2009 than in 2008 as a result of the unusually poor wind regime that impacted the first half of the year. Including discontinued operations, revenues for the year stood at £8.94m (£5.31m in 2008), with pre-tax profit of £11.2m against a loss of £2.11m in the previous year. REH ended the year with £2.3m cash (£6.5m in 2008), and net debt of £27.4m (£25.6m).

The disposal of the Welsh landfill activity in the current year realised a profit of £300k, which could rise to £800k if performance conditions are met over the next two years.

## STRATEGY

REH is focusing on on-shore wind. Currently operating 40.5MW in Germany, REH has a secured pipeline of 100MW wind assets in Poland (30MW) and Wales (69MW), and a development pipeline of over 300MW in various stages of development under review.

The sale of CETO crystallised shareholder value and removed any need to further fund the development of CETO. Together with the proceeds from Bryn Posteg, REH can focus personnel and financial resources on wind assets in the UK and Europe.

REH is aiming to be in the position to develop its pipeline of projects and to achieve economic stability without the need for further share issues.

## WIND ASSETS

The German wind assets comprise Kesfeld 1, 11.8MW capacity, Kesfeld II, 20.7MW, and Kirf, 8MW. Although geographically close to each other, Kesfeld I and Kirf have performed better than Kesfeld II as a result of forestry and topographical conditions not apparent at the outset. Consequently REH will seek to sell Kesfeld II as soon as possible, and as all three sites are financed as a package and cross-collaterised, this disposal will facilitate future dividends from Kirf and Kesfeld I.

The Polish wind farm project, Gamar GHL (30 MW) is well underway, although the adverse economic climate has extended the time line for this project. The Welsh project, Mynnydd y Gwynt (69MW), is at an earlier stage and is likely to involve a joint development partner as the equity and debt involved in this project are beyond REH's resources in the current market conditions.

**REH - New greenfield wind sites**

| Milestones achieved | Poland | Wales |
|---|---|---|
| Land acquired/optioned | Yes | Yes |
| Environmental permit | Yes | No |
| Planning permission | Yes | No |
| Grid connection agreement | Ready to sign | No |
| Power purchase agreement | No | No |
| EPC contract | Final negotiations | No |

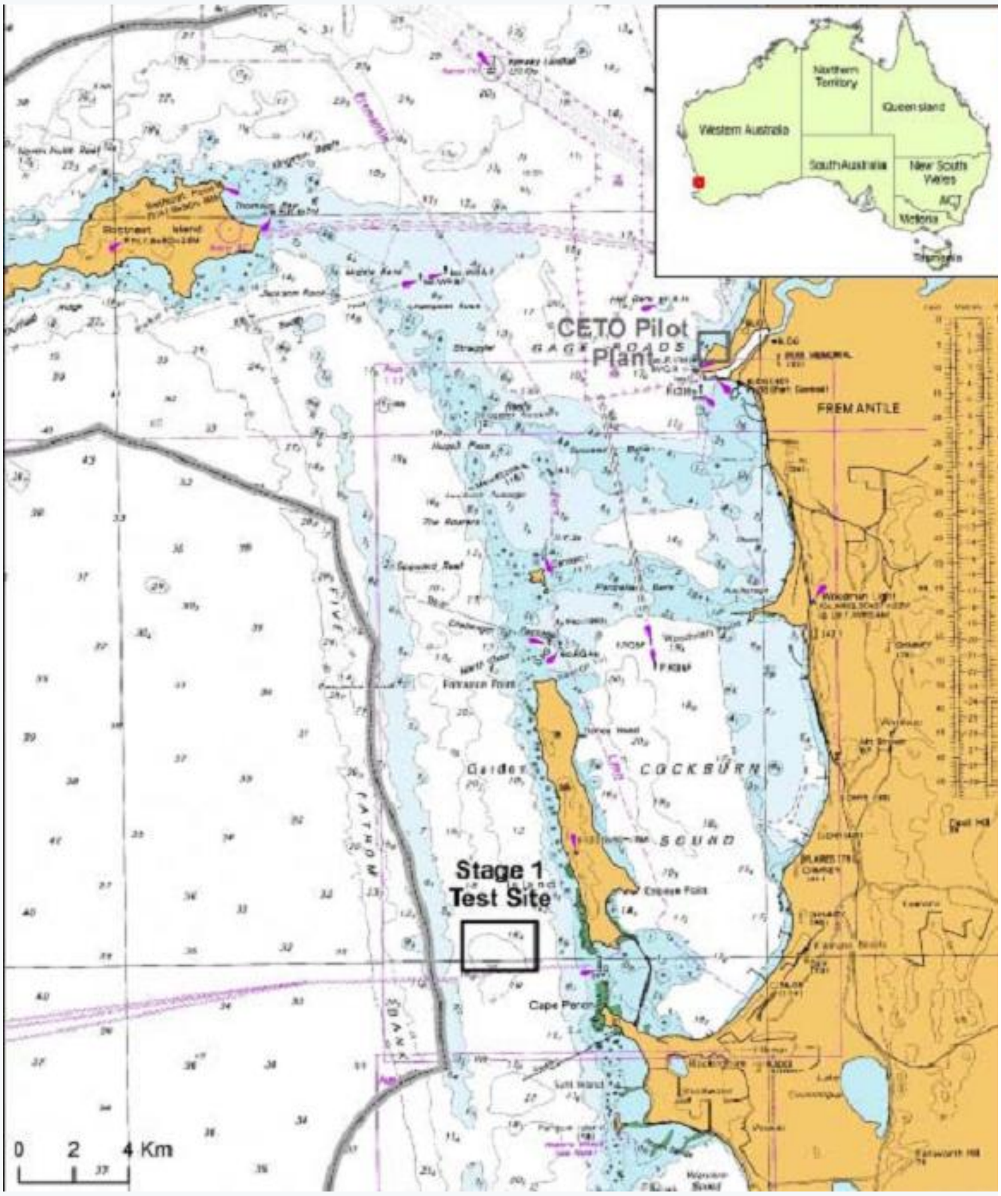
*Company*

## CETO UPDATE

Carnegie Wave Energy Limited, CWE, issued an update on its Perth Wave Energy Project on 11 March 2010 to the effect that it is currently meeting all development milestones on time and budget. The Project involves the commercial demonstration of CWE's proprietary CETO wave technology in a 5MW project located in the waters off Garden Island in Western Australia and utilises a $12.5 million LEED grant from the Western Australia Government.

The precise location is shown on the following map:

**CETO**




*Source: Carnegie Wave Energy*

The first of the CETO 3 components are now being delivered ahead of pre-deployment testing. The tether connection between the Buoyant Actuator and the pump unit is the first component to be delivered and also to have successfully completed pre-deployment testing. The polyester tether was tested at the Det Norske Veritas's (DNV) testing facility in Bergen, Norway in a test procedure strictly defined according to CWE's operational requirements. The output from the applied force and total elongation was logged continuously during testing and as a result the tether's characterization (stiffness and creep) is precisely known and endorsed by DNV.

Manufacturers have been selected for all other key components including the pump, base attachment, buoyant actuator (BA), hydraulic system and instrumentation buoy in Australia, Europe and the United Kingdom and the components are at various stages of the manufacturing process.

Testing of individual components will typically occur prior to delivery at Fremantle where assembly and pre-deployment system testing will occur ahead of the ocean deployment later this year.

The first stage of the Perth Wave Energy project involves the deployment of a single CETO 3 unit, hydraulic energy dissipation system and instrumentation buoy. The hydraulic system and instrument buoy avoids the cost associated with a physical connection to shore for the initial single unit installation.

The foundation installation activities for the full scale deployment involving the jack up rig (JUP) are complete. Completion activities to prepare the foundation for deployment are underway.

Offshore testing on scaled CETO 3 units continues at CWE's Fremantle Wave Energy Research Facility including the testing of instrumentation, control and hydraulic equipment and CWE's unique energy relief buoyant actuator (ERBA). Additionally, onshore high cycle test activities of key CETO 3 components is also ongoing with this work providing invaluable service life performance data to verify the expected performance of the full scale system.

On the 29 March 2010, CWE announced that it had won the inaugural Sustainable Energy Industry Excellence and Innovation Developer Award for its Perth Wave Energy Project. The Sustainable Energy Industry Excellence and Innovation Developer Award is sponsored by the Forest Products Commission, and is awarded for innovative development plans for a new renewable energy project, process or plant which is well advanced through the design and construction process, but not yet in operation.

A large scale project has not been announced yet by CWE. However, following CWE's failed bid to secure Australian Government funding, any large scale project in the near term is likely to be in the Northern Hemisphere. However, Australian projects are still in CWE's long term commercial project pipeline and grant funding may still be available in the future. The attractiveness of northern hemisphere projects can be gauged from the table on the next page:

**Carnegie Projects**

| Country | Policy | Power Tariff ($A est.) |
|---|---|---|
| Australia | $500m Govt funding for new renewables, 20% RE target & proposed ETS | ~$150/MWh for RE |
| Chile | Extreme power shortage, Kyoto CDM eligible, RE target | ~$150/MWh for RE |
| US | $15 billion p.a. for cleantech, ETS likely | State dependant |
| UK | Govt has invested > $500m in wave energy. 2 x ROCs for wave and dedicated test site | ~$250/MWh for wave |
| Ireland | Govt investing $50m in wave energy. Wave energy target (500MW by 2020), wave feed-in tariff and dedicated test site. | ~$350/MWh for wave |
| Portugal | Wave feed-in tariff and dedicated test site | ~$500/MWh for wave |
| Scotland | 5 x ROCs for wave and dedicated test site | ~$600/MWh for wave |
| Islands (Bahamas, Bermuda, Reunion, Mauritius...) | Typically displacing diesel generation, some Kyoto CDM eligible | ~$500-600/MWh |
| Canada, Norway, New Zealand, Denmark, Japan, South Africa, Italy, France, South Korea, Phillipines | | Various policy and pricing incentives for wave energy |

*Source: Carnegie Wave Energy*

# FORECASTS

Our forecasts include all the German wind assets and assume a return to a normal wind regime, and assume that Poland generates power at the end of 2011. Overhead reduction and, as there is no call on REH to fund the further development of CETO, are expected to lead to budgeted savings of around £500k a year.

**P&L Forecasts**

| **£000s** | **2008A** | **2009A** | **2010E** | **2011E** |
|---|---|---|---|---|
| Revenue | 4,798 | 8,406 | 4,975 | 8,302 |
| Cost of sales | -748 | -990 | -746 | -1,245 |
| Gross profit | 4,050 | 7,416 | 4,229 | 7,057 |
| EBITDA | 1,275 | 4,412 | 1,329 | 4,304 |
| Profit/(loss) from operations | -989 | 1,897 | -1,071 | 1,704 |
| Profit/(loss) before tax | -2,112 | 11,158 | -2,871 | -96 |
| Tax expense | 87 | -1,016 | 0 | 0 |
| Profit/( loss) from continuing operations | -2,025 | 10,142 | -2,871 | -96 |
| Net profit on discontinued operations | 122 | 150 | 0 | 0 |
| Profit for the year | -1,903 | 10,292 | -2,871 | -96 |
| **Adjusted profit for the year** | **-1,903** | **-819** | **-2,871** | **-96** |
| Basic and diluted EPS, p | -2.9 | 15.3 | -3.7 | -0.1 |
| EPS continuing operations, p | -3.1 | 15.1 | -3.7 | -0.1 |
| **Adj EPS, p** | **-3.1** | **-1.2** | **-3.7** | **-0.1** |

*Source: ED forecast, , Company historic*

# VALUATION

A sum of the parts valuation yields a value per share of **63p /share**, taking the value of the CWE stake as on 1 April 2010. The CWE holding is locked-up until December 2010.

**Aggregated Valuation**

| | MW | £/MW | £m |
|---|---|---|---|
| Wind assets | | | |
| Operational | 40.5 | 1.5 | 60.75 |
| CETO | | | |
| CWE stake | | | 15.8 |
| | | | |
| TOTAL | | | 76.6 |
| Net debt | | | 27.4 |
| **Net asset value** | | | **49.2** |
| | | | |
| **Value per share, p** | | | **63.0** |

*Source: ED*

# APPENDIX

## HISTORIC FINANCIALS

| Balance Sheet, £ | | | |
|---|---|---|---|
| **Year to 31 December** | **2007 restated** | **2008A** | **2009A** |
| Non-current assets: | | | |
| PP&E | 35,321,316 | 44,635,539 | 39,934,373 |
| Intangible assets | 8,538,143 | 11,718,616 | 1,564,974 |
| Investments in associates | | 293,340 | 23,642,128 |
| Available for sale investments | | 221,711 | |
| Current assets | | | |
| Trade and other receivables | 1,610,283 | 2,384,473 | 1,794,547 |
| Cash and cash equivalents | 7,115,053 | 6,451,580 | 2,341,065 |
| Non-current assets classified as held for sale | | | 2,076,587 |
| Deferred tax asset | | | 197,515 |
| Total current assets | 8,725,336 | 8,836,053 | 6,409,714 |
| Total assets | 52,584,795 | 65,705,259 | 71,551,189 |
| Current liabilities | | | |
| Trade and other payables | 1,257,958 | 727,683 | 3,219,330 |
| Tax liability | 80,442 | | 843,813 |
| Other financial liabilities | 1,938,338 | 2,688,317 | 2,517,551 |
| Liabilities assoc with non-current assets held for sale | | | 71,197 |
| Total current liabilities | 3,276,738 | 3,416,000 | 6,651,891 |
| Non current liabilities | | | |
| Financial liabilities | 24,623,478 | 29,358,234 | 27,169,273 |
| Deferrred tax liability | 104,344 | 263,283 | 580,717 |
| Deferred licence fee income | 750,000 | 3,626,981 | |
| Total non-current liabilities | 25,477,822 | 33,248,498 | 27,749,990 |
| Total liabilities | 28,754,560 | 36,664,498 | 34,401,881 |
| Net Assets | 23,830,235 | 29,040,761 | 37,149,308 |
| Share capital | 619,586 | 655,586 | 696,094 |
| Share premium reserve | 24,261,411 | 26,025,411 | 26,739,529 |
| Convertible loan notes | | 1,500,000 | |
| Foreign exchange reserve | 769,678 | 4,580,654 | 3,075,251 |
| Share based payment reserve | 1,009,119 | 1,046,960 | 1,079,285 |
| Merger reserve | 4,410,000 | 4,410,000 | 4,410,000 |
| Available for sale reserve | | -34,066 | |
| Retained earnings | -7,239,559 | -9,142,784 | 1,149,149 |
| Total equity | 23,830,235 | 29,041,761 | 37,149,308 |

*Source: Company*

## Cash Flow, £

| Year to 31 December | 2008A | 2009A |
|---|---|---|
| Operating activities | | |
| Profit/ (Loss) after tax | -1,903,225 | 10,291,933 |
| Depreciation | 2,174,834 | 2,409,928 |
| Amortisation | 105,358 | 105,358 |
| FX gain/(loss) | 230,887 | -349,501 |
| Finance income | -288,640 | -77,568 |
| Finance expense | 1,215,391 | 1,605,164 |
| Share of loss in associate | 195,660 | 322,409 |
| Equity payment | 37,841 | 34,066 |
| Profit on disposal of intangible assets | | -11,110,597 |
| Release of deferred income | | -3,626,981 |
| Income tax expense | -86,710 | 1,015,767 |
| Cashflow from operating activities pre w/c | 1,681,396 | 619,978 |
| Increase in trade and other receivables | -774,190 | 364,757 |
| Increase in trade and other payables | 2,346,707 | 2,562,843 |
| Cash generated from operations | 3,253,913 | 3,547,578 |
| Income tax (paid)/received | 165,208 | -10,905 |
| Cash flows from operations | 3,419,121 | 3,536,673 |
| | | |
| Investing activities | | |
| Acquisition of PP&E | -622,708 | -1,227,652 |
| Acquisition of intangible assets | -3,285,831 | -3,761,475 |
| Investment in associate | -490,000 | -403,401 |
| Acquisition of investments held for sale | -255,777 | |
| Disposal of investments held for sale | | 254,036 |
| Finance income received | 288,640 | 10,874 |
| Cash flows from investing | -4,365,676 | -5,127,618 |
| | | |
| Financing activities | | |
| Issue of ordinary shares | 1,800,000 | 972,199 |
| Issue of convertible loan notes | 1,500,000 | |
| Repayment of convertible loan notes | | -1,500,000 |
| Issue costs | | -217,573 |
| Proceeds from borrowing | | 2,500,000 |
| Repayment of bank borrowing | -2,599,910 | -2,438,127 |
| Finance costs paid | -1,215,391 | -1,605,164 |
| Cash flows from financing activities | -515,301 | -2,288,665 |
| | | |
| Decrease in cash and cash equivalents | -1,461,856 | -3,879,610 |
| Cash and cash equivalents at 1 January | 7,115,053 | 6,451,580 |
| Exchange gains/(losses) on cash and cash equivalents | 798,383 | -197,338 |
| Cash and cash equivalents at 31 December | 6,451,580 | 2,374,632 |

*Source: Company*

EQUITY DEVELOPMENT

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