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## Wind Energy:

People have been harnessing the power of wind for thousands of years, first for transport by boat, for food production by windmill and now for electricity by turbine.



### Wind farms

"The completion of this year sees a settling down of all engineering issues on the commissioning of German wind farms. We have an appreciation of the wind regime and we have studied this across the whole of Germany, securing the knowledge that our sites are performing on and slightly ahead of national wind statistics."

"In the first part of the year we stabilised the 4.6MW expansion of Kesfeld wind farm in Germany and commissioned the 8.0MW Kirf wind farm on time in July, bringing German capacity to 42.5MW."

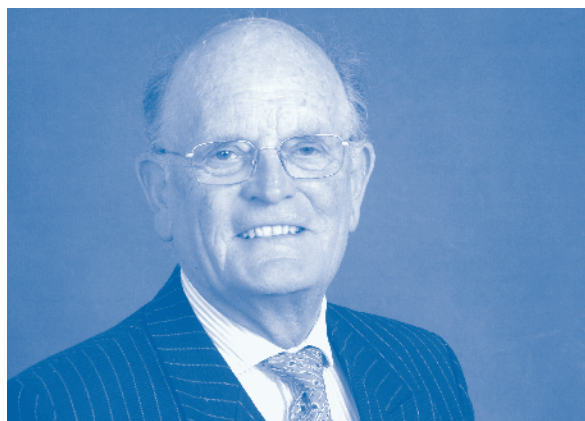
"Moving now into Poland and Wales removes our sensitivity to the wind performance of only one region and will bring a healthy diversification to our portfolio."



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# Chairman's statement



**Sir John Baker CBE**  
Chairman

2007 has been a significant and encouraging year in the development of the Company. With the 12.6MW expansion of our wind assets in Germany adding materially to our German revenues, we have made good progress in the operation of our wind farms. Projects for new wind farms in Poland and Wales are progressing well. Technical and commercial performance of our small methane gas project in Wales has been dramatically improved. There has also been substantial technical progress with the development of the pre-commercial version of our proprietary wave energy technology (CETO) including putting in place commercial arrangements to roll out the technology in both Northern and Southern Hemispheres.

Work has started on site on our 30MW wind project in Poland and the Board expects the wind regime there to support a load factor of over 30%. Our negotiations for the acquisition of a 69MW wind farm in Wales are at an advanced stage, adding confidence to our early predictions of 150MW of wind capacity on the Company's balance sheet within five years from our start up in 2005.

Whilst still under development, the Company's unique wave energy technology (CETO) started on its route to market with the establishment of two Strategic Partner Relationships - one with EDF Energies Nouvelles SA for the Northern Hemisphere and one with the Carnegie Corporation for the Southern Hemisphere. The Board is delighted with the quality of these Strategic Partners and believes these partnerships offer the prospect of significant value creation for shareholders, whilst minimising the financial and human resource requirements of the Company. The Intellectual Property relating to CETO remains 100% with the Group.

We have seen turbulent times in the AIM and, in particular, the challenge of lack of liquidity in the stock of small cap companies, often leading to their under-valuation. The Board believes it is firmly on track in delivering the vision and goals of the Company outlined when it was floated in 2005, and that it is well placed to add significant value in the months ahead.

A handwritten signature in black ink that reads "John Baker". The signature is written in a cursive, flowing style.

**John W Baker**  
Chairman  
9 May 2008

## Bio-Energy: Landfill sites can generate commercial quantities of gas for up to 30 years after waste has been deposited, harnessing this power utilises and provides income from what would otherwise be a redundant asset.

**Landfill gas in Wales**  
“We negotiated a new Power Purchase Agreement on the Landfill Gas Plant in Wales, raising the earnings rate from the below market rate of £52.10 per megawatt hour to a weighted average of £104.61 per megawatt hour between December 2007 and March 2009.”

“We continue to review opportunities to invest in biogas projects.”



## Chief Executive Officer's Report



**Michael J Profitt**  
Chief Executive Officer

I consider this year to have been a milestone year in the establishment of the Group's financial stability, project pipeline and a model for the commercial development of our unique wave energy device, CETO.

In the first part of the year we stabilised the 4.6MW expansion of Kesfeld Windfarm in Germany and commissioned the 8.0MW Kirf Windfarm on time in July, bringing German capacity to 42.5MW. We negotiated a new Power Purchase Agreement on the Landfill Gas Plant in Wales, raising the earnings rate from the below market rate of £52.10 per megawatt hour to a weighted average of £104.61 per megawatt hour between December 2007 and March 2009.

Additionally, we sold rights to use CETO technology in the Southern Hemisphere, discussed later in this report.

The effects of these activities saw significant growth in the Company's revenue year on year, from £1,456,035 in the six months to 31 December 2006 to £4,584,910 in the year to 31 December 2007 (including £750,000 for recognition of sale of CETO rights).

During the same comparative periods, Operational expenditure of £1,939,949 for the six months to December 2006, was £3,642,072 for the year to 31 December 2007. The net performance of the Company being a net loss for the year of £1.5 million, significantly better than the £2.3 million loss expected.

### Our Proven Technology Assets

The completion of this year sees a settling down of all engineering issues on the commissioning of German Windfarms. We have an appreciation of the wind regime and we have studied this across the whole of Germany, securing the knowledge that our sites are performing on and slightly ahead of national wind statistics.

Moving now into Poland and Wales removes our sensitivity to the wind performance of only one region and will bring a healthy diversification to our portfolio.

### CETO Technology

The PB Power Independent Report on CETO published at the end of 2006 gave us validation of our views as to the probability of commercial success, as a result development costs in 2007 have been capitalised.



Much of this success will come from the relatively low capital investment necessary for our technology which is derived from the simplicity of CETO's fundamental design. CETO pumps high pressure sea water on-shore, allowing the generation of electricity to be undertaken on land and without the extra cost of protection and transmission engineering.

From the above map we have determined the regions of the world most suitable for commercial exploitation and with the results of this review determined the appropriate Strategic Partnerships to roll-out CETO globally.

Carnegie Corporation Limited have agreed to purchase the rights to use the CETO technology in the Southern Hemisphere for £4,750,000 (only £750,000 of the sales price has been recognised in the current reporting period), plus a licence fee of 2% of total investment for each project and an annual royalty of 2.5% of net earnings.

From the receipts of the Sale-of-Rights funds, we are able to complete CETO's commercial development work without deploying existing cash resources.

In January 2008 EDF Energies Nouvelles SA invested £3,000,000 in the company and have entered into a Collaboration Agreement with the company which gives them rights to Joint Venture the commercial roll-out of CETO in the Northern Hemisphere. Each Joint Venture will pay a 3% licence fee to the Company.

In these agreements we feel that we have secured a commercial development structure which builds your Group's income producing capacity worldwide, without risking an over stretch of our resources, while at the same time maintains 100% ownership of CETO Intellectual Property.

In parallel with the completion of development work, we are busy identifying sites in the Northern Hemisphere.

These sites include regions of Europe where the tariff structure offers CETO projects high returns on investment, regions such as North West Canada and the USA where financial incentives are focused more on capital grants and tax credits, and regions such as islands, where high returns are available from replacing high cost imported fossil fuels and for providing low cost, carbon free desalination.

With our portfolio of renewable energy assets including wind, biogas and wave energy, I feel the time has now come to build on the work of the last three years and deliver a company that will be both a sound investment and a market leader in the renewable energy sector.

**Michael J Proffitt**  
Chief Executive Officer  
9 May 2008

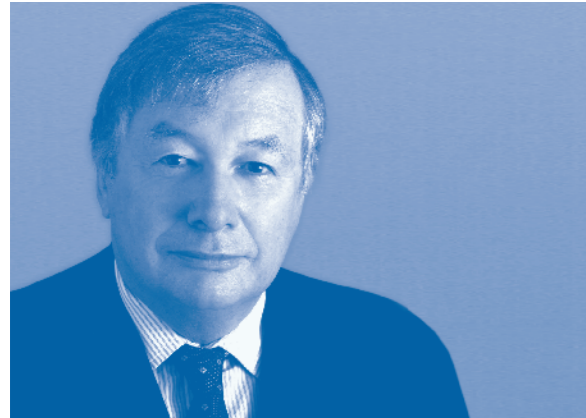
**Wave-Energy:**  
The World Energy Council has estimated that approximately 2 terawatts (2 million megawatts), about double current world electricity production, could be produced from the oceans via wave power.



#### CETO Launch

"CETO's success will come from the relatively low capital investment necessary for our technology which is derived from the simplicity of CETO's fundamental design. CETO pumps high pressure sea water on-shore, allowing the generation of electricity to be undertaken on land and without the extra cost of protection and transmission engineering."

"We have determined the regions of the world most suitable for the commercial exploitation of CETO and with the results of this review determined the appropriate Strategic Partnerships to roll-out CETO globally."



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|---|---|
| 1 | 2 |
| 3 | 4 |
|   | 5 |

## 1. Sir John Baker CBE

Non-Executive Chairman

John Baker has had a career in both public and private sectors. He moved into the energy sector in 1979 becoming Corporate Managing Director of the UK Central Electricity Generating Board. He led the management of the UK electricity privatisation and restructuring programme. He was Chief Executive of National Power PLC from 1990 when the Company was established, and Chairman from 1 April 1995 to the end of 1997. From 1995-1998 he was also Chairman of the World Energy Council. He is currently Chairman or Non-Executive Director of a number of companies as well as Chairman of a number of non-commercial organisations. John is responsible for strategy and planning, he is also Chairman of the Remuneration Committee and a member of the Audit Committee.

## 2. Michael Proffitt FCA

Chief Executive Officer

A qualified Chartered Accountant since 1975, Michael joined the Wyndham Hotel Company as CFO in 1982 where he guided the expansion of the group from five to 14 hotels. Moving out on his own, in 1987 he became part owner and President of The Savoy Hotel Company. Michael's experience managing corporate growth saw him in 1997 invited onto the board of the Manx Electricity Authority and was appointed CEO in July 2000. Streamlining its operations, Michael instigated a cut of nearly 30 percent in electricity prices and initiated major capital works such as the successful commissioning of the longest AC subsea interconnector cable in the World (from Isle of Man to Blackpool) and the commissioning of a new Combined Cycle Gas Turbine (CCGT) 'state of the art' power station together with a natural gas pipeline connecting to Scotland. He is a Non-Executive Director of BPC Limited and a former Chairman of Barclays Private Clients International Limited, a wholly owned subsidiary of the Barclays Group. With his management, energy and investment experience, Michael recognises the opportunities provided in the renewable energy sector and is well suited to exploit them. Michael is responsible for the day-to-day operation and development of the Company.

## 3. Alan Burns

Non-Executive Director

Alan Burns has been actively involved at senior levels in the engineering, oil and mining industries for over 35 years. In this period Alan has been Chairman, Managing Director and founder of companies that have developed gold mines, diamond mines, a mineral sand mine and nine oil and gas fields. Alan is the inventor of the CETO technology and manages the commercial development of CETO. He is also a member of the Remuneration Committee.

## 4. Jeffrey Harding

BE(HONS), BA(ECON), MSIA (PURDUE), FAICD

Non-Executive Director

Managing Director of Pacific Hydro Ltd from 1995 to 2005, during which time the company grew in value from below AUD5 million to over AUD1 billion when it was sold in July 2005. During this time, from a base in Melbourne, the Company expanded into Asia, the Pacific and Latin America. Pacific Hydro remains Australia's largest new renewable energy developer. Jeffrey is Chairman of Ceramic Fuel Cells Ltd (AIM:CFU) and Chairman of Proven Energy Ltd. He was formerly General Manager of Brambles Industrial Services and Vice President of the Australian Business Council for Sustainable Development. Jeffrey regularly presents on issues associated with climate change. He is Chairman of the Audit Committee.

## 5. Wayne Keast BCOMPT (HONS) CA (SA)

Non-Executive Director

Wayne Keast is Chief Executive of Consensus Environment, the £250m CleanTech and Environmental private equity and strategic investment arm of Consensus Business Group ("Consensus"). Wayne is also an Investment Director for the USD250m Masdar CleanTech Fund and the USD150m Inspired Evolution Environmental Fund. He is on the advisory boards/strategic committees for Aloe Environment Fund II, Chrysalix Energy II LP and Expansion Capital Clean Tech Fund II. Wayne is also a Non-Executive Director of a number of public and private companies operating in the bio-fuel, clean energy/technology, carbon and waste recycling sectors. Prior to joining Consensus, Wayne spent several years in corporate finance, venture capital and private equity positions, including a number of years as Chief Financial Officer at ePartners and eVentures, the USD1.2 billion global private equity and business incubation group. Wayne is a qualified Chartered Accountant with a Bachelors and Honours degree in Commerce & Finance. Wayne was appointed to the Board of REH on 3 September 2007.

# Directors' Report

## Report of the Directors for year ended 31 December 2007

The Directors present their report together with the audited financial statements for the year ended 31 December 2007.

In the prior year, the year end changed from 30 June to 31 December so as to achieve consistency across all group members.

Accordingly, comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable, as they represent a six month period.

## Business Review

A full review of the business and future developments is given in the Chief Executive Officer's Report.

## Results and dividends

The results of the Group for the period are set out on page 12 and show a loss for the year ended 31 December 2007 of £1,451,462 (six months ended 31 December 2006: £1,538,967).

The results neither justify nor allow the payment of a dividend. The Directors are therefore not able to recommend the payment of a dividend.

## Principal activities, review of business and future developments

The Group's strategy is to be an owner and operator of both proven and innovative renewable energy technologies. Currently the Group owns and operates the Kesfeld and Kirf Windparks in Germany and the Gwynt Cymru Landfill Gas site in Wales.

The Group continues to develop the CETO wave energy device with a view to commercial operation in due course and are progressing a number of renewable energy projects to add to recent acquisitions.

## Substantial shareholdings

The following table represents shareholdings of 3% or more as at the date of this report.

| Name                                   | Number of shares | % of shareholding |
|--|------------------|-------------------|
| Elsina Limited                         | 8,000,000        | 12.91             |
| Rathbone Unit Trust Management Limited | 6,916,666        | 11.16             |
| Utilico Limited                        | 6,899,560        | 11.14             |
| Morstan Nominees Limited               | 6,795,866        | 10.97             |
| F&C Asset Management PLC               | 6,456,074        | 10.42             |
| Tudor BVI Global Portfolio LP          | 5,604,333        | 9.05              |
| Invesco PLC                            | 5,160,000        | 8.33              |

## Directors

The Directors of the Company during the period and their beneficial interests (unless otherwise stated) in the ordinary share capital of the parent company and options to purchase such shares under the Founders Share Option Scheme and the Executive Schemes were as follows at 31 December 2007:

|                     | 31 December<br>2007<br>Options &<br>similar interests | 31 December<br>2007<br>Ordinary<br>shares | 31 December<br>2006<br>Options &<br>similar interests | 31 December<br>2006<br>Ordinary<br>shares |
|---------------------|---|---|---|---|
| Mr Michael Proffitt | 1,725,000   | 200,000                                   | 1,425,000   | 200,000                                   |
| Mr Alan Burns *     | 774,300   | -   | 774,300   | -   |
| Sir John Baker      | 580,000   | 40,000                                    | 580,000   | 40,000                                    |
| Mr Jeffrey Harding  | 290,000   | -   | 290,000   | -   |
| Mr Wayne Keast      | -   | -   | -   | -   |

\* Held on trust.

No Director has any interest in the shares of any of the subsidiary companies.

Further details of the Directors' share options and long term incentive scheme are shown in note 5 which also shows the movements during the period. Details of any Directors' interest in transactions of the Group are given in note 23.

## Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Isle of Man Companies Acts 1931 to 2004.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Isle of Man Companies Acts 1931 to 2004. The Directors have prepared the financial statements for the Group and the Company in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Disclosure of Information to Auditors

The Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

## Auditors

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board



Ian R Gribble  
Company Secretary  
9 May 2008

We have audited the group and parent company financial statements (the "financial statements") of Renewable Energy Holdings plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Equity and related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004. We also report to you if, in our opinion the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed. We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Chief Executive's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of section 15 of the Isle of Man Companies Act 1982 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Isle of Man Companies Act 1982 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Acts 1931 to 2004, of the state of the parent company's affairs as at 31 December 2007; and
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

BDO STOY HAYWARD LLP  
Chartered Accountants and Registered Auditors, London

# Consolidated income statement

for the year ended 31 December 2007

|  | Note | Year ended<br>31 December<br>2007<br>£ | Six months ended<br>31 December<br>2006<br>£ |
|--|------|--|--|
| <b>Revenue &amp; gross profit</b>                                      | 2,6  | 4,584,910                              | 1,456,035                                    |
| Other operating income   |      | 296,040                                | -  |
| CETO development expenses  |      | -                                      | (555,310)                                    |
| Administrative expenses  |      | (5,288,439)                            | (2,013,114)                                  |
| <b>Loss from operations</b>  | 3    | (407,489)                              | (1,112,389)                                  |
| Finance costs  | 7    | (1,148,699)                            | (411,988)                                    |
| Finance income   | 7    | 177,458                                | 70,926                                       |
| <b>Loss before tax</b>   |      | (1,378,730)                            | (1,453,451)                                  |
| Tax expense  | 8    | (72,732)                               | (85,516)                                     |
| <b>Loss after tax attributable to the equity holders of the parent</b> |      | (1,451,462)                            | (1,538,967)                                  |
| <b>Basic and diluted loss per share</b>                                | 10   | (2.82p)                                | (3.40p)                                      |

The notes on pages 18-36 form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 31 December 2007

|   | Share<br>Capital<br>£ | Share<br>Premium<br>Reserve<br>£ | Foreign<br>Exchange<br>Reserve<br>£ | Share Based<br>Payment<br>Reserve<br>£ | Merger<br>Reserve<br>£ | Retained<br>Earnings<br>£ | Total<br>Equity<br>£ |
|---|-----------------------|----------------------------------|-------------------------------------|--|------------------------|---------------------------|----------------------|
| <b>Balance at 31 December 2006</b>                                  | 452,666               | 16,583,898                       | (82,169)                            | 984,715                                | 4,410,000              | (5,038,097)               | 17,311,013           |
| Changes in Equity 1 January 07 –<br>31 December 07                  |                       |                                  |                                     |  |                        |                           |                      |
| Exchange difference arising on<br>translation of foreign operations | -                     | -                                | 851,847                             | -                                      | -                      | -                         | 851,847              |
| Net income recognised directly<br>in equity                         | -                     | -                                | 851,847                             | -                                      | -                      | -                         | 851,847              |
| Loss for the year   | -                     | -                                | -                                   | -                                      | -                      | (1,451,462)               | (1,451,462)          |
| Total recognised income and<br>expense for the year                 | -                     | -                                | 851,847                             | -                                      | -                      | (1,451,462)               | (599,615)            |
| Issue of Share Capital  | 166,920               | 7,677,513                        | -                                   | -                                      | -                      | -                         | 7,844,433            |
| Equity share options issued   | -                     | -                                | -                                   | 24,404                                 | -                      | -                         | 24,404               |
| <b>Balance as at 31 December 2007</b>                               | 619,586               | 24,261,411                       | 769,678                             | 1,009,119                              | 4,410,000              | (6,489,559)               | 24,580,235           |

for the six months ended 31 December 2006

|   | Share<br>Capital<br>£ | Share<br>Premium<br>Reserve<br>£ | Foreign<br>Exchange<br>Reserve<br>£ | Share Based<br>Payment<br>Reserve<br>£ | Merger<br>Reserve<br>£ | Retained<br>Earnings<br>£ | Total<br>Equity<br>£ |
|---|-----------------------|----------------------------------|-------------------------------------|--|------------------------|---------------------------|----------------------|
| <b>Balance at 30 June 2006</b>                                      | 452,666               | 16,583,898                       | (10,296)                            | 956,571                                | 4,410,000              | (3,499,130)               | 18,893,709           |
| Changes in Equity 1 July 06 –<br>31 December 06                     |                       |                                  |                                     |  |                        |                           |                      |
| Exchange difference arising on<br>translation of foreign operations | -                     | -                                | (71,873)                            | -                                      | -                      | -                         | (71,873)             |
| Net income recognised directly in equity                            | -                     | -                                | (71,873)                            | -                                      | -                      | -                         | (71,873)             |
| Loss for the year   | -                     | -                                | -                                   | -                                      | -                      | (1,538,967)               | (1,538,967)          |
| Total recognised income and<br>expense for the year                 | -                     | -                                | (71,873)                            | -                                      | -                      | (1,538,967)               | (1,610,840)          |
| Issue of Share Capital  | -                     | -                                | -                                   | -                                      | -                      | -                         | -                    |
| Equity share options issued   | -                     | -                                | -                                   | 28,144                                 | -                      | -                         | 28,144               |
| <b>Balance as at 31 December 2006</b>                               | 452,666               | 16,583,898                       | (82,169)                            | 984,715                                | 4,410,000              | (5,038,097)               | 17,311,013           |

The notes on pages 18-36 form part of these financial statements.

# Company statement of changes in equity

for the year ended 31 December 2007

|  | Share Capital<br>£ | Share Premium Reserve<br>£ | Share Based Payment Reserve<br>£ | Merger Reserve<br>£ | Retained Earnings<br>£ | Total Equity<br>£ |
|--|--------------------|----------------------------|----------------------------------|---------------------|------------------------|-------------------|
| <b>Balance at 31 December 2006</b>               | 452,666            | 16,583,898                 | 984,715                          | 4,410,000           | (3,423,554)            | 19,007,725        |
| Changes in Equity 1 January 07 – 31 December 07  |                    |                            |                                  |                     |                        |                   |
| Loss for the year                                | -                  | -                          | -                                | -                   | (793,801)              | (793,801)         |
| Total recognised income and expense for the year | -                  | -                          | -                                | -                   | (793,801)              | (793,801)         |
| Issue of Share Capital                           | 166,920            | 7,677,513                  | -                                | -                   | -                      | 7,844,433         |
| Equity share options issued                      | -                  | -                          | 24,404                           | -                   | -                      | 24,404            |
| <b>Balance as at 31 December 2007</b>            | 619,586            | 24,261,411                 | 1,009,119                        | 4,410,000           | (4,217,355)            | 26,082,761        |

for the six months ended 31 December 2006

|  | Share Capital<br>£ | Share Premium Reserve<br>£ | Share Based Payment Reserve<br>£ | Merger Reserve<br>£ | Retained Earnings<br>£ | Total Equity<br>£ |
|--|--------------------|----------------------------|----------------------------------|---------------------|------------------------|-------------------|
| <b>Balance at 30 June 2006</b>                     | 452,666            | 16,583,898                 | 956,571                          | 4,410,000           | (2,579,617)            | 19,823,518        |
| Changes in Equity 1 July 06 – 31 December 06       |                    |                            |                                  |                     |                        |                   |
| Loss for the period                                | -                  | -                          | -                                | -                   | (843,937)              | (843,937)         |
| Total recognised income and expense for the period | -                  | -                          | -                                | -                   | (843,937)              | (843,937)         |
| Equity share options issued                        | -                  | -                          | 28,144                           | -                   | -                      | 28,144            |
| <b>Balance as at 31 December 2006</b>              | 452,666            | 16,583,898                 | 984,715                          | 4,410,000           | (3,423,554)            | 19,007,725        |

The notes on pages 18-36 form part of these financial statements.

# Consolidated balance sheet

at 31 December 2007

|   | Note | 31 December 2007<br>£ | 31 December 2006<br>£ |
|---|------|-----------------------|-----------------------|
| <b>Non-current assets</b>   |      |                       |                       |
| Property, plant & equipment   | 13   | 35,321,316            | 26,677,929            |
| Intangible assets   | 14   | 8,538,143             | 7,596,806             |
| <b>Current assets</b>   |      |                       |                       |
| Trade and other receivables   | 17   | 1,610,283             | 1,271,266             |
| Cash and cash equivalents   |      | 7,115,053             | 2,698,789             |
| Total current assets  | 19   | 8,725,336             | 3,970,055             |
| <b>Total assets</b>   |      | 52,584,795            | 38,244,790            |
| <b>Current liabilities</b>  |      |                       |                       |
| Trade and other payables  | 18   | 1,257,958             | 4,442,834             |
| Tax liability   |      | 80,442                | 88,384                |
| Other financial liabilities   | 19   | 1,938,338             | 1,356,277             |
| Total current liabilities   |      | 3,276,738             | 5,887,495             |
| <b>Non current liabilities</b>  |      |                       |                       |
| Financial liabilities   | 19   | 24,623,478            | 14,952,785            |
| Deferred tax liability  |      | 104,344               | 93,497                |
| Total non current liabilities   |      | 24,727,822            | 15,046,282            |
| <b>Total liabilities</b>  |      | 28,004,560            | 20,933,777            |
| <b>NET ASSETS</b>   |      | 24,580,235            | 17,311,013            |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |                       |                       |
| Share capital   | 21   | 619,586               | 452,666               |
| Share premium reserve   |      | 24,261,411            | 16,583,898            |
| Foreign exchange reserve  |      | 769,678               | (82,169)              |
| Share based payment reserve   |      | 1,009,119             | 984,715               |
| Merger reserve  |      | 4,410,000             | 4,410,000             |
| Retained earnings   |      | (6,489,559)           | (5,038,097)           |
| <b>TOTAL EQUITY</b>   |      | 24,580,235            | 17,311,013            |

The financial statements were approved by the Board of Directors and authorised for issue on 9 May 2008. They were signed on its behalf by:



**John W Baker**  
Chairman



**Michael J Proffitt**  
Director

The notes on pages 18-36 form part of these financial statements.

# Company balance sheet

at 31 December 2007

|   | Note | 31 December 2007<br>£ | 31 December 2006<br>£ |
|---|------|-----------------------|-----------------------|
| <b>Non-current assets</b>   |      |                       |                       |
| Investment in subsidiaries  | 15   | 770,525               | 775,254               |
| <b>Current assets</b>   |      |                       |                       |
| Amounts due from subsidiaries   | 16   | 20,925,505            | 17,337,350            |
| Trade and other receivables   | 17   | 253,673               | 99,273                |
| Cash and cash equivalents   |      | 4,234,567             | 915,757               |
| Total current assets  | 19   | 25,413,745            | 18,352,80             |
| <b>Total assets</b>   |      | <b>26,184,270</b>     | <b>19,127,634</b>     |
| <b>Current liabilities</b>  |      |                       |                       |
| Trade and other payables  | 18   | 101,509               | 119,909               |
| Total current liabilities   |      | 101,509               | 119,909               |
| <b>NET ASSETS</b>   |      | <b>26,082,761</b>     | <b>19,007,725</b>     |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |                       |                       |
| Share capital   | 21   | 619,586               | 452,666               |
| Share premium reserve   |      | 24,261,411            | 16,583,898            |
| Share based payment reserve   |      | 1,009,119             | 984,715               |
| Merger reserve  |      | 4,410,000             | 4,410,000             |
| Retained earnings   |      | (4,217,355)           | (3,423,554)           |
| <b>TOTAL EQUITY</b>   |      | <b>26,082,761</b>     | <b>19,007,725</b>     |

The financial statements were approved by the Board of Directors and authorised for issue on 9 May 2008. They were signed on its behalf by:

**John W Baker**  
Chairman

**Michael J Proffitt**  
Director

The notes on pages 18-36 form part of these financial statements.

# Consolidated and company cash flow statements

for the year ended 31 December 2007

|   | Note | Year ended<br>31 December<br>2007<br>Group<br>£ | Year ended<br>31 December<br>2007<br>Company<br>£ | Six months<br>ended<br>31 December<br>2006<br>Group<br>£ | Six months<br>ended<br>31 December<br>2006<br>Company<br>£ |
|---|------|---|---|--|--|
| <b>Operating Activities</b>   |      |   |   |  |  |
| Loss before tax   |      | (1,378,730)                                     | (769,398)   | (1,453,451)  | (928,463)  |
| Adjustments for :   |      |   |   |  |  |
| Depreciation  |      | 1,721,008                                       | -   | 621,867  | -  |
| Amortisation  |      | 105,358   | -   | 52,679   | -  |
| Foreign exchange gain/(loss)  |      | (1,438,204)                                     | (441,368)   | 542,426  | 141,461  |
| Finance income  |      | (177,458)                                       | (97,315)  | (70,926)   | -  |
| Finance expense   |      | 1,148,699                                       | 30  | 411,988  | -  |
| Equity settled share based payment  |      | 24,404  | -   | 28,144   | 28,144   |
| <b>Operating profit/(loss) before changes in working capital and provisions</b> |      | <b>5,077</b>                                    | <b>(1,308,051)</b>                                | <b>132,727</b>   | <b>(758,858)</b>   |
| (Increase)/decrease in trade and other receivables                              |      | (339,017)                                       | (154,400)   | (505,608)  | 63,870   |
| Increase/(decrease) in trade and other payables                                 |      | (3,174,028)                                     | (18,399)  | 3,583,656  | (229,231)  |
| <b>Cash (absorbed by)/generated from operations</b>                             |      | <b>(3,507,968)</b>                              | <b>(1,480,850)</b>                                | <b>3,210,775</b>   | <b>(924,219)</b>   |
| Income taxes paid   |      | (80,675)  | -   | (13,166)   | (4,878)  |
| <b>Cash flows from operating activities</b>                                     |      | <b>(3,588,643)</b>                              | <b>(1,480,850)</b>                                | <b>3,197,609</b>   | <b>(929,097)</b>   |
| <b>Investing activities</b>   |      |   |   |  |  |
| Acquisition of property, plant & equipment                                      |      | (8,074,344)                                     | -   | (4,620,489)  | -  |
| Acquisition of intangible assets  |      | (1,046,695)                                     | -   | -  | -  |
| Investment in subsidiary  |      | -   | -   | -  | (626,450)  |
| Increase in advances to subsidiaries  |      | -   | (3,142,058)                                       | -  | (1,154,836)  |
| Finance income received   |      | 177,458   | 97,315  | 70,926   | 89,404   |
|   |      | (8,943,581)                                     | (3,044,743)                                       | (4,549,563)  | (1,691,882)  |
| <b>Financing activities</b>   |      |   |   |  |  |
| Issue of ordinary shares  |      | 8,346,000                                       | 8,346,000   | -  | -  |
| Issue costs   |      | (501,567)                                       | (501,567)   | -  | -  |
| Proceeds from bank borrowing  |      | 11,442,177                                      | -   | -  | -  |
| Issue costs for bank borrowing  |      | (761,785)                                       | -   | -  | -  |
| Repayment of bank borrowing   |      | (651,970)                                       | -   | (1,277,068)  | -  |
| Finance costs paid  |      | (924,367)                                       | (30)  | (351,029)  | -  |
|   |      | 16,948,488                                      | 7,844,403   | (1,628,097)  | -  |
| <b>Increase/(decrease) in cash and cash equivalents</b>                         | 24   | <b>4,416,264</b>                                | <b>3,318,810</b>                                  | <b>(2,980,051)</b>                                       | <b>(2,620,979)</b>   |
| <b>Cash at 31 December</b>  |      | <b>7,115,053</b>                                | <b>4,234,567</b>                                  | <b>2,698,789</b>   | <b>915,757</b>   |
| <b>Cash at 1 January /1 July</b>  |      | <b>2,698,789</b>                                | <b>915,757</b>                                    | <b>5,678,840</b>   | <b>3,536,736</b>   |

The notes on pages 18-36 form part of these financial statements.

# Notes forming part of the financial statements

for the year ended 31 December 2007

## 1 Accounting policies

These financial statements have been prepared under the historical cost or fair value basis as appropriate in accordance with International Financial Reporting Standards as adopted by the European Union.

The following new accounting standards, amendments and interpretations became effective for periods beginning on or after 1 January 2007:

IFRS 7 Financial instruments: Disclosure  
IAS 1 Presentation of financial statements  
IFRIC 8 Scope of IFRS 2  
IFRIC 9 Reassessment of embedded derivatives  
IFRIC 10 Interim financial reporting and impairment

The implementation of these new standards and interpretations did not have any significant impact on the Group's accounting policies or treatments.

The implementation of these new standards, amendments and interpretations, other than making additional disclosure, did not have any significant impact on the Group's accounting policies or treatments.

The following standards, amendments and interpretations to existing international standards have been published but are not yet mandatory for the Group and have not been adopted early.

IFRS 2 (Revised) Share-based payments  
IFRS 3 (Revised) Business combinations  
IFRS 8 Operating segments  
IAS 1 (Revised) Presentation of financial statements  
IAS 23 (Revised) Borrowing costs  
IAS 27 Consolidated and separate financial statements  
IAS 32 Financial instruments: Presentation  
IFRIC 14, IAS 19 Defined benefit assets  
IFRIC 11, IFRS 12 Group and treasury share transactions

The Group has made an initial assessment of the impact of these new standards. IFRS 8 and IAS 1 (Revised) are only disclosure standards and will not have any impact on the results or net assets of the Group. IAS 23 (Revised) will require companies to capitalise borrowing costs relating to the acquisition, construction or production of a qualifying asset. No impact is expected from IFRS 2, IFRIC 14 & IFRIC 11. IFRS 3 and IAS 27 will present some significant changes to IFRS and the options available. Management is currently assessing the impact of revised IFRS3 and amendments to IAS 27 on the accounts.

Not relevant to the Group:

IFRIC 13 Customer loyalty programmes  
IFRIC 12 Service concession arrangements  
IFRIC 7 Applying the restatement approach under IAS 29, Financial reporting in Hyperinflationary Economies

The following principal accounting policies have been applied consistently in the preparation of these financial statements:

### Revenue

Revenues comprise electricity sold and licence fee income.

Electricity sales are made up of three component parts; electricity volume, Renewable Obligation Certificates and Levy Exempt Certificates. The sales are recognised when electricity is fed to the national grid.

Licence fee income relates to the sale of the rights to use the CETO technology in the Southern Hemisphere. The licence fee income is recognised on an accruals basis over the expected two year development period.

### Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

### Investments

The investments in the Company balance sheet are in subsidiary companies and are stated at cost less provision for impairment.

### Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives or were not yet in use, are undertaken annually at the end of each accounting period. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of changes in equity.

### Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "financial currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement, except for foreign currency borrowings qualifying as a hedge of net investment in a foreign operation, in which case exchange differences are recognised in a separate component of equity.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the foreign exchange reserve). Exchange differences recognised in the income statement of group separate financial statements on the translation of long-term monetary items forming part of the net investment in the overseas operation concerned are reclassified to the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

Any gain or loss on the subsequent disposal of those foreign operations would exclude translation differences that arose before the date of transition to IFRS and include only subsequent translation differences.

### Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at fair value on recognition and held at amortised cost less any provision for impairment.

### Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group had no significant hedges at any point in the period. The Group's accounting policy for each category is as follows:

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings and the debt element of convertible debt issued by the Group are initially recognised at fair value. Such interest bearing liabilities are subsequently measured at amortised cost to ensure that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 1 Accounting policies (continued)

### Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

### Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

The charge for share-based payment is calculated in accordance with the analysis described in note 22. The option valuation models used require highly subjective assumptions to be made including the future volatility of the Company's share price, expected dividend yield, risk-free interest rates and expected staff turnover. The Directors draw upon a variety of external sources to aid in the determination of the appropriate data to use in such calculations.

### Operating Leases

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rental payable under the lease is charged to the income statement on a straight-line basis over the lease term.

### Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Research and development expenditure is disclosed separately in the income statement. Capitalised development costs are amortised from the point at which they are available for use, over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included in administrative expenses in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

### Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights.

In-process research and development programmes acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development costs above are not met.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

| Intangible asset                              | Useful economic life  | Valuation method |
|---|-----------------------|------------------|
| In-process Research & Development CETO Device | Not available for use | Historic cost    |
| Landfill Gas Rights                           | 20 years              | Historic cost    |

Historic cost is the market value on the date of acquisition. The landfill gas rights are amortised over their useful economic life and the CETO development costs are subject to an annual impairment review.

Whilst the CETO device continues to be developed and therefore is not available for use the Board will review the carrying value for impairment at least annually.

Amortisation of gas rights for the period have been charged to administrative expenses.

### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs, including the capitalisation of interest during construction, and the estimated present value of any future costs of dismantling and removing items.

Depreciation is provided on all items of property, plant and equipment to write off the carrying value of items over their expected useful economic lives, at the following rates:

Plant and machinery – 5% - 20% per annum straight line

### Estimates, judgements and critical accounting policies

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on the net present value of future cash flows, historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

### Impairment of Goodwill

Goodwill is carried at fair value less a provision for impairment. It is required to be valued annually to assess the requirement for potential impairment and assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the carrying value of such assets is not supportable. Such calculations are based on the net present value of future cash flows and require judgement relating to the appropriate discount factors and long term growth prevalent in a particular market as well as short term business performance. The Directors draw upon experience as well as external resources in making these judgements.

The Directors estimated the value in use figure of the CETO related intangible assets through the calculation of expected licence fee and royalty cash flows arising from agreements with Carnegie and EDF and using a discount rate of 5%.

### Useful lives of Intangible assets and property, plant and equipment

Intangible assets and property plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods.

### Investments and Intercompany balances

In the Company balance sheet as at 31 December 2006 the balances relating to the investments in and amounts due from subsidiary companies have been reanalysed. The Directors believe that the reanalysis of these balances make the nature of these assets more transparent to the user. The investment balance now reflects the cost of the investment in the subsidiaries and the intercompany balance reflects the movement of funds between the Group companies thereafter.

### Comparative period

The comparative period is six months in length. In the prior year the year end changed from 30 June to 31 December so as to achieve consistency across all group members.

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 2 Revenue

Group revenue is constituted from two principal sources:

a. The sale of electricity. Electricity is generated at the two windparks in Germany. This is at a fixed price of Euro 85.3 per Mega Watt hour under the conditions of German renewables legislation (Kesfeld only). This price is fixed for a period of 20 years. Amounts receivable from this arrangement in the year were £3,513,491 (31 December 2006: £1,363,081). Electricity is also generated at the landfill gas site in Wales. The amounts receivable under this arrangement in the year were £278,091 (31 December 2006 £81,460).

b. Licence fees. Licence fee income has been recognised on an accruals basis over the life of the agreement. Amounts receivable under this arrangement in the year was £750,000.

There are other items of revenue totalling £43,328. For further information see note 6.

## 3 Loss from operations

|  | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|--|-------------------------------------|---|
| This has been arrived at after charging/(crediting):   |                                     |   |
| Staff costs (see note 4)   | 944,139                             | 616,563                                   |
| Exchange differences   | (3,859)                             | 67,286                                    |
| Research and development costs – CETO (excluding staff costs)  | -                                   | 446,080                                   |
| Depreciation charge  | 1,721,008                           | 621,867                                   |
| Amortisation expense   | 105,358                             | 52,679                                    |
| Operating lease expense  | 349,966                             | 180,475                                   |
| Audit fees   | 49,727                              | 72,106                                    |
| Fees paid to the Company's auditors for non-audit services provided to the Company and UK subsidiaries | 10,038                              | 2,900                                     |

Audit fees include an amount of £42,854 in respect of the Company (31 December 2006: £45,688).

## 4 Staff costs

|   | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|---|-------------------------------------|---|
| Staff costs (including Directors) comprise:                   |                                     |   |
| Wages and salaries  | 1,024,055                           | 410,133                                   |
| Paid to third parties   | 5,600                               | 73,600                                    |
| Defined contribution pension cost                             | 84,712                              | 37,666                                    |
| Share-based payment expense (see note 22)                     | 24,404                              | 28,144                                    |
| Employer's national insurance contributions and similar taxes | 118,861                             | 67,021                                    |
|   | 1,257,632                           | 616,564                                   |

## 5 Directors' remuneration

|   | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|---|-------------------------------------|---|
| Directors' emoluments                     | 363,618                             | 142,500                                   |
| Paid to third parties                     | -                                   | 73,600                                    |
| Defined contribution pension cost         | 20,500                              | 10,250                                    |
| Share-based payment expense (see note 22) | 14,276                              | 7,908                                     |
|   | 398,394                             | 234,258                                   |

There was one Director in the Company's defined contribution pension scheme during the period (31 December 2006: one).

The following share options were granted to Directors in the period (see note 22)

| Name            | 31 December<br>2007<br>Number | 31 December<br>2006<br>Number |
|-----------------|-------------------------------|-------------------------------|
| Mr M J Proffitt | 300,000                       | 265,000                       |

The above disclosures in respect of Directors are considered to cover all key management personnel.

## 6 Segment information

The Group's primary reporting format for reporting segment information is business segments, and the segments are defined as Head Office, CETO development, Windfarm and Landfill gas. This split coincides with a geographical origin split of activities; Head Office being on the Isle of Man, CETO development taking place in Australia, Windfarms being in Germany and Landfill gas being in Wales.

| Year ended 31 December 2007         | Head Office<br>Isle of Man<br>£ | CETO<br>Development<br>Australia<br>£ | Windfarm<br>Germany<br>£ | Landfill gas<br>Wales<br>£ | Total<br>£   |
|-------------------------------------|---------------------------------|---------------------------------------|--------------------------|----------------------------|--------------|
| <b>Income</b>                       |                                 |                                       |                          |                            |              |
| Revenue                             | 6,027                           | 37,301                                | 3,513,491                | 278,091                    | 3,834,910    |
| CETO licence fee income             | 750,000                         | -                                     | -                        | -                          | 750,000      |
| Finance income                      | 97,315                          | 7,539                                 | 72,604                   | -                          | 177,458      |
| Other income                        | -                               | 296,040                               | -                        | -                          | 296,040      |
| <b>Expenses</b>                     |                                 |                                       |                          |                            |              |
| Operational expenditure             | 2,299,740                       | -                                     | 956,897                  | 205,435                    | 3,462,072    |
| Finance costs                       | 30                              | 141                                   | 1,148,528                | -                          | 1,148,699    |
| Depreciation & amortisation         | -                               | -                                     | 1,643,952                | 182,415                    | 1,826,367    |
| Total profit/(loss) before taxation | (1,446,428)                     | 340,739                               | (163,282)                | (109,759)                  | (1,378,730)  |
| <b>Balance Sheet Assets</b>         |                                 |                                       |                          |                            |              |
| Property, plant & equipment         | -                               | -                                     | 35,115,121               | 206,195                    | 35,321,316   |
| Intangible assets                   | -                               | 6,606,574                             | -                        | 1,931,569                  | 8,538,143    |
| Current assets                      | 6,193,103                       | 429,346                               | 1,967,534                | 135,353                    | 8,725,336    |
| Liabilities                         | (101,510)                       | (185,903)                             | (27,597,758)             | (119,389)                  | (28,004,560) |
| Net assets                          | 6,091,593                       | 6,850,017                             | 9,484,897                | 2,153,728                  | 24,580,235   |
| Capital expenditure                 | -                               | -                                     | 7,992,823                | 81,521                     | 8,074,344    |
| Development expenditure             | -                               | 1,046,695                             | -                        | -                          | 1,046,695    |

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 6 Segment information (continued)

| Six months ended 31 December 2006   | Head Office<br>Isle of Man<br>£ | CETO<br>Development<br>Australia<br>£ | Windfarm<br>Germany<br>£ | Landfill gas<br>Wales<br>£ | Total<br>£   |
|-------------------------------------|---------------------------------|---------------------------------------|--------------------------|----------------------------|--------------|
| <b>Income</b>                       |                                 |                                       |                          |                            |              |
| Revenue                             | -                               | -                                     | 1,374,575                | 81,460                     | 1,456,035    |
| Finance income                      | 49,281                          | 4,078                                 | 17,567                   | -                          | 70,926       |
| <b>Expenses</b>                     |                                 |                                       |                          |                            |              |
| Operational expenditure             | 998,317                         | 507,310                               | 280,774                  | 153,548                    | 1,939,949    |
| Finance costs                       | -                               | -                                     | 411,988                  | -                          | 411,988      |
| Depreciation & amortisation         | -                               | -                                     | 590,883                  | 83,663                     | 674,546      |
| Other non-cash charge               | 28,144                          | -                                     | -                        | -                          | 28,144       |
| Retranslation                       | (74,215)                        | -                                     | -                        | -                          | (74,215)     |
| Total profit/(loss) before taxation | (902,965)                       | (503,232)                             | 108,497                  | (155,751)                  | (1,453,451)  |
| <b>Balance Sheet Assets</b>         |                                 |                                       |                          |                            |              |
| Property, plant & equipment         | -                               | -                                     | 26,476,201               | 201,728                    | 26,677,930   |
| Intangible assets                   | -                               | 5,559,878                             | -                        | 2,036,928                  | 7,596,805    |
| Current assets                      | 1,015,030                       | 206,811                               | 2,622,357                | 125,857                    | 3,970,055    |
| Liabilities                         | (119,909)                       | (110,582)                             | (20,555,921)             | (147,365)                  | (20,933,777) |
| Net assets                          | 895,121                         | 5,656,107                             | 8,542,637                | 2,217,148                  | 17,311,013   |
| Capital expenditure                 | -                               | -                                     | 4,620,489                | -                          | 4,260,489    |

All intercompany balances and transaction are excluded from the above analysis.

## 7 Finance income and expense

|                        | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|------------------------|-------------------------------------|---|
| <b>Finance expense</b> |                                     |   |
| Bank borrowings        | 745,196                             | 411,988                                   |
| Refinancing costs      | 403,503                             | -   |
|                        | 1,148,699                           | 411,988                                   |
| <b>Finance income</b>  |                                     |   |
| Bank interest received | 177,458                             | 70,926                                    |

During the year the Group's loan facilities with Hypo- und Vereinsbank AG were refinanced with Standard Chartered Bank, refinancing costs relate to the write off of the original capitalised loan issue costs with Hypo- und Vereinsbank AG.

## 8 Tax expense

|   | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|---|-------------------------------------|---|
| <b>Current tax expense</b>                        |                                     |   |
| Income tax on loss for the period                 | 61,885                              | 101,550                                   |
| <b>Deferred tax expense</b>                       |                                     |   |
| Origination and reversal of temporary differences | 10,847                              | (16,034)                                  |
| Total tax   | 72,732                              | 85,516                                    |

The reasons for the difference between the actual tax charge for the period and the standard rate of income tax in the Isle of Man applied to profits for the period are as follows:

|  | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|--|-------------------------------------|---|
| Loss before tax  | 1,378,730                           | 1,453,451                                 |
| Expected tax charge based on the standard rate of income tax in the Isle of Man of 0% (31 December 2006: 0%) | -                                   | -   |
| Unutilised tax losses  | 134,617                             | 151,800                                   |
| Different tax rates applied in overseas jurisdictions  | (61,885)                            | (66,284)                                  |
|  | 72,732                              | 85,516                                    |

## 9 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method.

The movement on the deferred tax account is as shown below:

|   | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|---|-------------------------------------|---|
| At 1 January/ 1 July                              | 93,497                              | 109,531                                   |
| Origination and reversal of temporary differences | 10,847                              | (16,034)                                  |
| At 31 December                                    | 104,344                             | 93,497                                    |

## 10 Loss per share

|  | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|--|-------------------------------------|---|
| <b>Numerator</b>   |                                     |   |
| Loss used in basic and diluted EPS                                   | 1,451,462                           | 1,538,967                                 |
| <b>Denominator</b>   |                                     |   |
| Weighted average number of shares used in basic and diluted EPS      | 51,540,532                          | 45,266,669                                |
| The loss figure used in this calculation is the loss for the period. |                                     |   |
|  | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
| Total share options in issue (see note 22)                           | 5,487,500                           | 5,594,167                                 |

The effect of all the above share options granted is anti-dilutive, they have been omitted from the calculation of loss per share.

## 11 Loss for the financial period

The Company has taken advantage of the exemption allowed under Part 1 section 3(5) of the Isle of Man Companies Act 1982 and has not presented its own profit and loss account in these financial statements. The Group loss for the period includes a loss for the Company of £793,801 (Six months ended 31 December 2006: £843,937).

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 12 Operating lease commitments

The total of future minimum lease payments are due as follow:

| Group                              | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|------------------------------------|-------------------------------------|---|
| <b>Land &amp; property rental:</b> |                                     |   |
| Within one year                    | 367,283                             | 354,262                                   |
| Within two to five years           | 1,363,864                           | 1,061,710                                 |
| Over five years                    | 4,658,934                           | 3,579,482                                 |
|                                    | 6,390,081                           | 4,995,454                                 |
| <b>Plant &amp; equipment:</b>      |                                     |   |
| Within one year                    | 66,150                              | 66,144                                    |
| Within two to five years           | 264,600                             | 264,576                                   |
| Over five years                    | 82,688                              | 88,192                                    |
|                                    | 413,438                             | 418,912                                   |

## Company

| Company                            | Year ended<br>31 December 2007<br>£ | Six months ended<br>31 December 2006<br>£ |
|------------------------------------|-------------------------------------|---|
| <b>Land &amp; property rental:</b> |                                     |   |
| Within one year                    | 52,635                              | 47,850                                    |
| Within two to five years           | 105,270                             | 3,988                                     |
| Over five years                    | -                                   | -   |
|                                    | 157,905                             | 51,838                                    |

## 13 Property, plant and equipment

|                                 | 2007<br>Plant and Machinery<br>£ | 2006<br>Plant and Machinery<br>£ |
|---------------------------------|----------------------------------|----------------------------------|
| <b>Cost</b>                     |                                  |                                  |
| 1 January                       | 27,884,326                       | 23,894,662                       |
| Additions                       | 8,074,344                        | 4,620,489                        |
| Exchange differences            | 2,589,373                        | (630,825)                        |
| 31 December                     | 38,548,043                       | 27,884,326                       |
| <b>Accumulated Depreciation</b> |                                  |                                  |
| 1 January                       | (1,206,397)                      | (601,056)                        |
| Charge for the year/period      | (1,721,008)                      | (621,867)                        |
| Disposals                       | -                                | -                                |
| Exchange differences            | (299,322)                        | 16,526                           |
| 31 December                     | (3,226,727)                      | (1,206,397)                      |
| <b>Net Book Value</b>           |                                  |                                  |
| 31 December                     | 35,321,316                       | 26,677,929                       |
| 1 January/1 July                | 26,677,929                       | 23,293,606                       |

## 14 Intangible assets

|                                 | Landfill gas<br>rights<br>£ | Goodwill<br>£ | Development<br>costs<br>£ | 2007<br>Total<br>£ | 2006<br>Total<br>£ |
|---------------------------------|-----------------------------|---------------|---------------------------|--------------------|--------------------|
| <b>Cost</b>                     |                             |               |                           |                    |                    |
| 1 January/1 July                | 2,107,167                   | 5,559,878     | -                         | 7,667,045          | 7,667,045          |
| Additions                       | -                           | -             | 1,046,695                 | 1,046,695          | -                  |
| 31 December                     | 2,107,167                   | 5,559,878     | 1,046,695                 | 8,713,740          | 7,667,045          |
| <b>Accumulated Amortisation</b> |                             |               |                           |                    |                    |
| 1 January/1 July                | (70,239)                    | -             | -                         | (70,239)           | (17,560)           |
| Charge for the year/period      | (105,358)                   | -             | -                         | (105,358)          | (52,679)           |
| 31 December                     | (175,597)                   | -             | -                         | (175,597)          | (70,239)           |
| <b>Net Book Value</b>           |                             |               |                           |                    |                    |
| 31 December                     | 1,931,570                   | 5,559,878     | 1,046,695                 | 8,538,143          | 7,596,806          |
| 1 January/1 July                | 2,036,928                   | 5,559,878     | -                         | 7,596,806          | 7,649,485          |

The costs of landfill gas rights are being amortised over the period to 30 April 2026.

Development costs are assessed for impairment on the basis of an estimate of the asset's value in use.

## 15 Subsidiaries

### Group

The principal subsidiaries of Renewable Energy Holdings plc, all of which have been included in these consolidated financial statements, are as follows:

| Name  | Country of<br>incorporation | Proportion of<br>ownership interest |
|---|-----------------------------|-------------------------------------|
| Seapower Pacific Pty Limited                | Australia                   | 100%                                |
| REH Verwaltung GmbH                         | Germany                     | 100%                                |
| Windpark Kesfeld Heckhuscheid GmbH & Co KG* | Germany                     | 100%                                |
| Windpark Kirf GmbH & Co KG*                 | Germany                     | 100%                                |
| REH Landfill Gas (Wales) Limited            | Isle of Man                 | 100%                                |
| REH Global Limited                          | Isle of Man                 | 100%                                |
| Gwynt Cymru Limited*                        | UK                          | 100%                                |

\* These subsidiaries are owned indirectly by Renewable Energy Holdings plc, via the Company's directly owned subsidiaries.

The principal activity of Seapower Pacific Pty Ltd is research and development for the purposes of developing technology to capture energy produced by ocean waves to generate electricity and produce as a by-product, desalinated water.

The principal activity of Windpark Kesfeld Heckhuscheid GmbH & Co KG and Windpark Kirf GmbH & Co KG is the ownership and operation of windparks in Germany.

REH Landfill Gas Wales Ltd, REH Verwaltung GmbH and REH Global Limited are intermediate holding companies.

REH Beteiligung GmbH & Co KG an intermediate holding entity was dissolved in the year.

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 15 Subsidiaries (continued)

### Company

| Investments                      | 31 December 2007<br>£ | 31 December 2006<br>£ |
|----------------------------------|-----------------------|-----------------------|
| REH Landfill Gas (Wales) Limited | 2,000                 | 2,000                 |
| REH Verwaltung GmbH              | 16,823                | 16,823                |
| REH Beteiligung GmbH & Co KG     | -                     | 6,729                 |
| REH Global Limited               | 2,000                 | -                     |
| Seapower Pacific Pty Limited     | 749,702               | 749,702               |
|                                  | 770,525               | 775,254               |

## 16 Intercompany Accounts

|  | 31 December 2007<br>£ | 31 December 2006<br>£ |
|--|-----------------------|-----------------------|
| REH Landfill Gas (Wales) Limited           | 2,342,303             | 2,342,303             |
| REH Verwaltung GmbH                        | 40,258                | 7,809                 |
| REH Beteiligung GmbH & Co KG               | -                     | 6,184,900             |
| Windpark Kesfeld Heckhuscheid GmbH & Co KG | 7,971,447             | 2,103,370             |
| Windpark Kirf GmbH & Co KG                 | 2,614,753             | 67,289                |
| Gwynt Cymru Limited                        | 283,722               | 122,125               |
| Seapower Pacific Pty Limited               | 7,673,022             | 6,509,554             |
|  | 20,925,505            | 17,337,350            |

Intercompany balances with the German subsidiaries of £10,628,458 (31 December 2006: £ 6,170,358) attract an interest rate of 0.5%. Intercompany balances with the other subsidiaries are interest free.

## 17 Trade and other receivables

|                              | Group<br>31 December<br>2007<br>£ | Company<br>31 December<br>2007<br>£ | Group<br>31 December<br>2006<br>£ | Company<br>31 December<br>2006<br>£ |
|------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Sales tax                    | 22,518                            | 26,080                              | 465,357                           | 19,851                              |
| Accounts receivable          | 832,517                           | 104                                 | 483,438                           | 34,305                              |
| Other receivables            | 89,393                            | 6,500                               | 220,298                           | 15,430                              |
| Prepayments & accrued income | 665,855                           | 220,989                             | 102,173                           | 29,687                              |
|                              | 1,610,283                         | 253,673                             | 1,271,266                         | 99,273                              |

## 18 Trade and other payables

|                                 | Group<br>31 December<br>2007<br>£ | Company<br>31 December<br>2007<br>£ | Group<br>31 December<br>2006<br>£ | Company<br>31 December<br>2006<br>£ |
|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Accounts payable                | 171,095                           | 31,743                              | 4,013,752                         | -                                   |
| Sales and social security taxes | 105,084                           | 15,266                              | 19,864                            | 14,046                              |
| Accruals and other payables     | 981,779                           | 54,500                              | 409,218                           | 105,863                             |
|                                 | 1,257,958                         | 101,509                             | 4,442,834                         | 119,909                             |

## 19 Financial assets and liabilities-numerical information

### a) Maturity of borrowings

The carrying amounts of borrowings, all of which are exposed to cash flow or fair value interest rate risk, are undiscounted and repayable as follows:

| Group   | 31 December<br>2007<br>£ | 31 December<br>2006<br>£ |
|---|--------------------------|--------------------------|
| In less than one year                                 | 1,938,338                | 1,356,277                |
| In more than one year but not more than two years     | 2,011,281                | 1,278,520                |
| In more than two years but not more than three years  | 2,020,048                | 1,293,053                |
| In more than three years but not more than four years | 2,078,068                | 1,283,318                |
| In more than four years but not more than five years  | 1,926,578                | 1,185,464                |
| In more than five years                               | 16,587,503               | 9,912,430                |
|   | 26,561,816               | 16,309,062               |

There is an undrawn loan facility of £63,903,754 at 31 December 2007 (31 December 2007: £3,351,053).

### Company

All borrowings relate to group companies, the Company has no borrowing in its own right.

### b) Currency and interest profile

The currency and interest profile of the Group's financial assets and liabilities are as follows:

| 31 December 2007   | Interest Free<br>Assets<br>£ | Floating<br>Rate Assets<br>£ | Interest<br>rate | Fixed rate<br>Assets<br>£ | Interest<br>rate | Total<br>Assets<br>£ |
|--------------------|------------------------------|------------------------------|------------------|---------------------------|------------------|----------------------|
| <b>Group</b>       |                              |                              |                  |                           |                  |                      |
| Sterling           | 348,510                      | 1,956,017                    | 2.70%            | 2,245,000                 | 6.10%            | 4,549,527            |
| Euros              | 1,320,826                    | 2,721,676                    | 2.62%            | -                         | -                | 4,042,502            |
| Australian Dollars | 37,830                       | 45,752                       | 6.70%            | 49,725                    | 5.60%            | 133,307              |
| Total              | 1,707,166                    | 4,723,445                    |                  | 2,294,725                 |                  | 8,725,336            |
| <b>Company</b>     |                              |                              |                  |                           |                  |                      |
| Sterling           | 2,877,925                    | 1,915,275                    | 2.70%            | 2,245,000                 | 6.10%            | 7,038,200            |
| Euros              | 74,065                       | -                            | -                | 10,628,459                | 0.50%            | 10,702,524           |
| Australian Dollars | 7,673,021                    | -                            | -                | -                         | -                | 7,673,021            |
| Total              | 10,625,011                   | 1,915,275                    |                  | 12,873,459                |                  | 25,413,745           |

### 31 December 2007

|                    | Interest free<br>liabilities<br>£ | Floating<br>rate liabilities<br>£ | Interest<br>rate | Fixed rate<br>liabilities<br>£ | Interest<br>rate | Liabilities<br>£ |
|--------------------|-----------------------------------|-----------------------------------|------------------|--------------------------------|------------------|------------------|
| <b>Group</b>       |                                   |                                   |                  |                                |                  |                  |
| Sterling           | 220,899                           | -                                 | -                | -                              | -                | 220,899          |
| Euros              | 931,598                           | 10,286,371                        | 5.77%            | 16,275,445                     | 2.53%            | 27,493,414       |
| Australian Dollars | 185,902                           | -                                 | -                | -                              | -                | 185,902          |
| Total              | 1,338,399                         | 10,286,371                        |                  | 16,275,445                     |                  | 27,900,215       |
| <b>Company</b>     |                                   |                                   |                  |                                |                  |                  |
| Sterling           | 101,509                           | -                                 | -                | -                              | -                | 101,509          |
| Euros              | -                                 | -                                 | -                | -                              | -                | -                |
| Australian Dollars | -                                 | -                                 | -                | -                              | -                | -                |
| Total              | 101,509                           | -                                 |                  | -                              |                  | 101,509          |

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 19 Financial assets and liabilities-numerical information (continued)

31 December 2006

|                    | Interest free assets<br>£ | Floating rate assets<br>£ | Interest rate | Fixed rate assets<br>£ | Interest rate | Total assets<br>£ |
|--------------------|---------------------------|---------------------------|---------------|------------------------|---------------|-------------------|
| <b>Group</b>       |                           |                           |               |                        |               |                   |
| Sterling           | 40,888                    | 963,683                   | 5.22%         | -                      | -             | 1,004,571         |
| Euros              | 442,550                   | 1,588,223                 | 1.84%         | -                      | -             | 2,030,773         |
| Australian Dollars | -                         | 146,883                   | 5.43%         | -                      | -             | 146,883           |
| <b>Total</b>       | <b>483,438</b>            | <b>2,698,789</b>          |               | <b>-</b>               |               | <b>3,182,227</b>  |
| <b>Company</b>     |                           |                           |               |                        |               |                   |
| Sterling           | 2,398,733                 | 915,757                   | 5.22%         | -                      | -             | 3,314,490         |
| Euros              | 2,192,426                 | -                         | -             | 6,170,358              | 0.50%         | 8,362,784         |
| Australian Dollars | -                         | -                         | -             | -                      | -             | -                 |
| <b>Total</b>       | <b>4,591,159</b>          | <b>915,757</b>            |               | <b>6,170,358</b>       |               | <b>11,677,274</b> |

31 December 2006

|                    | Interest free liabilities<br>£ | Floating rate liabilities<br>£ | Interest rate | Fixed rate liabilities<br>£ | Interest rate | Total Liabilities<br>£ |
|--------------------|--------------------------------|--------------------------------|---------------|-----------------------------|---------------|------------------------|
| <b>Group</b>       |                                |                                |               |                             |               |                        |
| Sterling           | 93,062                         | -                              | -             | -                           | -             | 93,062                 |
| Euros              | 3,829,168                      | 3,610,314                      | 5.05%         | 12,698,748                  | 4.21%         | 20,138,230             |
| Australian Dollars | 91,522                         | -                              | -             | -                           | -             | 91,522                 |
| <b>Total</b>       | <b>4,013,752</b>               | <b>3,610,314</b>               |               | <b>12,698,748</b>           |               | <b>20,322,814</b>      |
| <b>Company</b>     |                                |                                |               |                             |               |                        |
| Sterling           | -                              | -                              | -             | -                           | -             | -                      |
| Euros              | -                              | -                              | -             | -                           | -             | -                      |
| Australian Dollars | -                              | -                              | -             | -                           | -             | -                      |
| <b>Total</b>       | <b>-</b>                       | <b>-</b>                       |               | <b>-</b>                    |               | <b>-</b>               |

### c) Fair value

The financial assets and liabilities have been discounted to their fair value below. The discount rate used is 7%. The Directors consider this reasonable based on the interest rates applicable elsewhere in the Group.

| <b>Group</b>       | 31 December 2007<br>Carrying Value<br>£ | 31 December 2007<br>Fair Value<br>£ | 31 December 2006<br>Carrying Value<br>£ | 31 December 2006<br>Fair Value<br>£ |
|--------------------|---|-------------------------------------|---|-------------------------------------|
| <b>Assets</b>      |   |                                     |   |                                     |
| Sterling           | 4,549,527                               | 4,251,895                           | 1,004,571                               | 938,851                             |
| Euro               | 4,042,502                               | 3,778,039                           | 2,030,773                               | 1,897,919                           |
| Australian Dollars | 133,307                                 | 124,586                             | 146,883                                 | 137,274                             |
| <b>Total</b>       | <b>8,725,336</b>                        | <b>8,154,520</b>                    | <b>3,182,227</b>                        | <b>2,974,044</b>                    |
| <b>Liabilities</b> |   |                                     |   |                                     |
| Sterling           | 220,899                                 | 206,448                             | 93,062                                  | 86,974                              |
| Euro               | 27,493,414                              | 25,694,780                          | 20,138,230                              | 18,820,776                          |
| Australian Dollars | 185,902                                 | 173,740                             | 91,522                                  | 85,535                              |
| <b>Total</b>       | <b>27,900,215</b>                       | <b>26,074,968</b>                   | <b>20,322,814</b>                       | <b>18,993,285</b>                   |

## Company

|                    | 31 December 2007<br>Carrying Value<br>£ | 31 December 2007<br>Fair Value<br>£ | 31 December 2006<br>Carrying Value<br>£ | 31 December 2006<br>Fair Value<br>£ |
|--------------------|---|-------------------------------------|---|-------------------------------------|
| <b>Assets</b>      |   |                                     |   |                                     |
| Sterling           | 7,038,200                               | 6,577,757                           | 3,314,390                               | 3,097,654                           |
| Euro               | 10,702,524                              | 10,002,359                          | 8,362,784                               | 7,815,686                           |
| Australian Dollars | 7,673,021                               | 7,171,048                           | -                                       | -                                   |
| <b>Total</b>       | <b>25,413,745</b>                       | <b>23,751,164</b>                   | <b>11,677,174</b>                       | <b>10,913,340</b>                   |
| <b>Liabilities</b> |   |                                     |   |                                     |
| Sterling           | 101,509                                 | 94,869                              | -                                       | -                                   |
| Euro               | -                                       | -                                   | -                                       | -                                   |
| Australian Dollars | -                                       | -                                   | -                                       | -                                   |
| <b>Total</b>       | <b>101,509</b>                          | <b>94,869</b>                       | <b>-</b>                                | <b>-</b>                            |

### d) Security and restrictions

All the assets in the German subsidiaries are pledged as security for the euro-denominated loans above. The net assets of the subsidiaries have a book value of £9,484,897 (31 December 2006 £8,542,637). The loans were granted in the names of the subsidiary companies.

Under the terms of the financing agreement with Standard Chartered Bank, Group cash balances include a Debt Service Reserve Account balance which is not available for distribution within the Group until the loan is repaid. The balance on this account will reduce in proportion to the loan liability, at the year end the balance was £1,555,467 (31 December 2006 £994,501). There is a further restricted cash balance of £1,188,789 (31 December 2006 £560,042), which is not available to the Group at 31 December 2007, the restrictions allow this cash to be spent on servicing the debt and defraying the running costs of the subsidiaries in Germany. Surplus funds are available for distribution within the Group every six months.

## 20 Financial Instruments – Risk Management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Debt
- Trade payables

All financial assets are designated as loans and receivables and all financial liabilities are measured at amortised cost.

| <b>Group</b>                         | Loans and receivables |                  | Financial Liabilities measured at amortised costs |                    |
|--------------------------------------|-----------------------|------------------|---|--------------------|
|                                      | 2007<br>£             | 2006<br>£        | 2007<br>£   | 2006<br>£          |
| <b>Current financial assets</b>      |                       |                  |   |                    |
| Trade and other receivables          | 1,610,283             | 1,271,266        | -   | -                  |
| Cash and cash equivalents            | 7,115,053             | 2,698,789        | -   | -                  |
| <b>Current financial liabilities</b> |                       |                  |   |                    |
| Trade and other payables             | -                     | -                | (1,359,801)                                       | (4,442,834)        |
| <b>Total</b>                         | <b>8,725,336</b>      | <b>3,970,055</b> | <b>(1,359,801)</b>                                | <b>(4,442,834)</b> |

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 20 Financial Instruments – Risk Management (continued)

| Company                              | Loans and receivables |                   | Financial Liabilities measured at amortised costs |                  |
|--------------------------------------|-----------------------|-------------------|---|------------------|
|                                      | 2007                  | 2006              | 2007  | 2006             |
|                                      | £                     | £                 | £   | £                |
| <b>Current financial assets</b>      |                       |                   |   |                  |
| Intercompany accounts                | 20,925,505            | 17,337,350        | -   | -                |
| Trade and other receivables          | 253,673               | 99,273            | -   | -                |
| Cash and cash equivalents            | 4,234,567             | 915,757           | -   | -                |
| <b>Current financial liabilities</b> |                       |                   |   |                  |
| Trade and other payables             | -                     | -                 | (101,509)   | (119,909)        |
| <b>Total</b>                         | <b>25,413,745</b>     | <b>18,352,380</b> | <b>(101,509)</b>                                  | <b>(119,909)</b> |

### General objectives, policies and procedures

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Chief Financial Officer.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### Credit Risk

Credit risk arises principally from the Group's trade receivables.

The Group trades only with reputable third parties. For this reason the Group does not credit check customers before it enters into business with them. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group derives 80% of its revenues from one major customer, however the inherent risk is mitigated by the customer being a recognised, reputable third party, by amounts receivable being collected on a monthly basis, and by the fact that the Group has no trade receivables overdue and has never suffered any bad debt. The maximum exposure to credit risk is the trade receivable balance at the year end.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty. The maximum exposure is equal to the carrying amount of these assets. The Group does not have any assets past due.

### Liquidity Risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. See maturity table in note 19a. The Group has structured the repayment of the finance in such a manner that it will generate sufficient cash flows arising from the secured assets to service the debt as repayment falls due.

The Group's policy regarding liquidity is to ensure sufficient cash resources are maintained to meet short-term liabilities. The cash generated from the financed assets are restricted by debt covenants that maintain sufficient cash reserves to service the loan. The Group's operations are financed by a mixture of equity and long term loans. Long term loans carry interest rates as shown in note 19 and are used to finance capital expenditure. Working capital requirements are met principally out of equity. In addition, various financial instruments such as trade debtors and trade creditors arise directly from the Company's operations.

The only significant financial asset the Group has is cash at bank. Cash is held either on current or on short term deposits at floating rates of interest determined by the relevant bank's prevailing base rate. Part of the cash at bank is held in Euro accounts.

### Currency Risk

Foreign exchange risk arises because the Group has operations located in various parts of the world whose functional currency is not the same as the Group's primary functional currency. Although its geographic spread arguably reduces the Group's risk in that it has diversified into several markets, the net assets from such overseas operations are exposed to currency risk giving rise to gains or losses on translation into sterling. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the cash flow risk created from such hedging techniques warrants the reduction in volatility in consolidated net assets.

The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the financial assets and financial liabilities of the Group that are not denominated in the operating ('functional') currency of the operating unit involved.

As at 31 December 2007, these exposures were as follows:

### Net foreign currency financial assets/(liabilities)

|                          | Financial assets  |                   | Financial liabilities |                     |
|--------------------------|-------------------|-------------------|-----------------------|---------------------|
|                          | 2007              | 2006              | 2007                  | 2006                |
|                          | £                 | £                 | £                     | £                   |
| Euro                     | 39,247,919        | 29,098,558        | (28,911,631)          | (20,555,291)        |
| Australian dollar        | 429,346           | 206,811           | (185,902)             | (110,582)           |
| <b>As at 31 December</b> | <b>39,677,265</b> | <b>29,305,369</b> | <b>(28,097,533)</b>   | <b>(20,655,873)</b> |

The foreign currency exposures disclosed above arise in Renewable Energy Holdings plc only. The Group's overseas subsidiaries functional currencies are Euros and Australian Dollars, it has no significant exposure to other currencies.

If the exchange rate on uncovered exposures were to move significantly between the year end and date of payment or receipt there could be an impact on the Group's gross profit. As all financial assets and liabilities are short term in nature, this risk is not considered to be material.

The long term liabilities and the cashflow generated to service it are in the same currency mitigating foreign exchange risk. All other financial assets and liabilities are short term in nature presenting no material risk.

### Capital

The Group considers its capital to comprise its ordinary share capital, share premium, accumulated retained earnings and long term debt. In managing its capital, the Group's primary objective is to ensure its future ability to provide a return for its equity shareholders through a combination of capital growth and distributions. The Group has historically considered equity and long term debt funding as the most appropriate form of financing the Group's activities but keeps this under review bearing in mind the risks, costs and benefits to equity shareholders of introducing debt finance.

## 21 Share capital

|                                      | Authorised<br>31 December<br>2007<br>Number | 31 December<br>2007<br>£                                     | Authorised<br>31 December<br>2006<br>Number | 31 December<br>2006<br>£                                     |
|--------------------------------------|---|--|---|--|
| <b>Ordinary shares of 1p each</b>    |   |  |   |  |
| At the end of the period             | 150,000,000                                 | 1,500,000  | 150,000,000                                 | 1,500,000  |
|                                      |   | Issued and<br>fully paid up<br>31 December<br>2007<br>Number |   | Issued and<br>fully paid up<br>31 December<br>2006<br>Number |
| <b>Ordinary shares of 1p each</b>    |   |  |   |  |
| At the beginning of the year         | 45,266,669                                  | 452,666  | 45,266,669                                  | 452,666  |
| Issues for cash during the period    | 16,692,000                                  | 166,920  | -   | -  |
| At the end of the period             | 61,958,669                                  | 619,586  | 45,266,669                                  | 452,666  |
| <b>Warrants</b>                      |   |  |   |  |
| At the beginning of the period       | 11,900,000                                  |  | 11,900,000                                  |  |
| Issues during the period             | -   |  | -   |  |
| Exercised during the period          | (8,692,000)                                 |  | -   |  |
| Outstanding at the end of the period | 3,208,000                                   |  | 11,900,000                                  |  |

Of the 16,692,000 shares issued for the cash in the year 8,692,000 were in satisfaction of warrants exercised.

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 21 Share capital (continued)

3,208,000 warrants were in issue as at the 31 December 2007. On the 4 March 2008 600,000 were exercised at 50p per share, the remaining warrants expired on the 7 March 2008.

During the period, the following shares were issued by the Company:

| Date           | Number    | Price              |
|----------------|-----------|--------------------|
| 8 August 2007  | 8,000,000 | 50 pence per share |
| 23 August 2007 | 8,692,000 | 50 pence per share |

Additional shares will be issued if share options, as described in note 22, are exercised.

## 22 Share-based payment

The Company operates a share option scheme for employees. The only vesting condition being that the individual remains an employee as at the vesting date.

### Options granted during the year

Options over 605,000 shares have been granted to Directors and Employees at an exercise price of 46p per share being the closing mid price on the day of the award. The options were granted on 21 August 2007 with a vesting period of three years and a ten year contractual term from the date of the grant.

|  | Year ended<br>31 December<br>2007              |           | Six months<br>31 December<br>2006              |           |
|--|--|-----------|--|-----------|
|  | Weighted<br>average<br>exercise price<br>(PPS) | Number    | Weighted<br>average<br>exercise price<br>(PPS) | Number    |
| Outstanding at the beginning of the period | 55.23  | 5,594,167 | 55.23  | 5,594,167 |
| Granted during the period                  | 46.00  | 605,000   | -  | -         |
| Forfeited during the period                | 55.67  | (260,000) | -  | -         |
| Exercised during the period                | -  | -         | -  | -         |
| Outstanding at the end of the period       | 57.69  | 5,939,167 | 55.23  | 5,594,167 |
| Exercisable at the end of the period       | 59.30  | 4,956,667 | 55.07  | 4,801,667 |

|  | Number<br>of options | Grant date | Exercise price<br>(pps) | Vesting period<br>(yrs) | Option period<br>(yrs) |
|--|----------------------|------------|-------------------------|-------------------------|------------------------|
| <b>As at 31 December 2006</b>  |                      |            |                         |                         |                        |
| Founder option<br>(Exercise price increasing by 10% of original price each year) | 4,060,000            | 11/02/05   | 55.0                    | -                       | 10                     |
| Company nominated advisors (2005)  | 290,000              | 11/02/05   | 50.0                    | -                       | 5                      |
| Staff options (2005)   | 285,000              | 10/05/05   | 56.5                    | 3                       | 10                     |
| Company nominated advisors (2006)  | 451,667              | 06/04/06   | 59.0                    | -                       | 5                      |
| Staff Options (2006)   | 507,500              | 28/03/06   | 56.0                    | 3                       | 10                     |
| <b>Total options</b>   | <b>5,594,167</b>     |            |                         |                         |                        |

### As at 31 December 2007

|  | Number<br>of options | Grant date | Exercise price<br>(pps) | Vesting period<br>(yrs) | Option period<br>(yrs) |
|--|----------------------|------------|-------------------------|-------------------------|------------------------|
| Founder option<br>(Exercise price increasing by 10% of original price each year) | 4,060,000            | 11/02/05   | 60.0                    | -                       | 10                     |
| Company nominated advisors (2005)  | 290,000              | 11/02/05   | 50.0                    | -                       | 5                      |
| Staff options (2005)   | 155,000              | 10/05/05   | 56.5                    | 3                       | 10                     |
| Company nominated advisors (2006)  | 451,667              | 06/04/06   | 59.0                    | -                       | 5                      |
| Staff Options (2006)   | 392,500              | 28/03/06   | 56.0                    | 3                       | 10                     |
| Staff Options (2007)   | 590,000              | 21/08/07   | 46.0                    | 3                       | 10                     |
| <b>Total options</b>   | <b>5,939,167</b>     |            |                         |                         |                        |

The weighted average remaining contractual life of the share options at 31 December 2007 is 6 years 11 months (31 December 2006: 7 years 8 months).

Of the 605,000 share options that were granted to staff during the year 15,000 were forfeited prior to 31 December 2007.

The following information is relevant in the determination of the fair value of options granted during the prior period.

### Equity-settled

|                           |               |
|---------------------------|---------------|
| Option pricing model used | Black Scholes |
| Risk-free rate of return  | 4.12%         |

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices since flotation, where relevant, and otherwise by comparison with the volatility of comparable shares. A volatility of 40% has been used for the valuation of options granted in the year.

The Board has not set a dividend policy. Accordingly the options have been valued on the basis of no dividend being paid.

An assumption has been made that all options will be exercised at the economically optimum time but no later than five years after granting. Exercise prices and issue prices were factored in to the model in accordance with the option descriptions above.

|  | Year ended<br>31 December<br>2007<br>£ | Six months<br>31 December<br>2006<br>£ |
|--|--|--|
| The share-based remuneration comprises : |  |  |
| Equity-settled schemes                   | 24,404                                 | 28,144                                 |

All options of the same class have been valued on the same basis.

## 23 Related party transactions

### Group

During the year Carnegie Corporation Limited agreed to purchase the rights to use the CETO technology in the Southern Hemisphere for £4,750,000 plus a licence fee of 2% of total investment for each project and an annual royalty of 2.5% of net earnings. £750,000 has been recognised in revenue during the current reporting period, at the year end cash of £529,011 had been received. £220,989 of the income is included in trade and other receivables. During the prior period £9,505 was paid to Carnegie Corporation Limited in respect of administration services received. Mr Alan Burns, a Director of Renewable Energy Holdings plc and Seapower Pacific Pty Limited is Chairman of Carnegie Corporation.

### Company

An amount of £2,441 (31 December 2006: £10,228) has been invoiced and received from BPC Ltd in respect of office costs and rent. No amounts were outstanding at the year end, (31 December 2006: £34,305). Mr Alan Burns and Mr Michael Proffitt are Directors of both Renewable Energy Holdings plc and BPC Ltd.

The Company has intercompany accounts with subsidiaries as shown in note 15.

Increase/(decrease) of funding in subsidiaries:

|  | 31 December 2007<br>£ |
|--|-----------------------|
| REH Landfill Gas (Wales) Limited           | -                     |
| REH Verwaltung GmbH                        | 32,449                |
| REH Beteiligung GmbH & Co KG               | (6,184,900)           |
| REH Global (Isle of Man) Limited           | (2000)                |
| Windpark Kesfeld Heckhuscheid GmbH & Co KG | 5,868,077             |
| Windpark Kirf GmbH & Co KG                 | 2,549,464             |
| Gwynt Cymru Limited                        | 161,597               |
| Seapower Pacific Pty Limited               | 1,163,468             |
|  | <b>3,588,155</b>      |

### Director's remuneration

Directors' remuneration is disclosed in note 5.

# Notes forming part of the financial statements (continued)

for the year ended 31 December 2007

## 24 Notes supporting cash flow statement

|  | 31 December<br>2007<br>£ | 31 December<br>2006<br>£ |
|--|--------------------------|--------------------------|
| <b>Group</b>   |                          |                          |
| Cash and cash equivalents comprises:                     |                          |                          |
| Cash available on demand                                 | 4,820,301                | 741,620                  |
| Short-term deposits                                      | 2,294,752                | 1,957,169                |
|  | 7,115,053                | 2,698,789                |
| Net increase/(decrease) in cash and cash equivalents     | 4,416,264                | (2,980,051)              |
| Cash and cash equivalents at the beginning of the period | 2,698,789                | 5,678,840                |
| Cash and cash equivalents at end of period               | 7,115,053                | 2,698,789                |

£2,744,256 (31 December 2006: £1,588,223) of cash and cash equivalents held in Germany are restricted under the terms of the loan agreement covering borrowings disclosed in Note 19a.

|  | 31 December<br>2007<br>£ | 31 December<br>2006<br>£ |
|--|--------------------------|--------------------------|
| <b>Company</b>   |                          |                          |
| Cash and cash equivalents comprises:                     |                          |                          |
| Cash available on demand                                 | 1,989,567                | -                        |
| Short-term deposits                                      | 2,245,000                | 915,757                  |
|  | 4,234,567                | 915,757                  |
| Net increase/(decrease) in cash and cash equivalents     | 3,318,810                | (2,620,979)              |
| Cash and cash equivalents at the beginning of the period | 915,757                  | 3,536,736                |
| Cash and cash equivalents at end of period               | 4,234,567                | 915,757                  |

## 25 Post balance sheet events

On the 14 January 2008 under the terms of the collaboration agreement EDF Energies Nouvelles subscribed £1,500,000 for 3,000,000 new ordinary shares of 1 pence each and £1,500,000 of convertible loan notes convertible into an aggregate 3,000,000 new ordinary shares at a price of 50 pence per new ordinary share.

On the 14 January 2008 the Group signed an agreement to purchase a 30 MW windfarm site at Kobylany in Poland.

On the 4 March 2008 warrants were exercised to subscribe for 600,000 new ordinary shares of 1 pence each in the capital of the Company at a price of 50 pence each.