

**Renewable Energy Holdings Plc**

Report and Financial Statements

Year Ended 30 June 2006

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**Directors & Advisors**

**Country of incorporation of parent company**

Isle of Man

**Legal form**

Public limited company

**Directors**

Michael J Proffitt FCA  
John Baker CBE  
Alan Burns  
Jeff Harding

**Company Secretary**

Clive Wilcox ACA,CPA

**Registered Office**

IOMA House  
Hope Street  
Douglas  
Isle of Man  
IM1 1AP  
British Isles

**Company number**

111938C

**Auditors**

BDO Stoy Hayward LLP  
8 Baker Street  
London  
W1U 3LL

## **Renewable Energy Holdings plc**

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### **Legal Advisors**

Laurence Keenan  
Victoria Chambers  
47 Victoria Street  
Douglas  
Isle of Man  
IM1 2LD

Herbert Smith LLP  
Exchange House  
Primrose Street  
London  
EC2A 2HS

### **Nominated Advisors**

Nabarro Wells & Co. Ltd  
Saddlers House  
Gutter Lane  
London  
EC2V 6HS

### **Nominated Brokers**

Panmure Gordon & Co.  
Moorgate Hall  
155 Moorgate  
London  
EC2M 6XB

### **Principal Bankers**

Barclays Private Clients International  
PO Box 9  
Barclays House  
Victoria Street  
Douglas  
Isle of Man  
IM99 1AJ

### **Registrar**

Computershare Investor Service (Channel Islands) Limited  
Ordnance House  
31 Pier Road  
St Helier  
Jersey  
JE4 8PW

## **Chairman's Statement**

I am pleased to report that, in this our first full year of operations, we are receiving income from our first investments in line with the aspirations we set out a year ago. The Board has elected to change the Group's year end from June 30<sup>th</sup> to December 31<sup>st</sup>. Accordingly, the Group's next year end will be the 6 months to December 31<sup>st</sup> 2006 and will then report income from our wind generation and methane recovery operations for a full twelve months.

The sustained high price of fossil fuels, and the broadening awareness of climate change issues, has continued to focus attention in many countries on non-carbon-based fuels and renewable energy technologies in particular. Against this background, the sector developers are now markedly aware of the Group's activities and our deal pipeline has become a continuous flow of investment opportunities across Europe and the UK. Several of these are being actively explored, and we are optimistic that we will add new profitable projects to our asset base in the coming months.

Our CETO wave energy device has come through extensive sea-trials in the first half of 2006, with all key milestones having been met successfully and proof of principle fully established. We will now be taking the technology forward by way of commercial demonstration projects that will exploit its desalination as well as its energy generation potential.

The Group's Corporate Governance has further developed during the year, with regular Board meetings along with Audit Committee and Remuneration Committee meetings.

During the year the Board changed the Group's Nominated Advisor and Corporate Broker to Nabarro Wells and Panmure Gordon respectively, and these relationships are now well embedded.

Admiral Roger Lane-Nott retired as a Director during the year and I would like to thank him for his valuable contribution during his tenure on the Board.

We believe that the business model promoted by the Group at its IPO in February 2005 has been successfully prosecuted and prospects for growth are now a tangible reality. I would like to thank my fellow Board members, along with the Executive team, for their hard work and dedication during the year.

John W Baker  
Chairman

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**Chief Executive's Report**

At the year end 30 June 2006 your Company was still only 17 months old, having been admitted to the AIM in February 2005.

At the first year end to 30 June 2005, we reported very little to you other than start-up activities.

At the end of this second year, I am delighted to report to you the results of projects we have worked on and in particular your Group's first revenues.

Operating expenses of £3,386,214 include £114,038, £273,522 and £612,289 of costs in relation to the stock option plan, deal task costs and CETO development costs respectively. Compliance with IFRS obligates the Group to recognise these expenses as costs in the accounting period, even task costs relating to a successful project brought to completion in the subsequent accounting period.

In Germany our 27.9MW wind farm was built in 2005 and has been accruing income to the Group since January 2006. The total EBITDA for Germany the six month period to year end was £1,177,708. During this period the project experienced all of the usual engineering challenges and I am pleased to report that the wind farm has satisfied all the "final completion" conditions of the financing agreements with the project's lender.

Civil engineering and associated works are currently underway to expand this windfarm by a further 4.6MW with an additional 8.0MW (originally 9.2MW) planned on a nearby site. It is our intention to acquire both developments.

The Group's landfill gas project in Wales was completed shortly before the year end. The rights to all methane extraction from the landfill for the rest of its expected 20 years of life were purchased for £2million.

The project has been yielding flows of methane gas for the last 12 months and is currently capable of producing up to 1 MW of electricity per hour ("MWH"). A current power purchase agreement of £52.10 per MWH expires in November 2007 and it is anticipated that the replacement power purchase agreement will be at a substantially higher price.

Minor engineering works are underway at Bryn Posteg to increase the efficient collection of gas and thereby grow the electricity output.

The Group intends to seek further investment in landfill gas operations in Wales and throughout the UK.

## Renewable Energy Holdings plc

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CETO, the Group's Wave Energy device has seen considerable development during the year. In May 2006 we were able to demonstrate the prototype, deployed near Perth, Australia, generating electricity and producing desalinated water.

Following this proof of concept, much work has already been done to engineer a design that will be commercially competitive, and we believe this has been accomplished in CETO II, a development of the original concept with much of the engineering costs removed.

It is now planned to build and deploy two commercial prototypes of CETO II. The Alpha project will remain in Perth, Australia with the Beta project planned for UK deployment.

To assess and position the commercial development appropriately, a Competent Person's Report is being commissioned to provide an external review of the engineering design and commercial assumptions.

I believe your Company is now soundly positioned to grow its renewable energy capacity across the UK and Europe, working with each of its strategic partners and advisors. The Group is now established in the sector and has an active deal flow which has already led to a substantial pipeline of potential investments.

Michael J Proffitt  
Chief Executive Officer

## Directors' Report

### Report of the directors for the year ended 30 June 2006

The directors present their report together with the audited financial statements for the year ended 30 June 2006.

#### Results and dividends

The results of the Group for the year are set out on page 12 and show a loss for the year of £2,165,330 (2005: £1,388,900).

The results, which include a full year's expenses but only 6 months of revenue, 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 Windpark, Germany and the Gwynt Cymru Landfill Gas site in Wales.

The Group continue 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
Morstan Nominees Ltd	4,510,500	9.96
Barclays Capital Nominees No.3 Ltd	4,468,333	9.87
The Bank of New York (Nominees) Ltd	4,416,666	9.76
Chase Nominees Ltd	4,108,298	9.08
Roy Nominees Limited	4,000,000	8.84
Pacific Hydro Ltd	4,000,000	8.84
HSBC Global Custody Nominee (UK) Ltd	2,423,904	5.35
Credit Suisse Client Nominees (UK) Ltd	2,200,000	4.86
Vidacos Nominees Ltd	1,866,067	4.12
Carnegie Corporation Ltd	1,667,000	3.68

## Renewable Energy Holdings plc

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### Directors

The directors of the Company during the year 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 2006 Executive Scheme were as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Options &amp; similar interests</b>	<b>Ordinary shares</b>	<b>Options &amp; similar interests</b>	<b>Ordinary shares</b>
Mr M Proffitt	1,425,000	200,000	1,160,000	200,000
Mr A Burns *	774,300		774,300	
Mr J Baker	580,000	40,000	580,000	
Mr J Harding	290,000		290,000	
Rear Admiral R Lane Nott <sup>+</sup>	-		290,000	

\* *Held on behalf of the vendors of Seapower and Proportion (see note 14)*

<sup>+</sup> *Options forfeited on date of resignation (10 April 2006).*

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 year. Details of any directors' interest in transactions of the group are given in note 24.

### 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 chosen to prepare financial statements for the Group and the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs)

## Renewable Energy Holdings plc

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International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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 in accordance with legislation in the Isle of Man governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. 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.

### **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**  
**Clive J Wilcox**  
**Secretary**

## **Audit Report**

### **Independent Auditor's Report to the Shareholders of Renewable Energy Holdings Plc**

We have audited the group and parent company financial statements (the "financial statements") of Renewable Energy Holdings Plc for the year ended 30 June 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company statement of recognised income and expense and the 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 judgments 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 30 June 2006 and of its loss for the year 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 30 June 2006;
- 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

2 October 2006

## Renewable Energy Holdings plc

### Consolidated income statement for the year ended 30 June 2006

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		<b>Year ended 30 June 2006</b>	<b>Period ended 30 June 2005</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
<b>Revenue &amp; gross profit</b>	2	1,468,178	-
CETO development expenses		612,289	535,809
Administrative expenses		2,773,925	988,722
		<hr/>	<hr/>
<b>Loss from operations</b>	3	(1,918,036)	(1,524,531)
Finance costs	7	(333,560)	-
Finance income	7	194,702	135,631
		<hr/>	<hr/>
<b>Loss before tax</b>		(2,056,894)	(1,388,900)
Tax expense	8	108,436	-
		<hr/>	<hr/>
<b>Loss after tax attributable to the equity holders of the parent</b>	20	(2,165,330)	(1,388,900)
		<hr/>	<hr/>
<b>Basic and diluted loss per share</b>	9	(5.98p)	(8.86p)
		<hr/>	<hr/>

The notes on pages 19-47 form part of these financial statements.

## Renewable Energy Holdings plc

### Consolidated statement of recognised income and expense for the year ended 30 June 2006

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	<b>Note</b>	<b>Year ended 30 June 2006 £</b>	<b>Period ended 30 June 2005 £</b>
<b>Loss after tax</b>		(2,165,330)	(1,388,900)
Foreign exchange loss on retranslation of overseas operations		(518)	(9,778)
<b>Total recognised income and expense for the year</b>	21	(2,165,848)	(1,398,678)

The notes on pages 19-47 form part of these financial statements.

## Renewable Energy Holdings plc

### Consolidated balance sheet at 30 June 2006

	Note	2006 £	2005 £
<b>Non-current assets</b>			
Property, plant & equipment	12	23,293,606	-
Intangible assets	13	7,649,485	5,559,878
<b>Current assets</b>			
Trade and other receivables	16	765,658	255,952
Cash and cash equivalents	18	5,678,840	7,220,479
Total current assets		<u>6,444,498</u>	<u>7,476,431</u>
<b>Total assets</b>		<u>37,387,589</u>	<u>13,036,309</u>
<b>Current liabilities</b>			
Trade and other payables	17	789,178	134,929
Other financial liabilities	18	1,458,063	-
Total current liabilities		<u>2,247,241</u>	<u>134,929</u>
<b>Non current liabilities</b>			
Financial liabilities	18	16,067,108	-
Deferred tax liability		109,531	-
Other creditors		70,000	-
Total non current liabilities		<u>16,246,639</u>	<u>-</u>
<b>Total liabilities</b>		<u>18,493,880</u>	<u>134,929</u>
<b>TOTAL NET ASSETS</b>		<u>18,893,709</u>	<u>12,901,380</u>

The notes on pages 19-47 form part of these financial statements.

## Renewable Energy Holdings plc

### Consolidated balance sheet at 30 June 2006 (*Continued*)

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	Note	2006	2005
		£	£
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	19	452,666	290,000
Share premium reserve	20	16,583,898	8,702,425
Foreign exchange reserve	20	(10,296)	(9,778)
Share based payment reserve	20	956,571	897,633
Merger reserve	20	4,410,000	4,410,000
Retained earnings	20	(3,499,130)	(1,388,900)
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b><u>18,893,709</u></b>	<b><u>12,901,380</u></b>

The financial statements were approved by the Board of Directors and authorised for issue on 2 October 2006. They were signed on its behalf by:

John Baker, Chairman

Michael Proffitt, Director

The notes on pages 19-47 form part of these financial statements.

## Renewable Energy Holdings plc

### Company balance sheet at 30 June 2006

	Note	2006 £	2005 £
<b>Non-current assets</b>			
Investment in subsidiaries	14	6,833,157	6,088,672
Amounts due from subsidiaries	15	9,639,622	-
<b>Current assets</b>			
Trade and other receivables	16	163,143	237,294
Cash and cash equivalents	18	<u>3,536,736</u>	<u>7,116,330</u>
Total current assets		<u>3,699,879</u>	<u>7,353,624</u>
<b>Total assets</b>		<u>20,172,658</u>	<u>13,442,296</u>
<b>Current liabilities</b>			
Trade and other payables	17	349,140	29,740
Total current liabilities		<u>349,140</u>	<u>29,740</u>
<b>Total liabilities</b>		<u>349,140</u>	<u>29,740</u>
<b>TOTAL NET ASSETS</b>		<u>19,823,518</u>	<u>13,412,556</u>
<b>Capital and reserves attributable to equity holders of the company</b>			
Share Capital	19	452,666	290,000
Share premium reserve	20	16,583,898	8,702,425
Share based payment reserve	20	956,571	897,633
Merger reserve	20	4,410,000	4,410,000
Retained earnings	20	<u>(2,579,617)</u>	<u>(887,502)</u>
<b>TOTAL EQUITY</b>		<u>19,823,518</u>	<u>13,412,556</u>

The financial statements were approved by the Board of Directors and authorised for issue on 2 October 2006. They were signed on its behalf by:

John Baker, Chairman

Michael Proffitt, Director

The notes on pages 19-47 form part of these financial statements.

## Renewable Energy Holdings plc

### Consolidated and company cash flow statement for the year ended 30 June 2006

Note	Year ended 30 June 2006 Group £	Year ended 30 June 2006 Renewable Energy Holdings Plc £	Period ended 30 June 2005 Group £	Period ended 30 June 2005 Renewable Energy Holdings Plc £
<b>Operating Activities</b>				
Net loss from operations	(1,918,036)	(1,920,304)	(1,524,531)	(1,020,897)
Adjustments for :				
Depreciation	601,056	-	-	-
Amortisation	17,560	-	-	-
Foreign exchange gains	577	3,604	-	(4,968)
Equity settled share based payment	114,038	114,038	445,233	445,233
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating loss before changes in working capital and provisions</b>	<b>(1,184,805)</b>	<b>(1,802,662)</b>	<b>(1,079,298)</b>	<b>(580,632)</b>
Decrease/(increase) in deferred expenditure	196,569	196,569	(196,569)	(196,569)
Increase in trade and other receivables	(513,129)	(122,418)	(58,107)	(40,725)
Decrease/(increase) in other financial assets	1,276	-	(1,276)	-
Increase in trade and other payables	611,730	319,400	12,273	29,740
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Cash absorbed from operations</b>	<b>(888,359)</b>	<b>(1,409,111)</b>	<b>(1,322,977)</b>	<b>(788,186)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Income taxes paid	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Cash flows from operating activities</b>	<b>(888,359)</b>	<b>(1,409,111)</b>	<b>(1,322,977)</b>	<b>(788,186)</b>

The notes on pages 19-47 form part of these financial statements.

## Renewable Energy Holdings plc

### Consolidated and company cash flow statement for the year ended 30 June 2006 (continued)

	Note	Year ended 30 June 2006 Group £	Year ended 30 June 2006 Renewable Energy Holdings Plc £	Period ended 30 June 2005 Group £	Period ended 30 June 2005 Renewable Energy Holdings Plc £
<b>Cash flows from operating activities (brought forward)</b>		(888,359)	(1,409,111)	(1,322,977)	(788,186)
<i>Investing activities</i>					
Acquisition of property, plant & equipment		(23,601,806)	-	-	-
Acquisition of subsidiary – net of cash acquired		(2,481,926)	(124,136)	(561,300)	-
Investment in subsidiary – by loan	14	-	(620,349)	-	(602,206)
Increase in advances to subsidiaries		-	(9,639,622)	-	(595,798)
Finance income received		194,702	169,485	135,631	133,395
		<u>(25,889,030)</u>	<u>(10,214,622)</u>	<u>(425,669)</u>	<u>(1,064,609)</u>
<i>Financing activities</i>					
Issue of ordinary shares		8,550,000	8,550,000	10,000,000	10,000,000
Issue costs		(505,861)	(505,861)	(1,030,875)	(1,030,875)
Proceeds from bank borrowing		18,655,165	-	-	-
Issue costs for bank borrowing		(500,572)	-	-	-
Repayment of bank borrowing		(661,212)	-	-	-
Finance costs paid		(301,770)	-	-	-
		<u>25,235,750</u>	<u>8,044,139</u>	<u>8,969,125</u>	<u>8,969,125</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	25	<u>(1,541,639)</u>	<u>(3,579,594)</u>	<u>7,220,479</u>	<u>7,116,330</u>

The notes on pages 19-47 form part of these financial statements.

**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 (IFRSs) as adopted by the European Union (IFRSs).

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

*Revenue*

Revenues comprise electricity sold. Sales are recognized at the time electricity is fed to the distribution/transmission grid.

*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*

Investments in subsidiary companies are stated at cost less provision for impairment.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Accounting policies (continued)

##### *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 on 30 June. 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 (ie 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 (ie 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 recognised income and expense.

##### *Foreign currency*

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional 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 similarly recognised immediately in the income statement.

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 entities' separate financial statements on the translation of long-term monetary items forming part of the group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the group or the overseas operation concerned.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Accounting policies (continued)

##### *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:

**Fair value through profit or loss:** This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

**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 less any provision for impairment.

**Available-for-sale:** Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

The group had no significant hedges at any point in the period.

##### *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:

**Fair value through profit or loss:** This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Accounting policies (continued)

**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 the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures 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 premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

#### *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.

#### *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 are charged to the income statement on a straight-line basis over the lease term.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Accounting policies (continued)

##### *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.

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 within the cost of sales line 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. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

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:

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Accounting policies (continued)

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

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 substantially 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.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Accounting policies (continued)

##### *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. The corresponding liability is recognised within provisions.

Leasehold land	-	evenly over the length of lease
Plant and machinery	-	5% - 20% per annum straight line

#### 2 Revenue from windparks

The group receives income from the generation of electricity from its windparks in Germany at a fixed price of Euro 85.3 per KiloWatt hour under the conditions of German renewables legislation. This price is fixed for a period of 20 years.

Amounts receivable from this arrangement in the year are £584,710 (2005: £nil). The remainder of income from windparks relates to compensation payments receivable in respect of initial delays in construction timetable.

#### 3 Loss from operations

	Year ended 30 June 2006	Period ended 30 June 2005
	£	£
This has been arrived at after charging :		
Staff costs (see note 4)	1,098,350	801,185
Exchange differences	(65,208)	-
Research and development costs – CETO (excluding staff costs)	488,044	535,809
Operating lease expense	217,719	30,227
Audit fees	74,296	23,327
Fees paid to the company's auditors for non-audit services provided to the company and UK subsidiaries	-	-

Audit fees include an amount of £51,696 in respect of the company (2005: £22,500).

Interest costs of £47,112 have been capitalised within fixed assets (2005: £nil).

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

<b>4 Staff costs</b>	<b>Year ended 30 June 2006 £</b>	<b>Period ended 30 June 2005 £</b>
Staff costs (including directors) comprise:		
Wages and salaries	762,858	316,774
Paid to third parties	107,800	-
Defined contribution pension cost	75,972	7,068
Share-based payment expense (see note 22)	34,392	445,233
Employer's national insurance contributions and similar taxes	117,328	32,110
	<u>1,098,350</u>	<u>801,185</u>

<b>5 Directors' remuneration</b>	<b>Year ended 30 June 2006 £</b>	<b>Period ended 30 June 2005 £</b>
Directors' emoluments	333,749	174,521
Paid to third parties	107,800	-
Company contributions to money purchase pension schemes	24,946	1,667
Share-based payment expense (see note 22)	4,069	440,800
	-	-
	<u>470,564</u>	<u>616,988</u>

There was one director in the Company's defined contribution pension scheme during the year (2005: one).

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

<b>Name</b>	<b>2006 Number</b>	<b>2005 Number</b>
Mr M J Profitt	265,000	1,160,000
Mr A R Burns	-	774,300
Mr J W Baker	-	580,000
Mr J Harding	-	290,000
Rear Admiral R Lane-Nott	<u>265,000</u>	<u>290,000</u>
	<u>265,000</u>	<u>3,094,300</u>

Rear Admiral R Lane-Nott resigned on 10 April 2006, all his options were forfeited as at the date of resignation.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### 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 in the Isle of Man, CETO development taking place in Australia, Windfarm being in Germany and Landfill gas being in Wales.

#### 2006

	Head Office	CETO	Windfarm	Landfill gas	Total
	Isle of Man	Development	Germany	Wales	
	£	Australia	£	£	£
		£			
<i>Income</i>					
Revenue	-	-	1,427,280	40,898	1,468,178
Finance income	169,485	4,666	20,551	-	194,702
<i>Expenses</i>					
Continuing operations	1,890,867	479,146	249,572	39,877	2,659,462
Finance costs	-	-	333,560	-	333,560
Depreciation & amortisation	-	-	584,826	27,888	612,714
Other non-cash charge	114,038	-	-	-	114,038
Total profit/(loss) before taxation	(1,835,420)	(474,480)	279,873	(26,867)	(2,056,894)
<i>Balance Sheet</i>					
<i>Assets</i>					
Property, plant & equipment	-	-	23,060,893	232,713	23,293,606
Intangible assets	-	5,559,878	-	2,089,607	7,649,485
Current assets	3,699,879	125,477	2,455,506	163,636	6,444,498
Liabilities	349,140	35,839	17,979,178	129,723	18,493,880
Net assets	3,350,739	5,649,516	7,537,221	2,356,233	18,893,709

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

### Segment information (Continued)

2005

	Head Office Isle of Man £	CETO Development Australia £	Windfarm Germany £	Landfill gas Wales £	Total £
<i>Income</i>					
Revenue	-	-	-	-	-
Finance income	133,395	2,236	-	-	135,631
<i>Expenses</i>					
Continuing operations	543,489	535,809	-	-	1,079,298
Finance costs	-	-	-	-	-
Depreciation & amortisation	-	-	-	-	-
Other non-cash charge	445,233	-	-	-	445,233
Total loss before taxation	(855,327)	(533,573)	-	-	(1,388,900)
<i>Balance Sheet</i>					
<i>Assets</i>					
Intangible assets	-	5,559,878	-	-	5,559,878
Current assets	7,353,624	122,807	-	-	7,476,431
Liabilities	29,740	105,189	-	-	134,929
Net assets	7,323,884	5,577,496	-	-	12,901,380

The group's secondary reporting format for reporting segment information is geographic segments.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### 7 Finance income and expense

	Year ended 30 June 2006 £	Period ended 30 June 2005 £
<i>Finance income</i>		
Bank interest received	194,702	135,631
	<u>          </u>	<u>          </u>
<i>Finance expense</i>		
Bank borrowings	333,560	-
	<u>          </u>	<u>          </u>

#### 8 Tax expense

	Year ended 30 June 2006 £	Period ended 30 June 2005 £
<i>Current tax expense</i>		
Income tax on loss for the period	-	-
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	108,436	-
	<u>          </u>	<u>          </u>
Total current tax	108,436	-
	<u>          </u>	<u>          </u>

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

	Year ended 30 June 2006 £	Period ended 30 June 2005 £
Loss before tax	2,056,894	1,388,900
Expected tax charge based on the standard rate of income tax in the Isle of Man of Nil % (2005:10%)	-	(138,890)
Expenses not deductible for tax purposes	-	45,750
Unutilised tax losses	-	193,174
Different tax rates applied in overseas jurisdictions	108,436	(100,034)
	<u>          </u>	<u>          </u>
	108,436	-
	<u>          </u>	<u>          </u>

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Tax expense (Continued)

A deferred tax asset has not been recognised for unused tax losses totaling £1,655,000 (2005: £925,000), due to the uncertainty regarding recoverability.

#### 9 Loss Per Share

	<b>Year ended 30 June 2006</b>	<b>Period ended 30 June 2005</b>
	<b>£</b>	<b>£</b>
<i>Numerator</i>		
Loss used in basic and diluted EPS	2,165,330	1,388,900
	<u>                    </u>	<u>                    </u>
<i>Denominator</i>		
Weighed average number of shares used in basic and diluted EPS	36,230,870	15,684,827
	<u>                    </u>	<u>                    </u>

The loss figure used in this calculation is the loss for the year.

	<b>2006</b>	<b>2005</b>
Total share options in issue (see note 22)	5,594,167	4,925,000
	<u>                    </u>	<u>                    </u>

The effect of any share options granted are anti-dilutive.

#### 10 Loss for the financial period

The loss for the Company for the year is £1,747,215 (2005: £887,502).

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

### 11 Operating lease commitments

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

#### Group

Land & property rental:	2006	2005
	£	£
Within one year	325,059	47,850
Within two to five years	1,049,042	75,763
Over five years	3,432,574	-
	<u>4,806,675</u>	<u>123,613</u>

#### Plant & equipment:

	2006	2005
	£	£
Within one year	66,144	-
Within two to five years	264,576	-
Over five years	55,120	-
	<u>385,840</u>	<u>-</u>

#### Company

Land & property rental:	2006	2005
	£	£
Within one year	47,850	47,850
Within two to five years	27,913	75,763
Over five years	-	-
	<u>75,763</u>	<u>123,613</u>

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

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### 12 Property, plant and equipment

	<b>Group £</b>
<i>Year ended 30 June 2006</i>	
Opening net book value, cost and accumulated depreciation	-
Additions	23,601,500
Acquisitions	293,162
Cost at 30 June 2006	<u>23,894,662</u>
Depreciation	595,154
Foreign exchange difference	5,902
Depreciation at 30 June 2006	<u>601,056</u>
Closing net book value	<u><u>23,293,606</u></u>

The Group has contracted to build an expansion to the Kesfeld Windfarm at a cost of approximately £4.5 million. This contract is conditional upon financing arrangements being concluded.

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

### 13 Intangible assets

<b>Group</b>	<b>Landfill gas rights</b>	<b>In-process research &amp; development Ceto device</b>	<b>Total</b>
<i>Period ended 30 June 2005</i>	<b>£</b>	<b>£</b>	<b>£</b>
At incorporation	-	-	-
Acquisitions	-	5,559,878	5,559,878
Closing net book value	-	5,559,878	5,559,878
<i>Year ended 30 June 2006</i>			
Opening net book value	-	5,559,878	5,559,878
Acquisitions	2,107,167	-	2,107,167
Amortisation charge for the year	17,560	-	17,560
Closing net book value	2,089,607	5,559,878	7,649,485

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

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### 14 Subsidiaries

#### Group

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

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

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.

Proportion Holdings Pty Limited and Seapower Pty Limited are intermediate holding companies.

The principal activities of Windpark Kesfeld Heckhuscheid GmbH & Co KG and Windpark Kirf GmbH & Co KG is the ownership and operation of windparks in Germany. REH Verwaltung GmbH and REH Beteiligung GmbH & Co KG are intermediate holding companies.

The principal activity of Gwynt Cymru Limited is the operation of a landfill gas site. REH Landfill Gas Wales Ltd is an intermediate holding company.

REH Global Ltd is dormant.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### Subsidiaries (Continued)

##### Company

<i>Investments</i>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Opening net book value - acquired	5,487,906	-
Opening net book value - loan	600,766	-
	<hr/>	<hr/>
Total opening net book value	6,088,672	-
Additions		
-through acquisition:	-	5,487,906
REH Landfill Gas (Wales) Limited	100,000	-
REH Verwaltung GmbH	17,230	-
REH Beteiligung GmbH & Co KG	6,906	-
-By loan	620,349	600,766
	<hr/>	<hr/>
Total closing net book value	6,833,157	6,088,672
	<hr/>	<hr/>
Closing net book value - acquired	5,612,042	5,487,906
Closing net book value - loan	1,221,115	600,766

#### 15 Intercompany Accounts

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Windpark Kesfeld Heckhuscheid GmbH & Co KG	7,218,876	-
Windpark Kirf GmbH & Co KG	69,132	-
REH Beteiligung GmbH & Co KG	44,936	-
REH Verwaltung GmbH	6,913	-
REH Landfill Gas (Wales) Limited	2,244,303	-
Gwynt Cymru Limited	55,462	-
	<hr/>	<hr/>
	9,639,622	-
	<hr/>	<hr/>

There is no fixed date for repayment of intercompany balances.

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

### 16 Trade and other receivables

	<b>Group</b>	<b>Renewable Energy Holdings Plc</b>	<b>Group</b>	<b>Renewable Energy Holdings Plc</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Sales tax	222,503	97,839	40,725	40,725
Accounts receivable	279,804	32,554	-	-
Other receivables	80,597	-	18,658	-
Prepayments	182,754	32,750	196,569	196,569
	<u>765,658</u>	<u>163,143</u>	<u>255,952</u>	<u>237,294</u>

### 17 Trade and other payables

	<b>Group</b>	<b>Renewable Energy Holdings plc</b>	<b>Group</b>	<b>Renewable Energy Holdings plc</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Accounts payable	55,161	-	95,935	-
Sales and social security taxes	16,387	14,608	17,456	8,202
Accruals and other payables	717,630	334,532	21,538	21,538
	<u>789,178</u>	<u>349,140</u>	<u>134,929</u>	<u>29,740</u>

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### 18 Financial assets and liabilities-numerical information

##### Maturity of financial liability

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

	2006 £	2005
In less than one year	1,458,063	-
In more than one year but not more than two years	1,372,264	-
In more than two years but not more than three years	1,302,679	-
In more than three years but not more than four years	1,334,903	-
In more than four years but not more than five years	1,257,718	-
In more than five years	10,799,544	-
	17,525,171	-

The final date for repayment of this financial liability is 31 December 2020. Loans to subsidiaries are repayable on demand.

The currency and interest profile of the Group's financial assets and liabilities after taking account of interest rate swaps are as follows:

2006	Floating Rate Assets £	Interest Free Assets £	Total Assets £	Interest free liabilities £	Floating rate liabilities £	Fixed rate liabilities £	Total Liabilities £
<u>Group</u>							
Sterling	3,576,192	-	3,576,192	28,606	-	-	28,606
Euros	2,006,949	-	2,006,949	-	4,433,600	13,091,571	17,525,171
Australian Dollars	95,699	-	95,699	26,555	-	-	26,555
Total	5,678,840	-	5,678,840	55,161	4,433,600	13,091,571	17,580,332
<u>Company</u>							
Sterling	3,536,736	-	3,536,736	-	-	-	-
Australian Dollars	-	1,221,115	1,221,115	-	-	-	-
Total	3,536,736	1,221,115	4,757,851	-	-	-	-

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

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

2005	Floating Rate Assets £	Interest Free Assets £	Total Assets £	Interest free liabilities £	Floating rate liabilities £	Fixed rate liabilities £	Total Liabilities £
<u>Group</u>							
Sterling	7,116,330	-	7,116,330	-	-	-	-
Australian Dollars	104,149	-	104,149	95,935	-	-	95,935
Total	<u>7,220,479</u>	<u>-</u>	<u>7,220,479</u>	<u>95,935</u>	<u>-</u>	<u>-</u>	<u>95,935</u>
<u>Company</u>							
Sterling	7,116,330	-	7,116,330	-	-	-	-
Australian Dollars	-	600,766	600,766	-	-	-	-
Total	<u>7,116,330</u>	<u>600,766</u>	<u>7,717,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

At 30 June 2006 floating rate assets attracted interest rates as follows:

Sterling	4.22%
Euros	1.33%
Australian Dollars	5.12%

The fair value is not significantly different to the book value shown above.

The current level of financial assets and liabilities is such that management do not employ risk management strategies such as hedging.

All the assets and shares in the German subsidiaries are pledged as security for the euro-denominated loans above. The total net assets of the subsidiaries have a book value of £7,537,222 at 30 June 2006.

Group cash balances include a Debt Service Reserve Account balance of £993,138, which is not available to the Group until the loan is repaid, and a further restricted cash balance of £1,013,811, which is not available until January 2007.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### 19 Share Capital

	<b>Authorised 2006 Number</b>	<b>2006 £</b>	<b>Authorised 2005 Number</b>	<b>2005 £</b>
<i>Ordinary shares of 1p each</i>				
At the end of the year	150,000,000	1,500,000	150,000,000	1,500,000
	<b>Issued and fully paid up 2006 Number</b>	<b>2006 £</b>	<b>Issued and fully paid up 2005 Number</b>	<b>2005 £</b>
<i>Ordinary shares of 1p each</i>				
At the beginning of the year	29,000,002	290,000	2	-
Issues for cash during the year	16,266,667	162,666	20,000,000	200,000
Issues for other consideration during the year	-	-	9,000,000	90,000
At the end of the year	45,266,669	452,666	29,000,002	290,000
<i>Warrants</i>				
Issues during the year	12,000,000		-	
Exercised during the year	100,000		-	
Outstanding at the end of the year	11,900,000		-	

Each warrant was issued with each share issue made on 7 March 2006 and entitles the holder to acquire an ordinary share at a price of 50 pence.

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

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

### 20 Reserves

#### Group

	Share premium reserve	Foreign exchange reserve	Share based payment reserve	Merger reserve	Retained earnings
	£	£	£	£	£
At incorporation	-	-	-	-	-
Proceeds on share issue					
-cash	9,800,000	-	-	-	-
-acquisition of subsidiary	-	-	-	4,410,000	-
Share issue costs	(1,097,575)	-	-	-	-
Translation differences on overseas operations	-	(9,778)	-	-	-
Share-based payment expense	-	-	897,633	-	-
Loss for the year	-	-	-	-	(1,388,900)
At 30 June 2005	<u>8,702,425</u>	<u>(9,778)</u>	<u>897,633</u>	<u>4,410,000</u>	<u>(1,388,900)</u>
Proceeds on share issue					
-cash	8,387,333	-	-	-	-
Share issue costs	(505,860)	-	-	-	-
Translation differences on overseas operations	-	(518)	-	-	-
Share-based payment expense	-	-	114,038	-	-
Options forfeited	-	-	(55,100)	-	55,100
Loss for the year	-	-	-	-	(2,165,330)
At 30 June 2006	<u><u>16,583,898</u></u>	<u><u>(10,296)</u></u>	<u><u>956,571</u></u>	<u><u>4,410,000</u></u>	<u><u>(3,499,130)</u></u>

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### Reserves (Continued)

##### Company

	Share premium reserve £	Share based payment reserve £	Merger reserve £	Retained earnings £
Proceeds on share issue				
-cash	9,800,000	-	-	-
Acquisition of subsidiary	-	-	4,410,000	-
Share issue costs	(1,097,575)	-	-	-
Share-based payment expense	-	897,633	-	-
Loss for the year	-	-	-	(887,502)
At 30 June 2005	8,702,425	897,633	4,410,000	(887,502)
Proceeds on share issue				
-cash	8,387,333	-	-	-
Share issue costs	(505,860)	-	-	-
Share-based payment expense	-	114,038	-	-
Options forfeited	-	(55,100)	-	55,100
Loss for the year	-	-	-	(1,747,215)
At 30 June 2006	16,583,898	956,571	4,410,000	(2,579,617)

The following describes the nature and purpose of each reserve within owner's equity

Reserve	Description and purpose
Share Premium	Amount subscribed for share capital in excess of nominal value
Foreign exchange	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Share based payment	Equity created to recognise share based payment expense.
Retained earnings	Cumulative net gains and losses recognized in the consolidated income statement.
Merger reserve	Share premium arising on share for share acquisition.

## Renewable Energy Holdings plc

Notes forming part of the financial statements for the year ended 30 June 2006  
(Continued)

### 21 Changes in shareholder's equity

	<b>Group</b>	<b>Renewable Energy Holdings Plc</b>	<b>Group</b>	<b>Renewable Energy Holdings Plc</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Total recognized income and expense	(2,165,848)	(1,747,215)	(1,398,678)	(887,502)
Issue of new ordinary shares for cash (net of expenses)	8,044,139	8,044,139	8,902,425	8,902,425
Issue of new ordinary shares other than for cash (net of expenses)	-	-	4,500,000	4,500,000
Share based payment expense	114,038	114,038	897,633	897,633
Total change in the year	<u>5,992,329</u>	<u>6,410,962</u>	<u>12,901,380</u>	<u>13,412,556</u>
Capital and reserves attributable to equity holders of the parent at the beginning of the period	12,901,380	13,412,556	-	-
Capital and reserves attributable to equity holders of the parent at the end of the period	<u>18,893,709</u>	<u>19,823,518</u>	<u>12,901,380</u>	<u>13,412,556</u>

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

#### 22 Share-based payment

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

Options over 507,500 shares have been granted to Directors and Employees at an exercise price of 56p per share being the average price over the three days following the award. The options were granted on 28 March 2006 with a vesting period of three years and a ten year contractual term from the date of the grant.

Nabarro Wells (nominated advisors) were issued an option for 451,667 shares at an exercise price of 59p per share. The option was granted on 6 April 2006 with an option period of five years.

The valuation of these options has been used to price the services received due to the uncertainties involved in valuing the services directly.

	<b>2006 Weighted average exercise price (pps)</b>	<b>2006 Number</b>	<b>2005 Weighted average exercise price (pps)</b>	<b>2005 Number</b>
Outstanding at the beginning of the year	50.38	4,925,000	-	-
Exercisable at the beginning of the year	50.00	4,640,000	-	-
Granted during the year	57.41	959,167	50.38	4,925,000
Forfeited during the year	55.00	290,000	-	-
Outstanding at the end of the year	55.23	5,594,167	50.38	4,925,000
Exercisable at the end of the year	55.07	4,801,667	50.00	4,640,000

<b>As at 30 June 2006</b>	<b>Number of options</b>	<b>Grant date</b>	<b>Exercise price (pps)</b>	<b>Vesting period (yrs)</b>	<b>Option period (yrs)</b>
Founder option (Exercise price increasing by 10% each year)	4,060,000	11/02/05	55	-	10
Company nominated advisors (2005)	290,000	11/02/05	50	-	5
Staff options (2005)	285,000	10/05/05	56	3	10
Company nominated advisors (2006)	451,667	06/04/06	59	-	5
Staff Options (2006)	507,500	28/03/06	56	3	10
Total options	<u>5,594,167</u>				

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Share-based payment (Continued)

The weighed average remaining contractual life of the share options at 30 June 2006 is 7 years and 2 months (2005: 9years 4 months).

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

	2006 £	2005 £
<i>Equity-settled</i>		
Option pricing model used	Black Scholes	Black Scholes
Risk-free rate of return	4.4%	4.6%

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 45% (2005 45%) has been used for all option valuations.

The Board as yet, have 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 six years after granting. Exercise prices and weighed average issue prices were factored in to the model in accordance with the option descriptions above.

	2006 £	2005 £
The share-based remuneration comprises :		
Equity-settled schemes	114,038	445,233

The group did not enter into any share-based transactions with parties other than employees during the period, except for the issue of the Nabarro Wells Options as described above. All options of the same class have been valued on the same basis.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### 23 Acquisitions during the year

On 20 July 2005 and 12 August 2005 the group acquired 100% of the equity interest in both Windpark Kesfeld Heckhuscheid GmbH & Co. KG (Windpark Kesfeld) and Windpark Kirf GmbH & Co. KG (Windpark Kirf) respectively.

Details of the fair value of identifiable assets and purchase consideration are as follows:

	<b>Windpark Kesfeld £</b>	<b>Windpark Kesfeld Euro</b>	<b>Windpark Kirf £</b>	<b>Windpark Kirf Euro</b>
<b>Fair value of assets acquired</b>				
Planning permission and leases	27,484	40,000	22,331	32,500
Cash	6,871	10,000	1,718	2,500
	<hr/>	<hr/>	<hr/>	<hr/>
Consideration paid as cash	34,355	50,000	24,049	35,000
	<hr/>	<hr/>	<hr/>	<hr/>
Book value prior to acquisition by the group	6,871	10,000	1,718	2,500
	<hr/>	<hr/>	<hr/>	<hr/>
Post acquisition profit	171,437	250,486	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

The difference between the book value and fair value relates to a fair value adjustment made in respect of planning permission and leases.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### Acquisitions during the year (continued)

On 12 May 2006 the Group acquired 100% of the voting equity instruments of Gwynt Cymru Limited, a Company whose principle activity is the production of electricity from landfill methane gas.

	£
<b>Fair value of assets acquired</b>	
Fixed tangible assets	243,041
Gas rights (intangible)	2,107,167
Cash	(17,808)
Debtors	194,422
Creditors	(112,519)
	<hr/>
	2,414,303
	<hr/> <hr/>

	£
<b>Consideration paid</b>	
Cash	1,950,000
Costs of acquisition	464,303
	<hr/>
	2,414,303
	<hr/> <hr/>

Book value of net assets prior to acquisition by the group	307,136
	<hr/> <hr/>

Post acquisition loss	(26,867)
	<hr/> <hr/>

The difference between the book value and fair value relates to a fair value adjustment made in respect of gas rights.

There is no significant difference between the revenue and profits of the Group had the acquisitions been made on 1 July 2005. No goodwill arose on the above acquisitions as the consideration paid was equal to the fair value of the net assets acquired including the gas rights acquired.

## Renewable Energy Holdings plc

### Notes forming part of the financial statements for the year ended 30 June 2006 (Continued)

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#### 24 Related party transactions

##### Group

During the period to 30 June 2006 a net amount of £13,042 (2005: £75,918) was paid to Carnegie Corporation 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

The Company has made a loan of AUD 3,039,965 (£1,221,115) (2005: AUD 1,412,702 (£600,766) ) to Seapower Pacific Proportion Ltd. This is long term and interest free and has been shown as an investment (note 14).

An amount of £7,872 has been paid to BPC Ltd in respect of office rent.

Mr Alan Burns and Mr Michael Proffitt are Directors of both Renewable Energy Holdings plc and BPC Ltd.

Included in debtors is £15,888 due from BPC as repayment of travel costs incurred on BPC business.

The Company has balances with subsidiaries as shown in note 15.

#### 25 Notes supporting cash flow statement

	2006 £	2005 £
<i>Cash and cash equivalents comprises:</i>		
Cash available on demand	521,160	77,953
Short-term deposits	5,157,680	7,142,526
	<u>5,678,840</u>	<u>7,220,479</u>
Net (decrease)/increase in cash and cash equivalents	(1,541,639)	7,220,479
Cash and cash equivalents at the beginning of the period	<u>7,220,479</u>	-
Cash and cash equivalents at end of period	<u>5,678,840</u>	<u>7,220,479</u>