

# ReEnergy Group plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5281827)

## Annual Report & Accounts 2006



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## Chairman's Introduction

Since Admission in December 2005, the Group has encountered a number of setbacks. In my last Annual Report I explained the issues leading up to the re-financing in April 2006. Although the additional round of fund raising was successful, it was a major distraction for senior management and impacted on our ability to deliver our business goals as outlined at the time of our IPO. Following the decision by the Councils of Hereford and Worcester to halt negotiations over the waste supply contract, the Board conducted a strategic review of the business and has implemented changes that will reduce expenditure and accelerate project development.

## Refinancing

In April it became necessary to go back to our shareholders and raise further funds. This successful re-financing took place between 11 April 2006 and 24 April 2006, during which time trading in the Company's shares was suspended. The re-financing raised £12,750,000 at 30 pence per share. I was very pleased and encouraged by the support that we received from our existing institutional shareholders as well as from Consensus Business Group. Our shares were re-admitted to trading on 25 April 2006.

We gave existing shareholders the opportunity to subscribe for shares on the same terms as above where we were permitted to do so by the relevant security regulations. In response to this a further 386,560 ordinary shares in total were issued to 13 shareholders at 30 pence per share raising a total of £115,968.

## Board Changes

Brian Harcourt, a significant shareholder in Boston Equities International, resigned as Executive Deputy Chairman of the Company on 21 April 2006 and left the Board of Directors.

During the period under review, the Group recruited Robert Smyth as Finance Director and Tony Morgan and Wayne Keast joined the Board as Non-Executive Directors in September 2006.

Paul Craven, Chief Operating Officer of the Group, resigned from the Board on 30 April 2007 to pursue other interests.

As announced on 1 May, Andrew Paul Biffen and Dr. Grant Harvey Jones were elected to the Board with effect from 30 April 2007.

Andrew Biffen, previously the Group's Director of Engineering, has assumed the role of Chief Operating Officer of the Group's waste management activities including responsibility for the relationship with Pirelli Ambiente and Estech Europe Ltd. Previously Andrew worked for the Central Electricity Generating Board, National Power and International Power plc where he worked on major energy projects (including waste to energy) as well as in business development. Andrew was a Director of International Power Italia Srl.

Dr. Grant Jones is currently Chief Operating Officer of ReEnergy's activities in the United States and Chief Executive Officer of ReEnergy Desalination Inc. and will continue to fulfil both roles. Previously Grant worked for National Power and International Power in business development and communications.

Howard Flight, our Senior Independent Non-Executive Director has advised that he will not stand for re-election to the Board at the Annual General Meeting and will therefore retire from that date. The Board is grateful to Howard for his advice, help and support.

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## Chairman's Statement

*(continued)*

ReEnergy Group plc

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Tony Morgan will assume the role of Senior Independent Non-Executive Director and will be chairman of the Audit and Remuneration Committees. Wayne Keast will also be a member of those Committees.

Steve Mueller will continue as a Non-Executive Director of the Group and as a member of the Audit and Remuneration Committees.

### **Hereford and Worcester**

During the course of the year under review, significant efforts were concentrated on seeking to reach financial close on the Hereford and Worcester project. The goal of this project is to use the Estech Europe Ltd ("Estech Europe") Fibrecycle™ autoclave technology to divert up to 80% of the local Municipal Solid Waste ("MSW") stream away from landfill. Considerable work was carried out in developing an engineering procurement and construction ("EPC") contract for the project. In addition competitive proposals were negotiated for the funding of the required debt and equity financing structures for the project. Planning permission has been granted for two sites which would have a handling capacity of 200,000 tonnes of waste per annum and one of these sites has also secured a waste management licence that is essential for processing to take place.

However, and as announced in ReEnergy's trading update of 13 December 2006, Hereford and Worcester Councils notified us that they were halting the negotiations on this project with Estech Europe.

Since the year end, as explained later, the Group has re-established contact with the Councils.

### **Strategic Review**

Following the trading update of 13 December 2006, the Board conducted a strategic review of all Group activities, both in the United Kingdom and overseas. The review confirmed the Group's belief in the outstanding market opportunities for both our waste management and seawater desalination technologies. Accordingly, the Board resolved to focus its activities on two core business units: Estech Europe, and ReEnergy Desalination Inc. ("RDI"), the Group's wholly-owned seawater desalination business located in the United States.

The review determined that strategic alliances were the way forward for both business segments. Based upon the relationship forged during the work done in developing the EPC contract for the Hereford and Worcester project, ReEnergy Group and Estech Europe, have entered into a Memorandum of Understanding with AMEC Investments Limited, a wholly-owned subsidiary of AMEC plc ("AMEC") to work together to bid for and develop projects utilising the Estech Europe Fibrecycle™ process.

In order to provide a full desalination project development service, RDI has signed key strategic alliances with two leading suppliers of equipment and operational expertise: (a) Doosan Hydro Technology Inc, a Florida based subsidiary of Doosan Heavy Industries & Construction Co. Ltd, one of the world's largest suppliers of desalination systems and specialists in the design and construction of reverse osmosis water treatment plants; and (b) Desalination Marketing Services Ltd, a fully owned subsidiary of Water Services Corporation, the public water utility of Malta which is one of the world's most experienced operators of desalination equipment.

## Acquisition of minority shareholders interest in Estech Europe

Post year end, in June 2007, with the focus of our business firmly on the autoclave technology within Estech Europe, we have taken the opportunity to acquire the interests of the minority shareholders of that company in order to have complete control of the business. We originally acquired 51% in December 2005. The consideration to be paid to complete the purchase of 100% of the shareholding is:

- the issue of a further 14,000,000 ordinary shares in ReEnergy (in addition to the 6,253,333 shares to which the minority shareholders of Estech Europe are entitled under the existing sale and purchase agreement);
- capital payments on projects which reach financial close by the end of 2012; and
- an earn-out equivalent to 1% of the gate fees received from the operation of these projects over their first five years of operation.

This is being affected by way of an offer to the minority shareholders which is being recommended by the majority of the minority shareholders. We have already received irrevocable undertakings to accept the offer in respect of approximately 96% of the minority shareholding. Under the terms of the offer, the minority shareholders will receive a combination of shares in ReEnergy and promissory notes pursuant to which payments will be made on the closure of projects by Estech Europe. The terms of the offer will be put to the ReEnergy shareholders at the forthcoming annual general meeting and we have received irrevocable undertakings or letters of intent to vote in favour of the offer from approximately 53% of the ReEnergy shareholders.

Until this offer receives the approval of the ReEnergy shareholders at the AGM it remains conditional.

## Financial Overview

The Group's expenditure for the period under review was consistent with budgets, with the highest level of expenditure being incurred in connection with project and business development across the Group's activities.

Following the strategic review a programme of major cost reductions has been implemented that is consistent with that strategy. This review also led to the following impairment charges:

Goodwill	£2,466,000
Licences	£117,000
Tangible assets	£125,000
Investments	£3,000

After making these charges for impairment the underlying loss from continuing operations in the year to 31 December 2006 was £8,643,000.

The Board is confident that, as a result of these cost reductions, the Group has sufficient cash reserves to allow it to fulfil its strategy for at least the next 12 months.

## Operational Review

### Estech Europe

England and Wales produce c. 30 million tonnes per annum of MSW. This volume is growing at c. 3% per annum and at current rates production will increase significantly by 2020. Circa 69% of MSW in England and Wales is still landfilled. Landfill is regarded by the European Union as an unacceptable method of disposal and the 1999 Landfill Directive requires that by 2010 the volume of MSW sent to landfill must be reduced to 75% of 1995 levels, by 2013 to 50% and by 2020 to 35%.

Estech Europe provides an environmentally friendly process solution to the above targets that has been identified as a Best Practicable Environmental Option for dealing with MSW. The process involves the sanitisation of MSW through a steam autoclaving process that allows for the recovery and recycling of metals, plastics and aggregates, leaving a small amount of residue (typically less than 20%) for final disposal to landfill.

Estech Europe has built a 1-tonne per hour fully operational pilot plant that has so far carried out over 350 processing cycles. The standard Estech Europe Fibrecycle™ 100,000 tonnes per annum MSW processing plant is based upon two autoclaves each of 20 tonnes capacity. This design has now been developed as the detailed standard generic Fibrecycle™ plant.

Contract negotiations between Estech Europe and the councils of Hereford and Worcester for the provision of two Fibrecycle™ plants were halted in December 2006.

As part of collaboration with AMEC we have submitted an alternative proposal based on Estech Europe's market leading autoclave technology that we believe overcomes the Councils' earlier concerns and we intend to pursue a new dialogue with Hereford and Worcester.

As previously reported Estech Europe has pre-qualified with VT Group plc for a waste management project in Wakefield and Estech Europe is continuing to support this bid.

Several merchant plant opportunities have been identified which the Board believes will create the opportunity to accelerate revenue streams and these are being actively developed. This is an area that we will be concentrating on in the year ahead. As of October 2007, landfill diversion requirements will apply to commercial and industrial waste as well as to MSW and this will make available significant additional volumes of waste as complementary loading to merchant plants.

### Pirelli

Activity during the year under review has been primarily focused on efforts to promote Refuse Derived Fuel ("RDF") as a product and therefore usable and commercially viable as a fuel. The categorisation as a fuel would remove the obligation for any process burning the RDF to comply with the Waste Incineration Directive. Pirelli already has the benefit of an exemption in Italy to utilise the RDF in combustion processes outside of the Waste Incineration Directive. The process to secure this categorisation by the European Commission has met with some difficulty. ReEnergy continues to believe that the future for RDF must be by application within Waste Incineration Directive compliant processes but that the potential for such RDF applications remains considerable albeit in the longer term. The Group does not expect this licence to generate revenue for the Group in the immediate future.

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### Thermal Recovery Unit ("TRU")

The considerable delays by the developer of the TRU process in producing a unit for installation within the Group's European market has been the source of considerable disappointment. Accordingly, following the strategic review, the Board determined that activities with this process should cease for the foreseeable future.

### ReEnergy Desalination Inc.

RDI is an international project developer that provides cost effective solutions for the delivery of high quality, reliable and sustainable water to industrial/institutional facilities, resort/residential complexes and municipalities. RDI employs a design, build, own and operate model designed to generate profits from the sale of desalinated water to customers under long-term water sales contracts, from project development fees and from operation and maintenance agreements.

In the short term, the company will focus its efforts in four broad markets, namely (i) Mexico, (ii) the Bahamas and the Caribbean, (iii) Peru and Chile and (iv) the Mediterranean rim, in particular Turkey, Greece, Cyprus and certain countries in North Africa. In addition, RDI has a presence in Australia, where water shortages are acute and the distances between major towns are large, supporting a distributed desalination approach.

RDI is currently progressing a number of project opportunities with its alliance partners. Two front running projects are: the Trump Ocean Resort in Tijuana, Mexico, a hotel-serviced luxury resort comprising a proposed development of 585 condominiums and leisure facilities requiring a phased desalination capacity of up to 660 m<sup>3</sup> per day and where we have already agreed a development contract; and the Shougang Hierro mine project in Peru, which requires a desalination capacity of 16,000 m<sup>3</sup> per day for its ore refining process. In addition we have concluded a small but important contract to operate a desalination plant on a private estate in Pebble Beach, California.

### Outlook

The year under review has been difficult and not without significant disappointments and I am immensely grateful to our shareholders for their continued patience and support. However, it is important that we do not lose sight of the fact that the markets in which the Group operates continue to present considerable opportunity for our technologies. The alliances that we have formed during the year have strengthened our position to exploit the market in the future in providing strong contracting capability with the skill and track record to deliver successful projects. The markets within which Estech Europe and RDI operate are still relatively immature, but both ones where considerable potential will irrefutably unfold. Our businesses will remain focused on securing valuable and deliverable projects with revenue streams to sustain the forward development of the Group. This window of opportunity underpins considerable future benefit for ReEnergy and its shareholders.

# Board of Directors and Advisers

ReEnergy Group plc

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## Directors

Michael Roger Hewitt (Executive Chairman)  
Robert F Smyth (Finance Director)  
Andrew Paul Biffen  
Grant Harvey Jones  
Howard Flight  
(Senior Independent Non-Executive)  
Steven Mueller (Non-Executive)  
Arthur W C (“Tony”) Morgan  
(Independent Non-Executive)  
Wayne Bruce Keast (Non-Executive)

## Secretary

Max Herbert

## Registered Office

211 Piccadilly  
London W1J 9HF

## Nominated Adviser

Strand Partners Limited  
26 Mount Row  
London W1K 3SQ

## Broker

Blue Oar Securities plc (formerly Corporate Synergy plc)  
30 Old Broad Street  
London EC2N 1HT

## Bankers

Barclays Bank plc  
1 Churchill Place  
London E14 5HP

## Audit Committee

Howard Flight (Chairman)  
Steven Mueller

## Remuneration Committee

Howard Flight (Chairman)  
Steven Mueller

## Appointments Committee

Michael Roger Hewitt  
Howard Flight

## Company number

Registered number 5281827

## Auditors

Baker Tilly UK Audit LLP  
2 Bloomsbury Street  
London WC1B 3ST

## Solicitors

Squire, Sanders & Dempsey  
Tower 42, 25<sup>th</sup> Floor  
25 Old Broad Street  
London EC2N 1HQ

## Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

The Directors present their report and the Group's audited accounts for the year ended 31 December 2006, and the Company's audited accounts for the year to 31 December 2006.

## Principal Activities

ReEnergy Group plc is a renewable energy company and this currently involves:

- The processing of municipal solid waste using Fibrecycle™ technology to recover recyclable materials and produce re-usable organic fibre (Estech);
- The production of high grade combustible fuel from solid waste which is used as a substitute for coal at power stations and cement kilns (Pirelli);
- Water Treatment involving seawater desalination for niche applications (ReEnergy Desalination Inc.).

## Business review and future developments

The business is in an early stage of development. In view of this the Directors do not consider there to be any appropriate key performance indicators at this stage.

A review of the development of the business during the period and the prospects for the Group is given in the Chairman's report on pages 3 to 7.

## Share Capital

On 23 March 2006 272,791 new ordinary shares of 5p were issued to Strand Partners Limited in consideration for financial advisory services, valued at the time at £204,593 and 218,125 to Cenkos Limited in consideration for broking services valued at the time at £163,593.

On 26 April 2006 the Company raised £12.75m and issued 42,500,000 ordinary shares as fully paid to a number of institutional investors.

On 17 May 2006 the Company issued 833,333 ordinary 5p shares in the Company to Strand Partners Limited in consideration for corporate advisory services to the company valued at the time at £250,000.

On 27 July 2006 at its Annual General Meeting the Company increased its authorised share capital from £5,400,000 to £10,000,000 by the creation of an additional 92,000,000 ordinary shares of 5p each.

On 17 August the company allotted 386,560 shares to existing shareholders who had made applications to subscribe for shares on substantially the same terms as offered in the refinancing on 25 April 2006.

At 31 December 2006, 81,553,460 ordinary shares were in issue.

## Warrants

On 12 May 2006, as part of the consideration for acting as brokers to the Company, Blue Oar Securities plc was granted an option to subscribe for 300,000 Ordinary shares at a price of 30 pence per share for a period of 3 years from the date of grant.

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**Results**

The results for the Group are set out in the Consolidated Profit and Loss Account on page 23 and commented upon in the Chairman's Statement on page 3.

**Dividends**

The Directors are precluded from recommending a dividend as there are no retained earnings.

**Substantial shareholders**

At 12 June 2007 the Directors had been notified of the following interests which amounted to 3% or more of the issued share capital of the company:

<i>Name</i>	<i>Number of shares</i>	<i>Percentage</i>
Consensus Business Group	17,331,667	21.25
Rab Capital	15,549,804	19.07
NewSmith Global Opps Hedge Fund	8,666,667	10.63
Peloton Partners LLP	6,666,666	8.17
Boston Equities Corp.	5,164,217	6.33
The Bank of New York (Nominees)	4,000,000	4.90
Artemis Investment Management Ltd	3,000,000	3.68
ODL Nominees Ltd	2,760,377	3.38

**Political and Charitable donations**

No political or charitable donations were made during the year.

**Employees**

The Group aims to be an equal opportunities employer with a commitment to help people develop their potential.

**Policy with regard to creditors**

The Group does not follow any specific code on the payment of suppliers. However, it is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2006 the number of days of trade creditors for the Group, calculated by reference to the total amounts invoiced by suppliers was 39 days (2005: 110 days).

**Research and development**

The Group will continue to invest in research and development in its subsidiaries where this will secure competitive advantage.

**Principal risks and uncertainties***Goodwill*

Goodwill arose on the acquisition of Estech which was made because of the outstanding opportunity it presented with the Fibrecycle™ technology to establish a substantial business in the waste management market. The estimated payment for this business exceeded the valuation of the assets acquired by £22,299,000. Since acquisition the goodwill has been amortised over 20 years and the balance at 31 December 2006 was £21,184,028. This goodwill is supported by the potential value of the contracts under negotiation. The goodwill could become impaired if the contracts envisaged are not concluded or are not replaced by similar contracts with other entities.

*Financial risk management*

Note 26 to the accounts describes the interest rate, liquidity and currency risks to which the Group is exposed. At 31 December 2005 the Board was of the opinion that the liquidity risk was of the utmost importance to the Group. Following the re-financing exercise completed on 25 April 2006 and described in the Chairman's report, the Directors consider that the Group has sufficient liquidity to enable it to operate for the foreseeable future. At this stage of its development the currency and interest rate risks to the Group are considered to be minimal. However, as the Group develops and major projects are implemented, appropriate strategies will be developed to ensure that the currency and interest rate risks to the Group are minimised.

*Going concern*

On 25 April 2006 the Company raised £12.75m from Institutional Investors and at 31 December 2006 had a cash balance of £6.5m. The Directors have reviewed the company's cash flow forecast up to December 2009, taking into account all known risks and uncertainties. The necessary funds to meet the capital costs of a project such as Hereford & Worcester will be raised independently in their entirety at financial close.

Following their review, the Directors believe that cash flow can be managed to enable the Group to continue in operational existence for the foreseeable future. They have introduced a cost reduction programme which should significantly reduce the rate of cash outflow. Accordingly, the Going Concern basis has been adopted for the preparation of these accounts.

*Changes in legislation and the Pirelli licence*

Pirelli already has the benefit of an exemption in Italy to utilise Refuse Derived Fuel ("RDF") in combustion processes outside of the Waste Incineration Directive. The process to secure this categorisation by the European Commission has met with some difficulty. ReEnergy continues to believe that the future for RDF must be by application within Waste Incineration Directive compliant processes but that the potential for such RDF applications remains considerable albeit in the longer term. The Group does not expect this licence to generate revenue for the Group in the immediate future.

*Deferred consideration*

The deferred consideration of £13,400,000 at 31 December 2006 is the Directors' valuation of potential payments due to the stakeholders of Estech Europe Ltd in consideration of planned projects in accordance with the Sale & Purchase Agreement dated 15 December 2005. It is possible that this valuation could reduce if the circumstances relating to the planned projects change.

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## Directors' Report

(continued)

ReEnergy Group plc

### Directors

The Directors who served since 1 January 2006 with their interests in the ordinary shares of the Company at 31 December 2006 were as follows:

Name		Number of Ordinary Shares	Percentage of Ordinary Share Capital	Under Options
Steven Mueller		♦ 2,226,110	2.73%	-
Michael Roger Hewitt		‡ 1,087,500	1.33%	♠ 500,000
Paul Craven	Resigned 30 April 2007	364,000	0.45%	♠ 500,000
Howard Flight ♣		25,000	0.03%	N/A
Robert F. Smyth	Appointed 4 September 2006	-	-	-
Arthur W. C. ("Tony") Morgan	Appointed 27 September 2006	-	-	-
Wayne Bruce Keast	Appointed 27 September 2006	-	-	-
Brian Harcourt	Resigned 17 April 2006	-	-	†
Andrew Paul Biffen	Appointed 30 April 2007	-	-	-
Grant Harvey Jones	Appointed 30 April 2007	-	-	-

The number of ordinary shares held were the same at 31 December 2006 as they were at 1 January 2006.

‡ This figure includes 1,037,500 shares held by Michael Roger Hewitt and 50,000 shares held by Rosemary Hewitt.

♠ 500,000 granted 18 December 2004 which are exercisable from 18 December 2005 until 17 December 2007.

♦ As at appointment Steven Mueller held no shares in the company but held 2,926,110 shares in Renergy Pacific for which he received 2,926,110 shares in ReEnergy Group plc in a share for share exchange.

♣ These are held in the name of Giltspur Nominees.

† Brian Harcourt held no options but Boston Equities, in which he was a former shareholder and Director, hold 5,164,217 Ordinary 5p shares and 400,000 warrants exercisable from 20 October 2005 until 19 October 2008.

**Directors Liability Insurance**

Directors & Officers Liability Insurance has been provided by the Company.

**Auditor**

The Directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989 s26(5). A resolution to appoint Baker Tilly UK Audit LLP as auditor will be put to the members at the Annual General Meeting.

**Statement of disclosure of information to auditors**

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

On behalf of the Board



Max Herbert  
Secretary  
15 June 2007

## Introduction

ReEnergy Group plc was listed on AIM in December 2005 and is committed to high standards of corporate governance. In March 2006 the Board adopted the guidance on corporate governance given by The Quoted Companies Alliance (2005) which we consider to be appropriate for our business.

The Board is accountable to the shareholders for good governance and the statement below is based on the review of corporate governance that was carried out by the Audit Committee and describes how the principles of good governance have been applied.

## Constitution of the Board

Currently the Board consists of four Executive Directors and four Non-Executive Directors, namely:

Michael Roger Hewitt	- Executive Chairman
Robert F Smyth	- Group Finance Director
Andrew Paul Biffen	- Chief Operating Officer Waste Management
Grant Harvey Jones	- Chief Operating Officer ReEnergy USA, and - Chief Executive Officer ReEnergy Desalination Inc.
Howard Flight	- Senior Independent Non-Executive Director
Steven Mueller	- Non-Executive Director
Tony Morgan	- Independent Non-Executive Director
Wayne Bruce Keast	- Non-Executive Director

The Board constitution gives rise to one area of non-compliance that the Audit Committee has considered in their review. The combination of the roles of Chairman and Chief Executive has the potential to give rise to a concentration of power in one individual. The Audit Committee has considered this matter and believes that this is in the best interests of the shareholders at this stage of the Group's development. Michael Roger Hewitt, the Chairman, has widely accepted major experience of the Waste Management business at senior executive level. In the period leading up to the IPO and the following refinancing of the Group, it was very much in the shareholders' interests for the Chairman to have executive control of the Group's activities as he was able both to negotiate external arrangements and lead the Group internally.

At an appropriate time in the future it is intended that the roles will be split, but in the meantime in order to ensure proper governance;

- The role of Senior Independent Non-Executive Director will continue to require a greater degree of consultation and involvement on the main business issues.
  - The Board has met more regularly than the once a month set out in the approved annual cycle of meetings.
  - A full time Finance Director and two further Non-Executive Directors were appointed during the year.
  - We have also appointed two executive Board Directors being the Chief Operating Officer for Waste Management and the Chief Operating Officer of ReEnergy USA / CEO of ReEnergy Desalination Inc.
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## Non-Executive Directors

During the year Howard Flight has been the Senior Independent Non-Executive Director and Chairman of the Audit Committee and the Remuneration Committee. Howard Flight has indicated that at the Company's Annual General Meeting he will not be offering himself for re-election and will be leaving the Board from that date. The Chairman expressed his gratitude to Howard on behalf of the shareholders for his contribution in the early stages of the Company's development.

Tony Morgan will assume the role of Senior Independent Non-Executive Director and will be chairman of the Audit and Remuneration Committees. Wayne Keast, a Non-Executive Director of the Group will also be a member of those Committees.

## Committees of the Board

The Board has three standing committees, each of which has terms of reference setting out their authority and duties including the following:

The *Audit Committee* comprises Howard Flight as Chairman and Steve Mueller. The Committee meets as required. It reviews the report and accounts and the preliminary and interim statements, including the Board's statement on Internal Financial Control in the Annual Report, prior to their submission to the Board for approval. The Audit Committee also reviews Corporate Governance within the Group and reports on this to the Board. In addition the Audit Committee assesses the overall performance of the external auditors including scope, cost effectiveness and objectivity.

The Committee is also charged with reviewing the independence of the external auditors and monitors the level of non-audit fees. These fees are disclosed in Note 2 to the accounts. In the opinion of the audit committee, which has reviewed these fees and the procedures that Baker Tilly UK Audit LLP have in place to ensure they retain their independence, the auditor's independence is not compromised.

The Committee can meet for private discussion with the external auditors, who attend its meetings, as required. The Company Secretary acts as secretary to the committee.

The *Remuneration Committee* comprises Howard Flight as Chairman and Steve Mueller. The Company Secretary acts as secretary. The Remuneration Committee determines, on behalf of the Board, the Group's policy on executive remuneration and the remuneration packages for Executive Directors. It also approves and administers the Executive Share Option Scheme and the grant of options as part of the remuneration package. The Committee met twice during the period. On both occasions both Howard Flight and Steve Mueller were in attendance.

The *Appointments Committee* comprised Roger Hewitt, Howard Flight and Paul Craven. In addition to its role of considering the appointment of Directors and senior managers the committee is also charged with reporting to the Board on the effectiveness of the Board, its sub-committees and its Directors and it should do this at the end the annual audit cycle. The Committee did not meet formally during the period. The appointment that was made of a Non-Executive Director during this period involved all the Executive Directors and the Board took independent advice.

## Attendance at Meetings

During the year the Directors have attended the following meetings of the Board and its sub-committees.

Roger Hewitt	- Board meetings 15/15
Paul Craven	- Board meetings 15/15
Robert Smyth	- Board meetings 5/5
Steve Mueller	- Board Meetings 12/15. Remuneration Committee 3/3. Audit Committee 3/3.
Howard Flight	- Board meetings 13/15. Remuneration Committee 3/3. Audit Committee 3/3
Tony Morgan	- Board meetings 5/5
Wayne Keast	- Board meetings 5/5

There were no Meetings of the Appointments Committee.

## Internal Control

The Board is responsible for reviewing and approving the adequacy and effectiveness of the Group's internal controls, which includes financial and operational control, risk management and compliance.

In order to establish effective procedures for internal control and communicate this throughout the Group, including its subsidiaries, the Board has issued two important documents to all staff. These are 'The Board Protocol' and 'The Manual of Internal Control'.

The key elements of the Group's internal control are set out in these documents. They contain:

- a clearly defined structure for the Group, its subsidiaries and management teams
- powers which the Board has reserved to itself. These include the approval of all business plans and budgets for the Group and all its subsidiaries, the establishment of subsidiary companies and appointment of Directors to them and the process for project approval and capital expenditure
- terms of reference for the Audit and Remuneration Committees, which defines the roles of its Directors
- about how often the Board should meet (as a minimum) and an annual cycle of meetings. This covers the process for the preparation of Board agendas, Board papers and their prior consideration by the management team at its weekly meetings
- detailed business plans and budgets to be approved annually and performance monitored by the management team and the Board at its monthly meeting
- procedures for the approval of expenditure, the levels of authority and the management controls

The Directors acknowledge their responsibility for the Group's system of internal financial control and risk management and place considerable importance on maintaining this. The Manual of Internal Control and the process for authorisation that it imposes together with the Board Protocol, which sets out the process for authorising business plans, budgets and projects, form an important part of the Group's risk management. Even so it should be noted that internal financial control can only provide reasonable and not absolute assurance against material errors, losses or fraud.

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# Corporate Governance Report

*(continued)*

ReEnergy Group plc

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There is currently no internal audit function within the Group owing to the small size of the administrative function. However there is a high level of review by Directors and the need for them to authorise transactions. The need for a separate internal audit function will be kept under review.

The Board Protocol and The Manual of Internal Control will continue to be updated and refined as operational experience is assessed. In the difficult period prior to our refinancing there was an understandable disruption to normal administration but greater emphasis needs to be placed on the discipline of a formal cycle of meetings and the timely production of documentation.

## **Going Concern**

On 25 April 2006 the Company raised £12,750,000 from Institutional Investors and at 31 December 2006 had a cash balance of £6,551,000. The Directors have reviewed the company's cash flow forecast up to December 2009, taking into account all known risks and uncertainties. The necessary funds to meet the capital costs of a project such as Hereford and Worcester will be raised independently in their entirety at financial close.

Following their review, the Directors believe that cash flow can be managed to enable the Group to continue in operational existence for the foreseeable future. They have introduced a cost reduction programme which should significantly reduce the rate of cash outflow. Accordingly, the Going Concern basis has been adopted for the preparation of these accounts.

## **Relations with Shareholders**

The company endeavours to maintain regular communications with shareholders through Regulatory announcements, via the Group's website and by direct contact with its major shareholders. The Board values the views of its shareholders and maintains a regular dialogue with investment and fund managers, other investors and equity analysts to ensure that the investing community receives a consistent view of the Group's progress.

# Directors' Remuneration Report

ReEnergy Group plc

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The Remuneration Committee is responsible for the determination of the remuneration policy of the Group's Executive Directors and Senior Executives. This Committee is also responsible for the administration and operation of the employee share option schemes, making recommendations on this to the Board.

## Remuneration Policy

The policy of the Group on Directors' remuneration is to provide competitive packages, which reward Group and above average individual performance. Remuneration packages comprise a basic salary, annual performance-related bonus, pension and participation in the share option scheme together with medical health insurance. Salaries and bonuses are reviewed annually.

## Employee Share Option Scheme

### *Options to subscribe for ordinary shares*

On 18 December 2004 Roger Hewitt was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain exercisable until 17 December 2007.

On 18 December 2004 Paul Craven was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain exercisable until 17 December 2007.

On 30 April 2007 Paul Craven resigned as a Director and these share options were bought out at that date for £50,000 and cancelled with immediate effect.

## Service Contracts

The Executive Directors have all signed Service Agreements with the Company. These contracts do not have fixed terms but are subject to 12 months notice by the company and 6 months notice by the Executive Director. The Non-Executive Directors are appointed by a letter of appointment for a fixed term of two years. Contracts may be terminated by giving two months notice, without compensation for loss of office. All newly appointed Directors are required to offer themselves for election at the next Annual General Meeting of the Company and their appointments are subject to them being so elected.

# Directors' Remuneration Report

(continued)

ReEnergy Group plc

## Directors' Emoluments

The following emoluments were paid to the Directors during the year ended 31 December 2006:

	Salary incl. fees & consultancy	Bonus	Benefits	Total excl. pension	Contributions to a money purchase pension scheme	Total
	£000	£000	£000	£000	£000	£000
M.R. Hewitt	176	-	3	179	21	200
P. Craven	148	-	2	150	11	161
B.L. Harcourt	27	-	-	27	-	27
R. F. Smyth	40	-	1	41	3	44
H. Flight	35	-	-	35	-	35
S. Mueller	32	-	-	32	-	32
A. Morgan	32	-	-	32	-	32
W. Keast	13	-	-	13	-	13
Total	503	-	6	509	35	544

The emoluments of Directors for the year ended 31 December 2006 compared with the emoluments of Directors for the period 9 November 2004 – 31 December 2005 were as follows:-

	2006 £000	2005 £000
Remuneration for management services	509	483
Payments to a defined contribution pension fund	35	1
Total Directors' Emoluments	544	484

## Statement of Directors' Responsibilities

ReEnergy Group plc

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The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report

To The Members of

ReEnergy Group plc

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We have audited the financial statements on pages 23 to 55.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referenced from the Business Review section of the Directors' Report.

In addition, we report to you if, in our opinion, 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. This other information comprises only the Directors' Report, the Chairman's Statement, the Corporate Governance Report and the Directors' Remuneration 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.

## **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.

## Independent Auditor's Report

To The Members of

*(continued)*

ReEnergy Group plc

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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 financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 31 December 2006 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.
- the information in the Directors' report is consistent with the financial statements.

Baker Tilly UK Audit LLP  
Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

15 June 2007

# Consolidated Profit and Loss Account

For the year ended 31 December 2006

ReEnergy Group plc

	Notes	2006 £000	2005 £000
Administrative expenses – which include:		(11,354)	(2,795)
Impairment of goodwill		(2,466)	-
Impairment of licenses		(117)	-
Impairment of tangible assets		(125)	-
Impairment of investments		(3)	-
Acquisitions in the year		-	(327)
<b>Operating Loss</b>		<b>(11,354)</b>	<b>(2,795)</b>
Interest receivable	4	308	28
Interest payable	5	(402)	(596)
<b>Loss on ordinary activities before taxation</b>	2	<b>(11,448)</b>	<b>(3,363)</b>
Taxation	6	168	-
<b>Loss on ordinary activities after tax</b>		<b>(11,280)</b>	<b>(3,363)</b>
Minority interest		236	30
Loss retained on ordinary activities after tax and minority interest	16	(11,044)	(3,333)
<b>Loss per ordinary share – basic and diluted</b>	7	<b>(16.4)p</b>	<b>(17.9)p</b>

The Operating Loss for the year arises from the Group's continuing operations. In 2005 £327,000 related to acquisitions.

As explained in the accounting policies (basis of consolidation) the profit and loss account has been prepared using merger accounting principles and is presented as if the Group had been in existence throughout the current and prior periods.

The accompanying accounting policies and notes form an integral part of the financial statements.

## Consolidated Statement of Total Recognised Gains and Losses for the year to 31 December 2006

	2006 £000	2005 £000
Loss for the year	(11,044)	(3,333)
Foreign exchange differences on retranslation of net assets of subsidiary undertakings	(32)	(26)
<b>Total recognised gains and losses relating to the year</b>	<b>(11,076)</b>	<b>(3,359)</b>

# Consolidated Balance Sheet

At 31 December 2006

ReEnergy Group plc

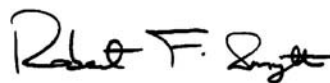
	Notes	2006 £000	As restated 2005 £000
<b>Fixed assets</b>			
Intangible assets	9	22,965	28,570
Tangible assets	10	76	359
Investments	12	-	3
		<b>23,041</b>	<b>28,932</b>
<b>Current assets</b>			
Debtors due within one year	13	405	5,926
Cash at bank and in hand		6,551	2,083
		<b>6,956</b>	<b>8,009</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(3,691)</b>	<b>(9,134)</b>
<b>Net current assets</b>		<b>3,265</b>	<b>(1,125)</b>
<b>Total assets less current liabilities</b>		<b>26,306</b>	<b>27,807</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(16,852)</b>	<b>(18,587)</b>
<b>Net assets</b>		<b>9,454</b>	<b>9,220</b>
<b>Capital and reserves:</b>			
Called up share capital	15	4,078	1,867
Share premium account	16	20,521	10,051
Share option reserve	16	235	304
Merger reserve	16	209	209
Profit and loss account	16	(15,589)	(4,513)
<b>Shareholders' funds</b>	16	<b>9,454</b>	<b>7,918</b>
Minority interest	18	-	1,302
<b>Total capital employed</b>		<b>9,454</b>	<b>9,220</b>

The accompanying accounting policies and notes form an integral part of the financial statements.

Approved by the Board and authorised for issue on 15 June 2007.



Michael Roger Hewitt  
Executive Chairman



Robert F Smyth  
Director

# Company Balance Sheet

At 31 December 2006

ReEnergy Group plc

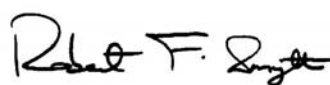
	Notes	2006 £000	As restated 2005 £000
<b>Fixed assets</b>			
Intangible assets	9	1,741	2,321
Tangible assets	10	4	6
Investments in subsidiary undertakings	12	13,732	14,535
		<b>15,477</b>	<b>16,862</b>
<b>Current assets</b>			
Debtors due within one year	13	93	8,284
Debtors due after more than one year	13	11,080	6,509
Cash at bank and in hand		6,517	1,940
		<b>17,690</b>	<b>16,733</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(2,800)</b>	<b>(6,741)</b>
<b>Net current assets</b>		<b>14,890</b>	<b>9,992</b>
<b>Total assets less current liabilities</b>		<b>30,367</b>	<b>26,854</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(15,212)</b>	<b>(17,559)</b>
<b>Net assets</b>		<b>15,155</b>	<b>9,295</b>
<b>Capital and reserves:</b>			
Called up share capital	15	4,078	1,867
Share premium account	16	20,521	10,051
Share option reserve	16	235	304
Profit and loss account	16	(9,679)	(2,927)
<b>Shareholders' funds</b>	16	<b>15,155</b>	<b>9,295</b>

The accompanying accounting policies and notes form an integral part of the financial statements.

Approved by the Board and authorised for issue on 15 June 2007.



Michael Roger Hewitt  
Executive Chairman



Robert F Smyth  
Director

# Consolidated Cash Flow Statement

For the year ended 31 December 2006

ReEnergy Group plc

	Notes	2006 £000	2005 £000
<b>Net cash outflow from operating activities</b>	<b>23</b>	<b>(9,110)</b>	<b>(1,646)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		290	28
Interest paid		(9)	-
Interest element of finance lease rental payments		(3)	(437)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>278</b>	<b>(409)</b>
<b>Taxation</b>		<b>117</b>	<b>-</b>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(8)	(39)
Payments to acquire intangible fixed assets		(2,000)	(147)
Loan made		-	(1,000)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(2,008)</b>	<b>(1,186)</b>
<b>Acquisitions &amp; disposals</b>			
Purchase of subsidiary undertakings		-	(899)
Net cash acquired with subsidiaries		-	119
<b>Net cash outflow from acquisitions</b>		<b>-</b>	<b>(780)</b>
<b>Cash outflow before financing</b>		<b>(10,723)</b>	<b>(4,021)</b>
<b>Financing</b>			
Net proceeds from issue of shares		17,668	2,354
Issue of convertible loan notes		-	3,926
Repayment of finance leases		(83)	-
Loans repaid		(2,394)	(389)
<b>Net cash inflow from financing</b>		<b>15,191</b>	<b>5,891</b>
<b>Increase in cash</b>		<b>4,468</b>	<b>1,870</b>
<b>Reconciliation of net cash flow to movement in net debt:</b>			
Increase in cash in year		4,468	1,870
Cash outflow / (inflow) from increase in debt and lease financing		2,477	(3,537)
Change in net debt resulting from cash flows		6,945	(1,667)
Loans and finance leases acquired with subsidiaries		-	(8,036)
Loans converted into shares		-	3,926
Transfer of finance leases		55	-
Loan interest added to capital		(393)	-
Translation difference		-	(39)
Movement in funds in year		6,607	(5,816)
Opening net debt		(5,953)	(137)
Closing net funds/ (debt)		654	(5,953)

## 1. Accounting policies

The principal accounting policies, which have been consistently applied in the Group's financial information throughout the period under review, are as follows:

### *Basis of accounting*

The financial information has been prepared under the historical cost convention and in accordance with applicable standards in the United Kingdom.

### *Going Concern*

On 25 April 2006 the Company raised £12,750,000 from Institutional Investors and at 31 December 2006 had a cash balance of £6,551,000. The Directors have reviewed the company's cash flow forecast up to December 2009, taking into account all known risks and uncertainties. The necessary funds to meet the capital costs of a project such as Hereford & Worcester will be raised independently in their entirety at financial close.

Following their review, the Directors believe that cash flow can be managed to enable the Group to continue in operational existence for the foreseeable future. They have introduced a cost reduction programme which should significantly reduce the rate of cash outflow. Accordingly, the Going Concern basis has been adopted for the preparation of these accounts.

### *Prior year adjustment – adoption of new accounting policies*

The Group has adopted FRS 25 – Financial Instruments and FRS 26 – Financial Instruments – Recognition and Measurement during the year ended 31 December 2006 and has amended prior year comparisons accordingly. As a result, the 31 December 2005 balance sheet has been restated to disclose the amount of £17,927,000 previously categorised as part of equity in respect of shares to be issued as creditors falling due after more than one year.

Financial instruments are recognised based on the substance of the transactions.

Deferred and contingent consideration payable in relation to acquisitions is assessed at each period end and the Directors' estimate of the fair value of the amount payable is adjusted accordingly through goodwill.

### *Basis of consolidation*

Under the share purchase agreement dated 13 December 2004 and 17 March 2005 the Company acquired the entire issued share capital of ReEnergy USA (formerly Renergy Pacific Corp.) by means of a share for share exchange. As this represented a group reconstruction, merger accounting has been used to consolidate these companies and the consolidated financial statements merge the financial statements of these undertakings as if they had always so been owned. Accordingly, in those years when mergers take place, the whole of the results, assets, liabilities and shareholders' funds of the merged companies are consolidated, regardless of the actual merger date, and corresponding figures for previous years are re-stated.

All other subsidiaries are consolidated using the acquisition method and their results are incorporated from the date that control passes. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separate net assets acquired is capitalised as goodwill.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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The Group comprises fourteen entities:

- ReEnergy Group plc;
- ReEnergy USA (formerly Renergy Pacific Corporation);
- ReEnergy U.K. Limited;
- ReEnergy Desalination Inc. (formerly Oases Global Systems Inc.);
- Oases U.K. Limited;
- Estech Europe Limited;
- Estech Household Waste Recycling (Wolverhampton) Ltd (formerly Estech Operations Ltd);
- Tass Environmental Technology Ltd;
- The Fibrecycle Company Ltd;
- Estech PlantCO3 Ltd;
- Estech Madley Plant Ltd;
- Estech Hartlebury Plant Ltd;
- Estech H&W Ltd; and
- Estech Hartlebury O&M Ltd

The consolidated results for the comparative period ended 31 December 2005 reflect those of the Company and Renergy Pacific Corporation for the whole period. The results of ReEnergy Desalination Inc. (formerly Oases Global Systems Inc.) had been included from 25 August 2005 with Oases U.K. Ltd and ReEnergy U.K. Ltd being included from 26 August 2005. No results had been included for Estech Europe Ltd, Estech Operations Ltd, Tass Environmental Technology Ltd and The Fibrecycle Company Ltd as these companies were only acquired on 30 December 2005. Balance sheets only had been consolidated in the Group accounts as at the 31 December 2005 for these three companies.

All financial statements are made up to 31 December 2006.

### *Goodwill*

Goodwill is stated at cost less accumulated amortisation and any impairment in value. Cost is the difference between the fair value of the consideration paid on acquisition and the fair value of the net assets acquired. Amortisation is calculated to write off the goodwill on a straight line basis over its estimated useful life. This is currently 20 years. Goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

### *Other intangible fixed assets*

Other intangible fixed assets relate to the intellectual property acquired by the Group either through licence agreements or outright purchase. Intangible fixed assets are stated at historical cost.

Amortisation is provided at rates calculated to write down each asset from the date of its acquisition to its estimated residual value evenly over the term of the licence or its expected useful life, as follows:

Licences	term of the licence
Acquired intellectual property	20 years

Goodwill of £2,466,000 in Oases U.K. Ltd was fully impaired in the year as was a licence of £117,000 in ReEnergy USA. See notes 9 and 10 for further details.

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## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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### *Tangible fixed assets*

Tangible fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Estech demonstration plant	5 years
Motor vehicles	3 years
Other plant, machinery and equipment	2 to 4 years

Fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount.

### *Impairment Review*

Goodwill of £2,466,000 in Oases U.K. Ltd was fully impaired in the year as was a licence of £117,000 in ReEnergy USA See notes 9 and 10 for further details.

A review of the remaining goodwill and intangibles has been carried out and considered by the Directors. This review was conducted on licences with a written down value of £1,781,000 and goodwill with a written down value of £21,184,000.

Goodwill represents the Group's 51% investment in Estech Europe Limited and its technology and know-how.

In considering the carrying values the Directors reviewed the strengthening of the emerging market and the discounted value of the current pipeline of projects, taking into account both their long term nature and the length of time it will take before they are commissioned. Taking all of these factors into account the Directors are of the opinion that goodwill is not impaired at 31 December 2006.

### *Investments*

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

### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial information that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial information.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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### *Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into the profit and loss account for the year.

The financial statements of foreign enterprises are translated into sterling using the temporal method, whereby monetary assets and liabilities are translated at the closing exchange rate and non-monetary assets are translated at their historic rate. The resulting exchange difference is taken directly to the profit and loss reserve.

### *Share based payments*

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The assumptions underlying the number of awards expected to vest are subsequently adjusted to reflect conditions prevailing at the balance sheet date. At the vesting date of an award, the cumulative expense is adjusted to take account of the awards that actually vest.

Equity-settled share-based transactions with parties other than employees and those providing similar services are measured at the fair value of goods or services provided, unless this cannot be reliably measured in which case the transaction is measured at the fair value of the equity instrument granted.

### *Leased assets and obligations*

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are operating leases and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

### *Pension costs*

The Group makes payments on behalf of certain employees to personal pension plans. The pension costs charged in the financial statements represent the contributions payable by the Group for the period.

### *Finance costs*

Finance costs of debt are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

### *Research and development*

It is the Group's policy to write off research and development expenditure in the period in which it is incurred.

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## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 2. Loss on operating activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2006 £000	2005 £000
Depreciation of tangible fixed assets - owned	78	14
- leased	33	-
Amortisation of goodwill	1,246	46
Amortisation of other intangible fixed assets (licences)	606	20
Auditors remuneration	118	84
Operating lease rentals – other	222	148
Share based payment (credit) / expense	(69)	304
Exceptional legal and professional fees relating to the merger with ReEnergy USA (formerly Renergy Pacific Corp.)	-	45
Exceptional impairment of goodwill	2,466	-
Exceptional impairment of other intangible fixed assets (licences)	117	-
Exceptional impairment of other tangible fixed assets	125	-
Exceptional impairment of investment	3	-
Research and development expenditure	236	248

Amounts payable to the auditors and their associates in respect of both audit and non-audit services:

	2006 £000	2005 £000
Fees payable to the company's auditors for the audit of the company's annual accounts	68	40
Fees payable to the company's auditors and their associates for other services to the group	2	3
The audit of the company's subsidiaries pursuant to legislation	48	41
Total audit fees	118	84

A further amount of £nil (2005: £173,000) was payable to the auditors in respect of professional services relating to the IPO. This has been written off against share premium.

The exceptional impairment of goodwill amounting to £2,466,000 (2005: £nil) is the impairment in full of goodwill that arose on the acquisition of the Oases U.K. Ltd assets. The Directors consider this to be impaired because the projects on which it was based have now lapsed.

The exceptional impairment of other intangible fixed assets amounting to £117,000 (2005: £nil) is the impairment in full of the licence assets which had been part of the acquisition of ReEnergy USA. This licence was to develop a Thermal Recovery Unit ("TRU"), but the project was subsequently found not to be viable.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

The exceptional impairment of tangible fixed assets amounting to £125,000 (2005: £nil) is the impairment in full of plant and machinery that had been part of the acquisition of the Oases U.K. Ltd assets and which became impaired as none of the joint ventures had been concluded.

The exceptional impairment of investment amounting to £3,000 (2005: £nil) is the impairment in full of the investment that had been part of the acquisition of the Oases U.K. Limited assets and which became impaired as the joint venture with Magh Oases, a company incorporated in Morocco, had not been concluded.

### 3. Segmental analysis

All of the Group's operating activities relate to the development of its business as a waste management, renewable energy and water desalination technology provider. Since all of the Group's projects are at a developmental phase with a similar risk and reward profile the Directors do not believe it is meaningful to define reportable segments by nature of the renewable resource under development. Accordingly, in this development phase, the Directors consider there is only one reportable business unit. The operating losses and net liabilities in relation to the Group's activities have been incurred primarily in Europe and the US as presented below:

#### Operating Loss

	2006	2005
	£000	£000
Europe	(10,132)	(2,245)
US	(1,222)	(550)
Total	<u>(11,354)</u>	<u>(2,795)</u>

#### Net Assets/(Liabilities)

	2006	As restated 2005
	£000	£000
Europe	9,420	9,083
US	34	137
Total	<u>9,454</u>	<u>9,220</u>

### 4. Interest Receivable

	2006	2005
	£000	£000
Bank interest receivable	<u>308</u>	<u>28</u>

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 5. Finance Charges

	2006 £000	2005 £000
Interest payable on convertible loan notes	-	30
Interest and finance charges payable on loans	407	261
Underwriting fee payable on acquisition of Pirelli licence	-	132
Fees payable in respect of extension of loans	-	137
Exchange (gain) / loss	(5)	36
	<u>402</u>	<u>596</u>

### 6. Taxation

	2006 £000	2005 £000
Current tax		
UK Corporation tax:		
Adjustments in respect of previous years	(168)	-

Factors affecting the tax charge for the year:

	2006 £000	2005 £000
Loss on ordinary activities before tax	(11,448)	(3,363)
Loss on ordinary activities multiplied by standard UK tax rate of 30% (2005: 30%)	(3,434)	(1,009)
Expenses not deductible for tax purposes	669	132
Temporary differences	58	92
Difference between UK and foreign tax rates	(119)	(61)
Adjustments in respect of previous years	(168)	19
Tax losses carried forward	2,826	827
Tax (credit)/ charge for period	<u>(168)</u>	<u>-</u>

The tax credit arises in relation to research and development expenditure incurred by Estech Europe Ltd.

### Unrecognised deferred tax asset:-

	2006 £000	2005 £000
Tax losses carried forward	6,268	3,356
Accelerated capital allowances	76	28
Other temporary differences	47	35
	<u>6,391</u>	<u>3,419</u>

No deferred tax asset has been recognised for tax losses carried forward on the basis that it is not sufficiently certain that circumstances will arise in which these amounts could be recovered.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 7. Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the loss for the financial year of £11,044,000 (2005: £3,333,000) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of 67,502,136 (2005: 18,659,949). There is no dilutive effect of shares to be issued due to the loss arising in the year.

### 8. Employees

The average monthly number of persons (including Directors) employed by the Group was 24 (2005: 13). All staff are employed in administrative or managerial roles.

#### Staff costs for the above employees and Directors

	2006 £000	2005 £000
Wages and salaries	2,073	1,016
Social security costs	227	96
Other pension costs	81	1
Share based payments	-	4
	<u>2,381</u>	<u>1,117</u>

#### Directors' Emoluments

	2006 £000	2005 £000
Remuneration for management services	509	483
Company contributions to defined contribution scheme	35	1
Share based payments	-	4
	<u>544</u>	<u>488</u>

Three (2005: One) Directors accrued benefits under defined contribution schemes.

#### Amounts paid to highest paid Director

	2006 £000	2005 £000
Emoluments	179	172
Company contributions to defined contribution scheme	21	4
	<u>200</u>	<u>176</u>

Emoluments of the Directors are set out in the Remuneration Report on pages 18 and 19.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 9. Intangible Fixed Assets – Group

	<b>Licences</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Brought forward at 1 January 2006	2,550	26,094	28,644
Fair value adjustment	-	(1,152)	(1,152)
Disposals	(7)	-	(7)
Movement arising from retranslation of assets in overseas companies	(22)	-	(22)
<b>At 31 December 2006</b>	<b>2,521</b>	<b>24,942</b>	<b>27,463</b>
<b>Amortisation and impairment</b>			
Brought forward at 1 January 2006	28	46	74
Charge in year	606	1,246	1,852
Impairment in year	117	2,466	2,583
Movement arising from retranslation of assets in overseas companies	(11)	-	(11)
<b>At 31 December 2006</b>	<b>740</b>	<b>3,758</b>	<b>4,498</b>
<b>Net book value at 31 December 2006</b>	<b>1,781</b>	<b>21,184</b>	<b>22,965</b>
<b>Net book value at 31 December 2005</b>	<b>2,522</b>	<b>26,048</b>	<b>28,570</b>

Licences represent the rights, for a specified period of time, to exploit certain technologies.

The Pirelli licence, which cost £2,321,000 last year, has been amortised over four years to a value of £1,740,000 at 31 December 2006. Acceptance of the use of high grade Refuse Derived Fuel (“RDF”) in, for example, coal fired power stations, as an alternative to fossil fuels is, the Directors believe, unlikely to be dependent on its reclassification as a product. However, reclassification may be probable in the medium term to enable the widespread use of RDF as a fuel. Accordingly, the Directors do not consider the carrying value of the licence to be impaired.

The fair value adjustment to goodwill of £1,066,000 arising during the year represents a change in the estimate of the fair value of consideration payable in respect of the acquisition of Oases U.K. Ltd. The consideration payable was partially contingent upon certain performance milestones being met. The remaining £86,000 is a refund of legal costs relating to the acquisition of Estech Europe.

The exceptional impairment of goodwill amounting to £2,466,000 (2005: £nil) is the impairment in full of goodwill that arose on the acquisition of the Oases U.K. Ltd assets. The Directors consider this to be impaired because the projects on which it was based have now lapsed.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### Intangible Fixed Assets – Company

	<b>Licences</b>
	<b>£000</b>
<b>Cost</b>	
Brought forward at 1 January 2006	2,321
Additions	-
<b>At 31 December 2006</b>	<b>2,321</b>
<b>Amortisation</b>	
Brought forward at 1 January 2006	-
Charge in year	580
<b>At 31 December 2006</b>	<b>580</b>
<b>Net book value at 31 December 2006</b>	<b>1,741</b>
<b>Net book value at 31 December 2005</b>	<b>2,321</b>

### 10. Tangible Fixed Assets – Group

	<b>Plant, machinery &amp; equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>			
Brought forward at 1 January 2006	278	95	373
Additions	8	-	8
Disposals	(2)	(51)	(53)
Movement arising from retranslation of assets in overseas companies	(4)	-	(4)
<b>At 31 December 2006</b>	<b>280</b>	<b>44</b>	<b>324</b>
<b>Depreciation</b>			
Brought forward at 1 January 2006	14	-	14
Written back on disposals	-	(2)	(2)
Charge in year	87	24	111
Impairment in year	125	-	125
<b>At 31 December 2006</b>	<b>226</b>	<b>22</b>	<b>248</b>
<b>Net book value at 31 December 2006</b>	<b>54</b>	<b>22</b>	<b>76</b>
<b>Net book value at 31 December 2005</b>	<b>264</b>	<b>95</b>	<b>359</b>

The impairment of tangible fixed assets amounting to £125,000 (2005: £nil) is the impairment in full of plant and machinery that had been part of the acquisition of the Oases U.K. Ltd. The Directors consider these to be impaired because the projects on which they were based have now lapsed.

Assets held under finance leases:-

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
The net book value of assets held under finance leases was:-	<b>21</b>	<b>107</b>

# Notes to the Financial Statements

(continued)

ReEnergy Group plc

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## Tangible Fixed Assets – Company

	Plant, machinery & equipment £000
<b>Cost</b>	
Brought forward at 1 January 2006	9
Additions	-
<b>At 31 December 2006</b>	<u>9</u>
<b>Depreciation</b>	
Brought forward at 1 January 2006	3
Charge in year	2
<b>At 31 December 2006</b>	<u>5</u>
<b>Net book value at 31 December 2006</b>	<u>4</u>
<b>Net book value at 31 December 2005</b>	<u>6</u>

No assets were held under finance leases.

### 11. Acquisitions in 2005

#### Estech Europe Ltd

On 30 December 2005 ReEnergy Group plc acquired an initial 51% of Estech Europe Ltd (“Estech”) with the actual consideration payable to be determined with reference to the net present value of projects secured by Estech over a 36 month period.

Prior to the acquisition, ReEnergy made £1m of working capital available to Estech. The Acquisition agreement provided that ReEnergy would continue to provide Estech with sufficient working capital to enable Estech to continue its operations following its acquisition. The Acquisition agreement also provided that ReEnergy would procure that Estech would repay former shareholder loans to the extent of £2,350,000 in cash within 14 days of the Admission. This was completed on 13 January 2006. Of the remaining loans outstanding to former Estech shareholders, £2,346,000 including accrued interest will be settled by the issue of ReEnergy shares at the price of 75p per share by 30 June 2007, with the final balance of £2,343,000 including accrued interest being settled by the issue of Re Energy shares at 75p per share by 30 June 2008. ReEnergy has the option to settle these two payments in cash.

ReEnergy will issue further new Ordinary shares to the Estech Europe selling shareholders in the next 36 months pursuant to the agreement, subject to the performance of Estech Europe in that time.

The maximum consideration payable to the selling shareholders of Estech in respect of the initial 51% of the capital of the Company being acquired is £15,400,000.

In order to achieve the full consideration available under the terms of the agreement Estech will need to generate revenues attributable to the Group of at least £69.3m per annum. The consideration is payable in shares of ReEnergy Group plc at 75p per share for contracts executed on or before 31 December 2007 and at a market price for contracts executed between 31 December 2007 and 30 December 2008.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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The acquisition agreement also involves the grant to ReEnergy of an option to acquire, via the issue of new ordinary shares:

- (i) a further 24% of Estech's issued share capital in the fourth year following completion of the Estech acquisition on the basis of a valuation of Estech of £20,400,000; and
- (ii) the outstanding 25% of Estech's issued share capital in the fifth year following completion of the Estech Acquisition at market value, to be determined pursuant to an agreed mechanism.

This Estech acquisition was made because of the outstanding opportunity it presented with the Fibrecycle™ technology to establish a substantial business in the waste management market. The expected payment that is due for this business exceeds the valuation of the assets by an amortised total of £21,184,000 at 31 December 2006. This goodwill represents the potential value of the contracts under negotiation. The goodwill would become impaired if the contracts envisaged are not concluded.

The Board is of the opinion that the book values of the assets and liabilities of the Estech Group of companies at the acquisition date represented their fair values.

An impairment review has been carried out as detailed in note 1.

### **Oases U.K. Ltd**

On 30 September 2005 the group completed the acquisition of Oases U.K. Ltd.

Under the terms of The Asset Purchase Agreement Oases U.K. Ltd, a subsidiary of ReEnergy U.K. Ltd which is in turn a subsidiary of ReEnergy Group plc acquired all of the assets of the seller, Oases BVI. The significant assets were intellectual property rights, employment agreements and the interests in the joint ventures. In consideration for the purchase of the assets Oases U.K. Ltd issued 4,400,000 Ordinary 'C' class shares of 1p nominal value, equal to 44% of its equity shares, to Oases BVI and its designees.

Oases U.K. Ltd is capitalised with 10 million shares of equity securities divided into three classes. Initially 5,600,000 Class 'B' shares were issued to ReEnergy Group UK Ltd and are convertible to Class 'A' shares on upon ReEnergy meeting its funding commitment at the rate \$0.50 per share. 4,400,000 Class 'C' shares were issued to Oases BVI and its designees and are subject to a vesting schedule whereby a proportion of the 'C' shares are converted to 'A' shares on the achievement of certain milestones in the establishment of the business.

At the 31 December 2005 ReEnergy had provided funds of \$1,045,852 and held 2,091,705 Class 'A' shares. At 22 June 2006 ReEnergy held 5,600,000 Class 'A' ordinary shares having provided funds to the value of \$2,800,000.

Oases BVI reported that they have achieved their first milestone and a report was submitted to the Board of Oases Global Systems and then to the Board of Oases U.K. Ltd. This resulted in 880,000 'C' Class shares being converted into Class 'A' shares.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

ReEnergy has a “call” option and Oases BVI will have a “put” option for each share of Series ‘C’ Ordinary Shares and each of the shares of Series ‘A’ Ordinary Shares into which Series ‘C’ Ordinary Shares is converted (the “Option Shares”). For six months following Admission, ReEnergy has a right to call Option Shares equal to 19 % of the outstanding shares of Ordinary Shares of Oases U.K. Ltd at \$1.00 per share. For a period of time extending to the third anniversary of the closing of the Asset Purchase Agreement to the fifth anniversary of that closing, ReEnergy can “call” the remaining Option Shares at a price per share equal to 100 % of an “agreed upon value”. During that period each Oases BVI holder of Option Shares shall have a “put” option to sell, all or any portion of the Option Shares held by them to ReEnergy at a price per share equal to 90 % of the “agreed upon value”. The “agreed upon value” per share has been defined in the Operating and Shareholder Agreement as (i) the aggregate market capitalization of ReEnergy (calculated on the basis of (a) the variable weighted average trading price of its stock for the ten trading days immediately prior to the date of an “analyst report” multiplied by (b) the number of shares of ReEnergy outstanding), (ii) multiplied by the percentage of the market price of ReEnergy stock attributable to the Oases segment of the business (as determined by the “analyst report”), and (iii) divided by the number of shares of Oases U.K. Ltd outstanding at the time of the calculation.

Following the achievement of the first milestone and the conversion of 880,000 Class “C” shares into Class “A” shares, it was agreed by the Boards of ReEnergy Group, ReEnergy U.K. Ltd and Oases BVI that as the time for achievement of the other milestones had elapsed no further shares would be converted. On 11 April 2007, 402,000 of the 880,000 Class “A” shares were transferred to ReEnergy U.K. Ltd by three shareholders. The result of this was to increase the direct shareholding of ReEnergy U.K. Ltd from 56.0% to 86.4%.

The Board reviewed the fair value of the assets acquired and restated the tangible fixed assets to reflect the fair value of the vapour compression unit. Following this revaluation the price paid for the assets exceeded the fair value of the net assets by £3,708,000. This represented the value of the joint ventures that were under negotiation and the value attributed to the management team.

An impairment review has been carried out at 31 December 2006 as detailed in note 1 and £125,000 was written-off in respect of tangible assets and £2,466,000 in respect of goodwill.

### 12. Investments

#### Group

The investment by Oases U.K. Ltd in 49% of the ordinary shares in Magh Oases, a company incorporated in Morocco, has been written down to a value of £nil (2005: £3,177) as that company will not commence trading.

#### Company

Shares in Group undertakings:	£000
At 1 January 2005	-
Additions	14,535
<b>At 31 December 2005</b>	<b>14,535</b>
Reduction in the cost of investments	(89)
Impairment in year	(714)
<b>At 31 December 2006</b>	<b>13,732</b>

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

The Company directly holds investments in the following subsidiaries:-

Name of Company	Principal activity	Country of registration	% of issued shares held and voting rights
Reenergy Pacific Corporation	Holding company	State of Nevada, USA	100%
Estech Europe Ltd	Waste management	England and Wales	51%
ReEnergy U.K. Ltd	Holding company	England and Wales	100%

The Company indirectly holds investments in the following subsidiaries:-

Name of Company	Principal activity	Country of registration	% of issued shares held and voting rights
Oases U.K. Ltd	Holding company	England and Wales	56%
Tass Environmental Technology Ltd	Waste management	England and Wales	51%
Estech Household Waste Recycling (Wolverhampton) Ltd (formerly Estech Operations Ltd)	Dormant	England and Wales	51%
The Fibrecycle Co. Ltd	Dormant	England and Wales	51%
Estech PlantC03 Ltd	Dormant	England and Wales	51%
Estech Madley Plant Ltd	Dormant	England and Wales	51%
Estech Hartlebury Plant Ltd	Dormant	England and Wales	51%
Estech H&W Ltd	Dormant	England and Wales	51%
Estech Hartlebury O&M Ltd	Dormant	England and Wales	51%
ReEnergy Desalination Inc. (formerly Oases Global Systems Inc.)	Desalination	State of Delaware, USA	100%

### 13. Debtors

#### Group

Amounts falling due within one year:	2006 £000	2005 £000
Unpaid share capital	-	5,356
Other debtors	303	408
Prepayments and accrued income	102	162
	<b>405</b>	<b>5,926</b>

The unpaid share capital represented funds outstanding from the initial public offering at 31 December 2005.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### Company

Amounts falling due within one year:	2006 £000	2005 £000
Unpaid share capital	-	5,356
Other debtors	38	286
Amounts receivable from other Group companies	-	2,553
Prepayments and accrued income	55	89
	<b>93</b>	<b>8,284</b>

The unpaid share capital represented funds outstanding from the initial public offering at 31 December 2005.

Amounts falling due after more than one year:	2006 £000	2005 £000
Amounts receivable from other Group companies	<b>11,080</b>	<b>6,509</b>

### 14. Creditors:

#### Group

Amounts falling due within one year:	2006 £000	As restated 2005 £000
Trade creditors	641	2,764
Obligations under finance leases	78	102
Other taxation and social security costs	66	81
Other creditors	2,376	5,189
Accruals and deferred income	530	998
	<b>3,691</b>	<b>9,134</b>

The other creditors mainly represent £2,346,000 (2005: £2,350,000) due to stakeholders in Estech Europe Ltd and £nil (2005: £2,000,000) due to Pirelli & C Ambiente S.p.A. in relation to a licence fee.

Amounts falling due after one year:	2006 £000	As restated 2005 £000
Obligations under finance leases	63	177
Loans from former shareholders in Oases U.K. Ltd	763	851
Loans from stakeholders in Estech Europe Ltd	2,626	4,159
Deferred consideration due to stakeholders in Estech Europe Ltd	13,400	13,400
	<b>16,852</b>	<b>18,587</b>

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

Obligations under finance leases and hire purchase contracts:

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
One to two years	63	100
Within two to five years	-	77
	<b>63</b>	<b>177</b>

Apart from the finance leases which are secured on the related assets, no security over the Group's assets has been given to any other creditor.

Details of the loans and deferred consideration due to stakeholders in Estech Europe Ltd are given in note 11.

The loan from former shareholders of Oases U.K. Ltd is payable in tranches, twice annually on or before 20 July and 20 January. The amount payable is variable based on the post income tax income of Oases U.K. Ltd.

### Company

Amounts falling due within one year:

	<b>2006</b>	<b>As restated 2005</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	205	1,423
Other taxation and social security costs	27	44
Other creditors	2,346	4,718
Accruals and deferred income	222	556
	<b>2,800</b>	<b>6,741</b>

The other creditors mainly represent £2,346,000 (2005: £2,350,000) due to stakeholders in Estech Europe Ltd and £nil (2005: £2,000,000) due to Pirelli & C Ambiente S.p.A in relation to a licence fee.

Amounts falling due after one year:

	<b>2006</b>	<b>As restated 2005</b>
	<b>£000</b>	<b>£000</b>
Loans from stakeholders in Estech Europe Ltd	1,812	4,159
Deferred consideration due to stakeholders in Estech Europe Ltd	13,400	13,400
	<b>15,212</b>	<b>17,559</b>

Details of the loans and deferred consideration due to stakeholders in Estech Europe Ltd are given in note 11.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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### 15. Share Capital

	31 December 2006 £000	31 December 2005 £000
<b>Authorised</b>		
200,000,000 Ordinary 5p Shares (2005: 108,000,000)	10,000	5,400
<b>Issued and fully paid:</b>		
81,553,460 Ordinary 5p Shares (2005: 37,342,651)	4,078	1,867

#### *Share Issues:*

On 23 March 2006 272,791 new ordinary shares of 5p were issued to Strand Partners Limited in consideration for financial advisory services, valued at the time at £204,593 and 218,125 to Cenkos Limited in consideration for broking services valued at the time at £163,593.

On 26 April 2006 the Company raised £12,750,000 and issued 42,500,000 ordinary 5p shares as fully paid to a number of institutional investors.

On 17 May 2006 the Company issued 833,333 ordinary 5p shares in the Company to Strand Partners Limited in consideration for corporate advisory services to the company valued at the time at £250,000.

On 27 July 2006 at its Annual General Meeting the Company increased its authorised share capital from £5,400,000 to £10,000,000 by the creation of an additional 92,000,000 ordinary shares of 5p each.

On 17 August the company allotted 386,560 shares to existing shareholders who had made applications to subscribe for shares on substantially the same terms as offered in the refinancing on 25 April 2006 for a total consideration of £115,968.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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### *Options to subscribe for ordinary shares*

1. On 18 December 2004 Roger Hewitt was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain valid from 18 December 2005 until 17 December 2007.
2. On 18 December 2004 Paul Craven was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain valid from 18 December 2005 until 17 December 2007.

On 30 April 2007 Paul Craven resigned as a Director and these share options were bought out at that date.

### *Warrants*

3. On 20 October 2005, as part of the consideration for raising finance, Boston Equities were granted 400,000 warrants to subscribe for Ordinary Shares at a price of 37.5 pence per ordinary share exercisable until 19 October 2008.
4. Further to their letter of engagement dated 9 August 2005 to provide financial advice leading to a successful IPO, Strand Partners Limited were granted a warrant on the following terms;
  - i) Strand Partners will be entitled to subscribe for Ordinary Shares in the Company at any time during the three years following the date of issue of such warrant; the number of shares to be issued pursuant to the warrant is 2 % of the lesser of: the Ordinary Shares in issue at the time the warrant is exercised; or an uplift of 50% on the number of Ordinary Shares in issue on completion of the Placing; and
  - ii) the exercise price of the warrant will be the same price per share as the placing price; 75 pence.
5. On 12 May 2006, as part of the consideration for them acting as brokers to the Company, Blue Oar Securities plc (formerly Corporate Synergy plc) was granted an option to subscribe for 300,000 Ordinary Shares at a price per share of 30 pence for a period of 3 years from the date of grant.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 16. Reconciliation of Shareholders' Funds and Movements on Reserves

#### Group

Reconciliation of movements in shareholders' funds:	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Loss for the financial year	(11,044)	(3,333)
Other gains and losses relating to the period	(32)	(26)
Issue of share capital	12,681	11,192
Cost of share options	(69)	304
<b>Movement in the period</b>	<b>1,536</b>	<b>8,137</b>
Opening shareholders' funds (originally £25,845,000 before deducting prior year adjustment of £17,927,000 as explained in note 1)	7,918	(219)
<b>Closing shareholders' funds</b>	<b>9,454</b>	<b>7,918</b>

#### Movements on Reserves

	Retained Earnings	Merger Reserve	Share Option reserve	Share Premium	Total
	£000	£000	£000	£000	£000
<b>At 1 January 2005</b>	<b>(1,154)</b>	<b>209</b>	-	-	<b>(945)</b>
Loss for the financial year	(3,333)	-	-	-	(3,333)
Premium on issue of shares	-	-	-	11,530	11,530
Expenses charged to Share Premium account	-	-	-	(1,479)	(1,479)
Share based payments	-	-	304	-	304
Movement on retranslation of overseas subsidiaries	(26)	-	-	-	(26)
<b>At 31 December 2005</b>	<b>(4,513)</b>	<b>209</b>	<b>304</b>	<b>10,051</b>	<b>6,051</b>
Loss for the financial year	(11,044)	-	-	-	(11,044)
Premium on issue of shares	-	-	-	11,274	11,274
Expenses on issue of shares	-	-	-	(804)	(804)
Share based payments	-	-	(69)	-	(69)
Movement on retranslation of overseas subsidiaries	(32)	-	-	-	(32)
<b>At 31 December 2006</b>	<b>(15,589)</b>	<b>209</b>	<b>235</b>	<b>20,521</b>	<b>5,376</b>

The merger reserve reflects the difference between the share capital and share premium of ReEnergy USA and the nominal value of ordinary shares issued on acquisition.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### Company

Reconciliation of movements in shareholders' funds:	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Loss for the financial year	(2,572)	(2,927)
Issue of share capital	12,681	11,918
Cost of share options	(69)	304
<b>Movement in the period</b>	<b>10,040</b>	<b>9,295</b>
Opening shareholders' funds (originally £27,222,000 before deducting prior year adjustment of £17,927,000 as explained in note 1)	9,295	-
<b>Closing shareholders' funds</b>	<b>19,335</b>	<b>9,295</b>

### Movements on Reserves

	Retained earnings	Share Premium	Share Options Reserve	Total
	£000	£000	£000	£000
<b>At 1 January 2005</b>				
Loss for the financial year	(2,927)	-	-	(2,927)
Premium on issue of shares	-	11,530	-	11,530
Expenses charged to Share Premium account	-	(1,479)	-	(1,479)
Share based payments	-	-	304	304
<b>At 31 December 2005</b>	<b>(2,927)</b>	<b>10,051</b>	<b>304</b>	<b>7,428</b>
Premium on issue of shares	-	11,274	-	11,274
Expenses on issue of shares	-	(804)	-	(804)
Loss for the financial year	(6,752)	-	-	(6,752)
Share based payments	-	-	(69)	(69)
<b>At 31 December 2006</b>	<b>(9,679)</b>	<b>20,521</b>	<b>235</b>	<b>11,077</b>

# Notes to the Financial Statements

(continued)

ReEnergy Group plc

## 17. Shares to be Issued

In respect of the deferred consideration on the purchase of 51% of Estech Europe Limited it was estimated at 31 December 2006 that £13,400,000 (2005: £13,400,000) will be paid in shares. In addition, there is £4,690,000 (2005: £4,159,000) payable in respect of loans from stakeholders in Estech Europe Ltd which is expected to be settled in shares.

At 31 December 2005 £368,000 of professional fees was outstanding which was settled during 2006 through the issue of shares.

The issue of shares has been reclassified (see note 1) as a liability in the balance sheet at 31 December 2006, as required by the Financial Reporting Standard 25 (FRS 25) - Financial Instruments: Disclosure and Presentation. £2,346,000 of the balance of the liability has been included in other creditors due within one year and the remainder in the amount of Loans from stakeholders in Estech Europe Ltd due after one year

The implementation of FRS 25 has resulted in a prior year adjustment in the 2005 results.

## 18. Movements on Minority Interest

	2006 £000	2005 £000
Minority interest at 1 January	1,302	-
Minority interest calculated on acquisition of Oases U.K. Ltd	-	1,332
Adjustment re contingent consideration	(1,066)	-
Share of loss incurred by Oases U.K. Ltd attributable to minority interest, including exceptional impairments as detailed in note 2	(236)	(30)
<b>Minority interest at 31 December</b>	<b>-</b>	<b>1,302</b>

## 19. Company profit and loss

As permitted by s230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's loss for the year ended 31 December 2006 was £6,752,000 (period 9 November 2004 to 31 December 2005: £2,623,000).

## 20. Share-based payments

The following share-based payments were entered into during the year ended 31 December 2005:

On 17 March 2005 478,450 Ordinary 5p Shares were issued to Libertas Capital Ventures Ltd at nominal value in settlement for broking services provided in the amount of £24,000.

On 22 March 2005 400,000 Ordinary 5p Shares were issued to Michael Roger Hewitt at nominal value, in settlement for consultancy services for the period from 9 November 2004 to 16 March 2005 in settlement for the sum of £20,000.

On 1 October 2005, 75,000 Ordinary 5p Shares were issued to John Ventimiglia and James Morley under the terms of a loan extension agreement in the amount of £37,500.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

On 19 October 2005, 200,000 Ordinary 5p Shares were issued to Ron & Christine Smith as an additional fee for a \$500,000 loan facility arranged from Boston Equities Corporation.

On 20 November 2005, 372,237 Ordinary 5p Shares were issued to Libertas Capital Limited in connection with its work on the Pirelli Ambiente transaction in the amount of £186,000.

These transactions resulted in a charge to the profit and loss account for the year ended 31 December 2005 of £181,000 and to license costs capitalised in the year ended 31 December 2005 of £186,000.

On 23 March 2006 272,791 new ordinary shares of 5p were issued to Strand Partners Limited in consideration for financial advisory services, valued at the time at £204,593 and 218,125 to Cenkos Limited in consideration for broking services valued at the time at £163,593. These issues were in respect of services provided during 2005 and included within creditors at 31 December 2005.

On 17 May 2006 833,333 Ordinary 5p Shares were issued to Strand Partners Limited in consideration for corporate advisory services valued at the time at £250,000. These expenses have been charged to the share premium account.

A charge is made to the profit and loss account based on the fair value of options and warrants granted in accordance with Financial Reporting Standard 20 – Share Based Payments. Fair values have been calculated using the Binomial model. The credit for the year amounted to £81,000 (2005: charge of £304,000). The weighted average contractual life relating to equity settled instruments outstanding at the year end was 1½ years (2005: 2½ years).

	2006		2005	
	Instruments No.	Weighted average exercise price	Instruments No.	Weighted average exercise price
Outstanding at 1 January				
Share options	1,000,000	5.0p	1,000,000	5.0p
Warrants issued in respect of services provided	1,520,280	65.1p	-	-
	2,520,280	41.3p	1,000,000	5.0p
Granted during year:				
Share options	300,000	30.0p	-	-
Warrants and options issued in respect of services provided	-	-	1,520,280	65.1p
Outstanding at 31 December	2,820,280	40.1p	2,520,280	41.3p
Exercisable at 31 December	2,820,280	40.1p	2,520,280	41.3p

Expected volatility was estimated to be 40.0% (2005: 29.2%) based on taking an average for a peer group of similar companies over a three year period. This was thought more instructive than basing the estimate on the limited history of trading in the company's shares.

The company has made no dividend payments to date and there is no expectation of making payments in the immediate future, this variable has been set to zero for all grants.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

The risk free rates and the share price at the date of grant are as follows:

Date of grant	Risk free rate	Share price at Date of grant
18 December 2004	4.47%	5p
9 August 2005	4.24%	50p
20 October 2005	4.29%	50p
12 May 2006	4.73%	32p

Equity settled instruments outstanding at the end of the year have the following expiry dates and exercise prices.

Expiry date	Exercise price	2006 Options No.	2005 Options No.
17 December 2007	5.0p	1,000,000	1,000,000
8 August 2008	37.5p	400,000	400,000
19 October 2008	75.0p	1,120,280	1,120,280
11 May 2009	30.0p	300,000	-
		2,820,280	2,520,280

### 21. Operating leases

#### Group

At 31 December the Group was committed to making the following payments during the next year under non-cancellable operating leases as follows:-

	Land and buildings	Other
	£000	£000
2006		
Expiring between 2 and 5 years	-	-
Expiring in 5 years or more	18	-
	<u>18</u>	<u>-</u>
2005		
Expiring between 2 and 5 years	91	11
Expiring in 5 years or more	55	-
	<u>146</u>	<u>11</u>

#### Company

The company has no commitments under operating leases, (2005: £nil).

### 22. Pension commitments

The Group pays pension contributions to personal pension plans for certain employees, the assets of which are held separately for each employee in independently administered funds. The pension cost charge represents contributions payable by the Group for the period and amounted to £38,240 (2005: £1,458). £22,886 (2005: £1,458) of contributions remained payable at the year end and are included in accruals.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 23. Reconciliation of Operating Loss to Net Cash (Outflow) from Operating Activities

	2006 £000	2005 £000
Operating loss	(11,354)	(2,795)
Depreciation of tangible assets	110	14
Impairment of tangible assets	125	-
Amortisation of goodwill	1,246	46
Impairment of goodwill	2,466	-
Amortisation of other intangible assets	606	20
Impairment of intangible assets	117	-
Impairment of investments	3	-
Share based payments / (credit)	(69)	304
Decrease / (Increase) in debtors	241	(330)
(Decrease) / Increase in creditors	(2,601)	1,095
Net cash (outflow) from operating activities	<u>(9,110)</u>	<u>(1,646)</u>

#### Analysis of change of net debt in year:

	At 1 January 2005 £000	Cashflow £000	Acquisition £000	Other non Cash changes £000	Exchange Movement £000	As restated At 31 December 2005 £000
Cash in hand and at bank	252	1,870	-	-	(39)	2,083
Debt due within one year	(389)	(3,537)	(2,350)	3,926	-	(2,350)
Debt due after one year	-	-	(5,407)	-	-	(5,407)
Finance leases	-	-	(279)	-	-	(279)
	<u>(137)</u>	<u>(1,667)</u>	<u>(8,036)</u>	<u>3,926</u>	<u>(39)</u>	<u>(5,953)</u>

	At 1 January 2006 £000	Cashflow £000	Acquisition £000	Other non Cash changes £000	Exchange Movement £000	At 31 December 2006 £000
Cash in hand and at bank	2,083	4,468	-	-	-	6,551
Debt due within one year	(2,350)	2,350	-	(2,367)	-	(2,367)
Debt due after one year	(5,407)	44	-	1,974	-	(3,389)
Finance leases	(279)	83	-	55	-	(141)
	<u>(5,953)</u>	<u>6,945</u>	<u>-</u>	<u>(338)</u>	<u>-</u>	<u>654</u>

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

### 24. Contingencies

There were no contingent liabilities at the end of 2006 (2005: £113,000).

### 25. Commitments

There was no capital expenditure contracted for but not provided for at 31 December 2006 for the Group or the Company (2005: £nil).

### 26. Financial Instruments

The Group uses financial instruments comprising cash, liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group financial instruments are interest rate risk, currency exchange risk and liquidity risk. The policies for managing these risks are reviewed and agreed by the Board as indicated in the financial risk management note in the Directors' report.

Short term debtors and creditors have been excluded from the following disclosures, other than currency risk disclosures.

#### *Interest rate risk*

The Group finances its operations through share capital as set out below.

The interest rate exposure to the financial assets and liabilities of the Group was:-

	Fixed interest rate	Floating interest rate	Nil	At December 2006
	£000	£000	£000	£000
<b>Balances at 31 December 2006</b>				
<b>Assets</b>				
Cash at bank and in hand				
Amounts held in £ sterling	-	6,519	11	6,530
Amounts held in US\$	-	-	21	21
<b>Interest rate exposure on assets</b>	<b>-</b>	<b>6,519</b>	<b>32</b>	<b>6,551</b>
<b>Liabilities</b>				
Amounts payable within one year denominated in sterling:				
Finance leases (amounts due within one year)	(78)	-	-	(78)
Other creditors payable within one year	-	-	(2,354)	(2,354)
Amounts denominated in US\$	-	-	(22)	(22)
Amounts payable after one year denominated in sterling:				
Finance leases (amounts due after one year)	(63)	-	-	(63)
Amounts payable after one year denominated in US\$				
Loans due to former shareholders in Oases U.K. Ltd	(763)	-	-	(763)
<b>Interest rate exposure on liabilities</b>	<b>(904)</b>	<b>-</b>	<b>(2,376)</b>	<b>(3,280)</b>
<b>Interest rate exposure on net liabilities</b>	<b>(904)</b>	<b>6,519</b>	<b>(2,344)</b>	<b>3,271</b>

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

Balances at 31 December 2005	Fixed interest rate £000	Floating interest rate £000	As restated At December 2005	
			Nil £000	2005 £000
<b>Assets</b>				
Cash at bank and in hand				
Amounts held in £ sterling	-	1,940	119	2,059
Amounts held in US\$	-	-	24	24
<b>Interest rate exposure on assets</b>	-	1,940	143	2,083
<b>Liabilities</b>				
Amounts payable within one year denominated in sterling:				
Finance leases (amounts due within one year)	(102)	-	-	(102)
Loans from former shareholders in Estech payable by cash	-	(2,350)	-	(2,350)
Other creditors	-	-	(2,839)	(2,839)
Amounts payable after one year denominated in sterling:				
Finance leases (amounts due after one year)	(177)	-	-	(177)
Amounts payable after one year denominated in US\$				
Loans due to former shareholders in Oases U.K. Ltd	(851)	-	-	(851)
<b>Interest rate exposure on liabilities</b>	(1,130)	(2,350)	(2,839)	(6,319)
<b>Interest rate exposure on net liabilities</b>	(1,130)	(410)	(2,696)	(4,236)

Obligations under finance leases due after more than one year are as follows:

	2006 £000	2005 £000
One to two years	63	100
Within two to five years	-	77
	<b>63</b>	<b>177</b>

The terms of repayment of the loans due to former shareholders in Oases U.K. Ltd are described in the Creditors Note 14.

The Group had no material un-drawn committed borrowing facilities at 31 December 2006 (2005: £nil).

The Directors consider that the fair value of the Group's financial assets and liabilities is not materially different from their carrying value.

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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The interest rate exposures are as follows:

The floating interest rate receivable on cash balances in £ sterling is 0.25% below UK base rate (2005: 0.25% below UK base rate). At 31 December 2006 the interest rate receivable on cash balances was 4.83% (2005: 4.25%).

The average interest rate payable on liabilities with fixed rates of interest is 8.0% (2005: 8.0%).

The average interest rate payable on liabilities with floating interest rates was 2% above UK base rate (2005: 2%).

### *Liquidity risk*

The Group seeks to manage this risk by ensuring that sufficient financial liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It was in order to ensure the provision of liquid funds for the future development of the Group that the initial public offering was undertaken on 30 December 2005 and a secondary fund raising was undertaken on 25 April 2006.

### *Currency exchange risk*

The Group has subsidiaries in the USA and is subject to currency exposures on both its balance sheet and transactions undertaken during the year. The Group has not made use of any currency options.

The Group had the following monetary assets and liabilities denominated in US\$ at 31 December 2006:

		<b>2006</b>	<b>2005</b>
Net monetary (liabilities) denominated in US\$	In US\$000s	(144)	(1,548)
Net monetary (liabilities) denominated in US\$	In £000s	(74)	(900)
Net monetary assets/ (liabilities) denominated in £ sterling	In £000s	(139)	(886)

### *Financial assets*

At 31 December 2006 £6.519m was on deposit with Barclays Bank plc accruing 4.832% gross interest per annum (31 December 2005: £1.940m was on deposit with the Bank of Scotland accruing 4.25% gross interest per annum).

## Notes to the Financial Statements

(continued)

ReEnergy Group plc

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### 27. Related party transactions – ReEnergy Group plc

The following definitions apply to entities referred to in the related party transactions note.

- (a) Brian Harcourt was a related party of the Group by reason of having been a Director. He is also a Director and shareholder in Boston Equities, and a shareholder and holder of options in the Company. Boston Equities are also shareholders in Ocean Power Technologies Inc. (OPT) from whom the Group has a technology licence for the development of its 'PowerBuoy' technology at Eureka City in California, US.

On 22 December 2005 Boston Equities International agreed to provide a working capital facility of £5m to fund a portion of the working capital requirement and on the same date subscribed irrevocably for 1,666,667 Ordinary Shares at the placing price of 75p per share on or before 31 March 2006. Boston Equities International defaulted on this commitment and this was dealt with in post balance sheet events in 2005.

- (b) Strand Partners is a related party by reason of having rights to future Ordinary Shares in the Company.

### Related party transactions – ReEnergy USA (formerly Reenergy Pacific Inc.)

One of the founders of ReEnergy USA, Steve Mueller, is a stockholder of TurbineCo LLC and DG Energy Solutions LLC. TurbineCo LLC has provided consulting services to ReEnergy USA, and has also paid certain expenses on behalf of ReEnergy USA, which have since been reimbursed. ReEnergy USA leased office space from DG Energy Solutions during 2006.

ReEnergy USA sublet its facilities from DG Energy Solutions until 13 April 2007, and paid a rent of \$40,000 during the year ended 31 December 2006.

### Related Party Transactions - Estech Europe

On 19 November 2005 in support of the conditional sale & purchase agreement between the Group and Estech Europe, Boston Equities and the Estech Europe shareholders have agreed a put and call option in respect of the first option payment for the 24% second tranche of Estech Europe shares, whereby the Estech Europe shareholders, for a period of 24 months after issue, can put the second tranche ReEnergy shares to Boston Equities at market price or Boston Equities can call the shares from the Estech Europe shareholders, for a period of 24 months following issue at market price.

## 28. Post balance sheet events

- (a) On 14 March 2007 the company announced that, following a strategic review the Board has resolved to focus its activities on two core business units in the future, namely, Estech Europe its 51% owned waste management subsidiary and ReEnergy Desalination Inc. its wholly-owned seawater desalination business located in the United States.
- (b) Following the achievement of the first milestone and the conversion of 880,000 Class "C" shares into Class "A" shares, it was agreed by the Boards of ReEnergy Group, ReEnergy UK and Oases BVI that as the time for achievement of the other milestones had elapsed no further shares would be converted. On 11 April 2007, 402,000 of the 880,000 Class "A" shares were transferred to ReEnergy UK by three shareholders. The result of this was to increase the direct shareholding of ReEnergy UK from 56.0% to 86.4%.
- (c) On 14 June 2007 ReEnergy agreed to acquire the remaining 49% of the shares in Estech Europe. Under the terms of the original sale and purchase agreement ReEnergy acquired 51% of the ordinary shares in Estech Europe. The consideration for this was the repayment of shareholder loans amounting to £4,690,000 and an earn-out arrangement. The shareholder loans were to be repaid in three tranches. The first tranche of £2,350,000 was repaid in cash in January 2006, the second and third tranches are to be repaid in the sums of £2,346,000 and £2,344,000 on 30 June 2007 and 30 June 2008 respectively in shares calculated at the IPO price of 75p. This amounts to a total of 6,253,333 shares. The earn out was determined in relation to the number of projects on which Estech Europe Ltd reached financial close by the end of 2008. The net present value of these projects was to be calculated and paid to the original shareholders in shares calculated at the IPO price of 75p.

We have now agreed to complete the purchase of all the shareholding in Estech Europe. The consideration due to the minority shareholders for the completion of the purchase of the 51% shareholding, the accelerated repayment of the shareholder loans and the acquisition of the 49% are:

- the issue of a further 14,000,000 ordinary shares in ReEnergy (in addition to the 6,253,333 shares to which the minority shareholders of Estech Europe are entitled to under the existing sale and purchase agreement);
- capital payments on projects which reach financial close by the end of 2012; and
- an earn-out equivalent to 1% of the gate fees received from the operation of these projects over their first five years of operation.

We are doing this by way of an offer to the minority shareholders which is being recommended by the majority of the minority shareholders and we have already received irrevocable undertakings to accept the offer in respect of approximately 96% of the minority shareholding. Under the terms of the offer, the minority shareholders will receive a combination of shares in ReEnergy and promissory notes pursuant to which payments will be made on the closure of projects by Estech Europe. The terms of the offer will be put to the ReEnergy shareholders at the forthcoming annual general meeting in regard to which we have received undertakings to vote in favour of the offer from approximately 53% of the ReEnergy shareholders.

Until this offer receives the approval of the ReEnergy shareholders at the AGM it remains conditional.