Renewable Energy Generation Limited

Un-audited interim results for the six months ending 31 December 2006

Front cover image: High Pow, Cumbria.

‘REG exists to achieve high and rising returns for its shareholders. However, without the hard work and enthusiasm of the people working within it, REG will not achieve this ambition. The whole team have worked unstintingly for REG in a year that has seen enormous progress towards achieving our ambitions. We owe a significant debt of gratitude to these people’.

Renewable Energy Generation Limited

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Financial Highlights

- RAISED £46M IN DECEMBER 2006
- BALANCE SHEET STRONG WITH £44M IN CASH
- SALES AND OTHER OPERATING INCOME OVER PERIOD OF £0.5M
- CAPITAL EXPENDITURE OF £19.5M

Operational highlights

- CONSTRUCTION STARTED ON FIRST THREE UK WIND PROJECTS
- LAND PURCHASE FOR EXPANSION AT HIGH SHARPLEY
- DEVELOPMENT OF SMALL SCALE BIOMASS PROJECT
- TURBINES ORDERED FOR FIRST FOUR PROJECTS IN CANADA
- INTENTION TO EXPAND STANDARD OFFER PROGRAMME CONSTRUCTION PROGRAMME INTO 2008
- CHANGES TO THE BOARD

Chairman's Statement
Period to 31 December 2006

Introduction

Renewable Energy Generation Ltd ("REG") has made significant progress in the six months ended 31 December 2006. Wind turbines have been ordered for the company's first four projects in Ontario whilst in the UK, High Sharpley entered commercial operation in January and construction is well underway on the next two projects in our wind power development pipeline. The pipeline increased during the period to 150MW.

Financial results

The Group's balance sheet remains strong with £44m in cash allowing the Group to fund its immediate growth plans and take advantage of emerging opportunities. The Group raised a further £46m from investors in December. Sales and other operating income for the 6 months totalled £0.5m and interest on cash balances is £0.5m. Income from the Group's only operating wind farm in the UK at Goonhilly Downs is up 91% compared with the same period last year, at £0.5m, due to better wind conditions, higher power prices and an increase in the valuation of Renewable Obligation Certificates (ROCs).

Cost of sales increased by 61% over the comparable period last year, due to a change in the basis of calculation of the annual management charge ("AMC") payable to REG Power Management Ltd ("RPM"). In June 2006, under the terms of the management agreement between REG and RPM, REG became fully invested and therefore the AMC of 1.25% became based on REG's net asset value. Prior to REG becoming fully invested the annual management charge of 1.25% was chargeable on REG's invested cash only and the uninvested cash was subject to an annual management charge of 0.5%. The additional capital raised in December has also driven up the AMC.

'Other income' decreased by 109%, principally because whereas in the comparable period last year the fair value of the Tymien wind farm investment was written up by £0.5m, the Board considers that no adjustment is required in the six months ending December 2006. Other income has also reduced due to the realisation of losses on the sale of short term investments in bonds which were disposed of in August 2006.

Administrative expenses increased by 168%, due mostly to professional services costs associated with REG's acquisition of the AIM PowerGen Corporation in August 2006.

Capital expenditure during the period totalled £19.5m, compared with £4.2m in the same period last year. Capital expenditure in the UK amounted to £5.4m, of which £4.9m was spent on the three projects under construction and £0.5m on projects in development. Capital expenditure in Canada amounted to £14.1m, almost entirely on part payment for turbines for its first four projects.

Operational activities

Cornwall Light and Power ("CLP") – Wholly-owned Subsidiary in the UK

Our wholly-owned subsidiary CLP made good progress against its remit to develop our pipeline of projects in the UK, whilst contributing to the development and execution of our strategy in Canada.

Electrical output from the Goonhilly Downs Wind Farm was 21% above budget due to excellent wind conditions and the income – up 91% at £0.5m – comprised almost equally of electricity sales, under a 2½ year Power Purchase Agreement (PPA) with Smartest Energy, and ROCs sold separately on the spot market.

Construction at High Sharpley in County Durham was completed according to programme and the 2.6MW site entered commercial service in January 2007. We initiated the purchase of a tract of land adjacent to High Sharpley where we believe a larger wind project may be approved.

Roskrow Barton (1.7MW) in Cornwall recently discharged all of its planning conditions. Turbines are currently being procured for the project.

We have redesigned several of the former Npower projects to enable higher capacity per site and our activities continue to attract development proposals from within the sector. Among these is an approach from a biomass development company for REG to act as principal in a 1MWe biomass combined heat and power project in the UK. We have secured a Government grant to investigate the feasibility of this project which, although small, is consistent with our belief that small-scale biomass represents a potentially rewarding opportunity for profitable long-term growth.

Exceptionally wet weather caused several weeks delay to progress at our other two construction sites but it is expected that High Pow (3.9MW) in Cumbria will enter service in late March followed by Braich Ddu (3.9MW) in Wales one month later. REG has entered into three separate, 18-month fixed price PPAs with Smartest Energy for exported power from these projects, including climate change levy exemption certificates and peak period premiums. ROCs generated by the projects will be sold on the spot market as REG believes that this is likely to maximise value to shareholders.

AIM PowerGen Corporation ("APG") – Wholly-owned Subsidiary in Canada

Acquired in Summer 2006, APG's most immediate opportunity lies in the Standard Offer Programme ("SOP") introduced recently by the Ontario Provincial government as part of a policy to stimulate the construction of small embedded wind farms of 10MW or less. APG owns one of Canada's largest portfolios of SOP projects, which are located at sites with generally good wind resource and ready access to grid interconnection. This makes the economics of the projects attractive.

In December we announced agreements with Vestas Canadian Wind Technology Inc for the supply, warranty and servicing of twenty four V82, 1.65MW turbines. These will be deployed on the first four SOP projects totalling 39.6MW. Delivery of these turbines is expected to commence in Autumn 2007. The total cost of the first four projects is expected to be around £40m.

We believe that the SOP enables REG to invest shareholders' capital and deliver predictable equity returns at levels above our threshold return criteria. The Ontario Power Authority, which is backing the 20-year PPAs for the SOPs, is a highly creditworthy counterparty. As a result it is our intention to substantially increase investment in the programme over the next eighteen months.

In addition to the SOP programme, several provinces including Ontario and Manitoba, are likely over the next two years to initiate Requests For Proposals ("RFPs") for substantial amounts of wind power. We will be bidding our sites into these RFP programmes which, like the SOPs, offer long-term PPAs backed by highly creditworthy counterparties. The highly supportive policy framework in Canada and the sympathetic approach to planning, has attracted significant interests from wind developers, among whom REG has secured first mover advantage in its acquisition of APG and its 2,600MW of prospective projects. Whilst bidding our sites into the various programmes in Canada we will seek to exploit other opportunities which these market conditions may present.

Tymien

The 50MW Tymien project in Poland has been operating for almost a year and is performing well. The first income from REG's investment in Tymien is expected in April 2007.

People

The current organisational structure has served investors well in bringing together some of the renewables industry's most experienced professionals, to create a strategic framework and manage the early acquisition of projects and operating companies in the UK, Poland and Canada. We are now in a position to transfer the responsibility for strategy, management and control to our operating companies, within a more conventional group structure, with an executive establishment through which accountability can be effected. The pace of this transaction will be influenced by our determination not to be distracted from the imperative to sustain, during the next 12 months, the early progress we have made in developing and building our project pipeline.

Subsequent to the year end, Neil Harris took up appointment early in 2007 as Chief Executive Officer of CLP in the UK, together with Bruce Woodman as Project and Strategy Director. Neil is responsible for the construction of our projects to time and to budget. Furthermore, the recruitment of additional UK project developers is underway.

In Canada we have strengthened the finance function at APG with the recruitment of a senior accountant. Recruitment to reinforce the construction team has also been initiated.

On 13 February 2007, non-executive director Tod Kersten resigned from the Board of REG due to increasing work commitments. It is our intention to replace Tod with an experienced non-executive director from within the power industry.

Dividend

The Company is investing heavily in its businesses both in the UK and Canada. The first phase of its investment programme is likely to be completed by June 2007 and is expected to produce consistent long-term cash flows for shareholders. The Board believes that it is prudent to wait until this capital programme has been completed before considering any improvement in current dividend arrangements. Accordingly, the Board will maintain its interim dividend at 1p per share and remains committed to paying a dividend of 4p per Ordinary share.

Outlook

It is widely expected that national policy support for renewable energy will continue to strengthen around the world, given the growing evidence of rapid acceleration of climate change. Located mainly in Canada and the UK, REG's portfolio of projects lie in two of the world's most attractive renewables jurisdictions. We are confident that our resources are sufficient to establish positive cash flows from the development of the first phase of these projects during the next 12 months.

We anticipate the need to leverage our solid equity base and we propose to raise debt as necessary, both to expand our build programme and to lower our cost of capital, thus strengthening our competitive advantage. This is particularly relevent in Canada where long term, low cost debt is available and where REG has unrivelled experience gained over many years in the market place.

We are continuing to build a world-class renewable energy company and in this regard we impose substantial burdens on our people. They have unstintingly supported us in our endeavours and we remain grateful to them for their commitment and professionalism.

Mike Liston, OBE
Chairman
20 March 2007

Image on opposite page: High Sharpley, County Durham.

Company Information

Registered no.	43099	
Directors	M. J. Liston, Chairman	
	G. S. Cardona	
	J. C. Donelan	
	N. A. Le Quesne	
	A. N. Whalley	
	N. Syvret	Appointed 29 December 2006
	T. A. Kersten	Resigned 13 February 2007
Registered office	Trafalgar Court Les Banques St. Peter Port Guernsey, Channel Islands GY1 3QL	
Secretary	Northern Trust International Fund Administration Services (Guernsey) Limited Les Banques St. Peter Port Guernsey, Channel Islands GY1 3QL	
Bankers	Bank of Scotland 155 Bishopsgate Exchange London EC2M 3YB	
Auditors	Ernst & Young LLP 14 New Street St. Peter Port Guernsey, Channel Islands GY1 4AF	

Un-audited interim consolidated income statement
for the six months to 31 December 2006

	Continuing operations £	Acquisitions £	Six months to 31 December 2006 £ (un-audited)	25 April 2005 to 31 December 2005 £ (un-audited)	25 April 2005 to 30 June 2006 £ (audited)
Sales and other operating income	502,222	-	502,222	263,014	743,830
Cost of sales	(599,976)	-	(599,976)	(400,125)	(804,118)
Gross loss	(97,754)	-	(97,754)	(137,111)	(60,288)
Other income	(70,692)	23,207	(47,485)	511,259	390,626
Administrative expenses	(718,377)	(801,392)	(1,519,769)	(566,912)	(1,118,568)
Other operating expenses	(4,820)	-	(4,820)	(2,616)	(5,183)
Finance income	488,854	3,164	492,018	661,278	1,377,405
Profit / (loss) before tax	(402,789)	(775,021)	(1,177,810)	465,898	583,992
Tax	45,439	-	45,439	30,379	(60,755)
Profit / (loss) for the period	(357,350)	(775,021)	(1,132,371)	496,277	523,237
Attributable to:					
Equity holders of the Company	(357,350)	(775,021)	(1,132,371)	496,277	523,237

Earnings per share for profit attributable to the equity holders of the Company during the period

- basic			(1.79p)	1.55p	1.26p
- diluted			(1.78p)	1.54p	1.25p

Braich Ddu, Gwynedd, Wales.

Un-audited interim consolidated balance sheet

as at 31 December 2006

	31 December 2006 £ (un-audited)	31 December 2005 £ (un-audited)	30 June 2006 £ (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	22,584,707	2,196,128	3,607,118
Goodwill	16,796,815	2,807,888	3,009,914
Development costs	4,697,414	4,156,424	4,156,424
Investments at fair value through profit or loss	8,358,253	6,389,079	8,358,253
	52,437,189	15,549,519	19,131,709
Current assets			
Inventories	11,782	-	16,831
Trade and other receivables	7,789,070	7,273,942	900,074
Available-for-sale investments	-	5,652,773	4,913,062
Cash and cash equivalents	43,819,359	32,001,784	28,611,764
	51,620,211	44,928,499	34,441,731
Total assets	104,057,400	60,478,018	53,573,440
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10,310,101	5,500,000	5,500,000
Share premium	79,479,412	46,850,250	36,850,250
Special reserve	10,000,000	-	10,000,000
Fair value and other reserves	(104,829)	(63,234)	(66,308)
Share-based payment reserve	328,529	114,821	191,368
Retained earnings	(2,918,526)	496,277	(26,763)
Total equity	97,094,687	52,898,114	52,448,547
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	542,369	381,686	617,922
	542,369	381,686	617,922
Current liabilities			
Trade and other payables	6,293,371	7,089,243	409,812
Tax payable	126,973	108,975	97,159
	6,420,344	7,198,218	506,971
Total liabilities	6,962,713	7,579,904	1,124,893
Total equity and liabilities	104,057,400	60,478,018	53,573,440

Net asset value (NAV) per share			
- basic	94.17p	96.18p	95.36p
- diluted	92.23p	96.36p	95.58p

Un-audited interim consolidated cash flow statement

for the six months ended 31 December 2006

	Six months to 31 December 2006 £ (un-audited)	25 April 2005 to 31 December 2005 £ (un-audited)	25 April 2005 to 30 June 2006 £ (audited)
Cash flows from operating activities			
Cash used in operations	(2,295,112)	(141,117)	(794,458)
Net cash used in operating activities	(2,295,112)	(141,117)	(794,458)
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	(9,545,790)	(5,155,221)	(5,155,221)
Purchases of property, plant and equipment	(18,989,196)	-	(1,562,583)
Development costs	(540,990)	(4,156,424)	(4,156,424)
Purchases of investments at fair value through profit or loss	-	(5,905,981)	(8,060,492)
Purchases of available-for-sale investments	-	(16,830,767)	(16,830,767)
Proceeds from sale of available-for-sale investments	4,858,886	11,534,330	11,994,054
Interest received	492,018	306,714	1,377,405
Net cash used in investing activities	(23,725,072)	(20,207,349)	(22,394,028)
Cash flows from financing activities			
Proceeds from issue of shares	45,788,952	55,000,000	55,000,000
Transaction costs from issue of shares	(2,705,596)	(2,649,750)	(2,649,750)
Dividends paid to Company's shareholders	(1,759,392)	-	(550,000)
Net cash generated from financing activities	41,323,964	52,350,250	51,800,250
Net increase in cash and cash equivalents	15,303,780	32,001,784	28,611,764
Cash at beginning of period	28,611,764	-	-
Exchange gains/(losses)	(96,185)	-	-
Cash at end of period	43,819,359	32,001,784	28,611,764

Un-audited interim consolidated statement of changes in equity

for the six months ended 31 December 2006

	Attributable to equity holders of the Company					
	Share capital £	Share premium account £	Fair value and other reserves £	Special reserve £	Retained earnings £	Total equity £
Balance at 30 June 2006	5,500,000	36,850,250	125,060	10,000,000	(26,763)	52,448,547
Issue of share capital	4,810,101	45,334,758	-	-	-	50,144,859
Transaction costs from issue of share capital	-	(2,705,596)	-	-	-	(2,705,596)
Fair value losses, net of tax: - available-for-sale investments	-	-	66,308	-	-	66,308
Warrants: - fair value of warrants	-	-	137,161	-	-	137,161
Foreign currency translation	-	-	(104,829)	-	-	(104,829)
Net income/(expenses) recognised directly in equity	10,310,101	79,479,412	223,700	10,000,000	(26,763)	99,986,450
Loss for the period	-	-	-	-	(1,132,371)	(1,132,371)
Dividend	-	-	-	-	(1,759,392)	(1,759,392)
Balance at 31 December 2006	10,310,101	79,479,412	223,700	10,000,000	(2,918,526)	97,094,687

Notes to the un-audited interim consolidated financial statements

1. Statement of compliance

These un-audited interim consolidated financial statements of the Group are for the six months ended 31 December 2006. They are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting and applicable Guernsey law.

These un-audited interim consolidated financial statements should be read in conjunction with the Annual Report and Accounts for the period ended 30 June 2006 which contain an unqualified audit report. The accounting policies have been applied on a consistent basis with those applied in 2006.

2. Segment information

a) Primary reporting format - business segments

At 31 December 2006, the Group is organised on a worldwide basis into two main business segments: energy generation and financial investment management.

Segment information

for the period ended 31 December 2006

The segment results for the period ended 31 December 2006 are as follows:

Total gross segment and other	Energy Generation £	Financial Investment Management £	Group £
Operating income	502,222	-	502,222
Sales and operating income	502,222	-	502,222
Operating loss	(801,362)	(820,981)	(1,622,343)
Other income	23,207	(70,692)	(47,485)
Finance income	13,400	478,618	492,018
(Loss) / profit before income tax	(764,755)	(413,055)	(1,177,810)
Income tax expense	45,739	(300)	45,439
(Loss) / profit for the period	(719,016)	(413,355)	(1,132,371)

Energy generation income is broken down as follows:

Electricity sales	245,419
ROC sales	237,694
LEC sales	19,109
TRIAD sales	-
	502,222

Other segment items included in the income statement are as follows:

	Energy Generation £	Financial Investment Management £	Group £
Depreciation	170,891	-	170,891

The segment assets and liabilities at 31 December 2006 and capital expenditure for the period then ended as follows:

	Financial Energy Generation £	Investment Management £	Group £
Assets	52,110,159	51,947,241	104,057,400
Liabilities	6,078,391	884,322	6,962,713
Capital expenditure	29,075,976	-	29,075,976

Segment information

for the period ended 31 December 2006

Segment assets consist primarily of property, plant and equipment, intangible assets, receivables and operating cash.

Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

b) Secondary reporting format – geographical segments

The company is domiciled in Guernsey.

Sales	Period ended 31 December 2006 £
UK	502,222

Sales are allocated based on the country in which the customer is located.

Total Assets	At 31 December 2006 £
UK	95,699,147
Poland	8,358,253
	104,057,400

Total assets are allocated based on where the assets are located.

Capital expenditure	Period ended 31 December 2006 £
UK	29,075,976
Poland	-
	29,075,976

Capital expenditure is allocated based on where the assets are located.

Analysis of sales by category	Period ended 31 December 2006 £
Sales of energy	502,222
Investment income	-
Dividend income	-
	502,222

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