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## EcoSecurities Group plc

### Preliminary results for the year ended 31 December 2007

Dublin, Ireland – EcoSecurities Group plc (“EcoSecurities” or the “Group”), a leading company in the business of sourcing, developing and trading carbon credits, today announces its preliminary results for the year ended 31 December 2007 and trading statement to 29 February 2008.

#### Highlights

- 2007 marked EcoSecurities’ 10<sup>th</sup> anniversary and witnessed policy developments of significance to the Group’s business. Publication of the Stern Report, IPCC’s 4<sup>th</sup> Assessment Report and the Bali Roadmap developed at the Conference of Parties to UNFCCC all pave the way to a larger and longer-lasting carbon trading environment.
- In order to capture the opportunities related to the expansion of this market, EcoSecurities raised in total €100 million of additional capital in June 2007 (€44.0 million) and July 2007 (€56.0 million). A partnership agreement was also signed as part of a strategic investment by Credit Suisse.
- EcoSecurities’ revenue increased by 135% to €7.2 million and the loss before financing costs increased by 70% to €(35.8) million. The loss for the financial year increased by 125% to €(45.0) million.
- The loss for the financial year was increased by a net provision of €9.2 million relating to the cash settlement of a 2005 sales contract where the buyer has given notice that they are unable, as a result of their jurisdiction, to receive CERs. The CERs which would have been used for settlement of this contract will be available for sale to the Group’s other customers.
- At the 2007 year end the Group had contracts for CERs from 437 CDM projects, of which 400 projects were included in the Group’s portfolio and the remainder are in an internal due diligence process prior to entry into the portfolio. The contracted projects are capable of generating 166 million CERs to 2012 (2006: 156 million) and the volume from projects in due diligence will not be included in the portfolio numbers unless projects satisfy EcoSecurities’ prudent assessment of project viability under CDM rules.
- On a net basis, adjusting for EcoSecurities’ share of CERs from individual contracts, portfolio projects are capable of generating 130 million CERs to the Group to 2012 and projects in due diligence have the potential to generate a further 20 million CERs.
- Changes in the CDM process during the year resulted in delays in project registration and carbon credit generation, leading the Group to conduct a portfolio write-down in November 2007.
- Post-2012 contracted volume continued to grow and by 31 December 2007 totalled 103 million carbon credits. The post-2012 CDM portfolio volume relates to potential production of CERs from the Group’s projects after 2012 and is incremental to the CDM portfolio.
- EcoSecurities initiated activities related to the voluntary carbon market and created a VER portfolio of 10.7 million. The first VER sales of 170,000 tonnes were achieved in 2007 to both US and European corporate buyers.
- At 31 December 2007, 437 projects were contracted, of which 400 were in the CER portfolio, 239 PDDs were completed, 223 projects had been submitted to validation, 115 had completed the validation process and 95 were registered with the CDM Executive Board.
- Of the 400 projects in the portfolio, 342 were financed, 292 were under construction and 148 were operational.
- 13 million CERs were sold forward during 2007, bringing the total to 42 million CERs at 31 December 2007. This represents expected total forward CER revenue of €558 million and

a Net Trading Margin of €280 million through to 2013.

- The strategic relationship with Credit Suisse continued to gain momentum with the completion of EcoSecurities Carbon I, a ground-breaking structured CER transaction which placed over 5 million CERs. Group revenues from this transaction are expected to commence in 2009.
- Secondary trading in CERs has presented new opportunities for the Group with additional value generated from projects outside its portfolio.
- Management was strengthened with the appointment of Adrian Fernando as Chief Operating Officer, Paul Ezekiel as an additional Non-Executive Director and Martin Enderlin, former CDM Executive Board member, as Director of Government and Regulatory Affairs.
- EcoSecurities maintained a cash balance of €88 million at 31 December 2007.

### Current trading and outlook

- Contracts for CERs amounted to 171 million CERs at 29 February 2008, on a gross basis.
- On a net basis, the volume of contracted CER projects to 2012 remained stable at 150 million CERs at 29 February 2008, including volume of 28 million CERs that were in due diligence.
- At 29 February 2008, the number of projects registered had increased to 101.
- The Group continues to focus on originating VER projects and at 29 February 2008 had acquired a further 2.2 million VERs.
- New management appointments comprised James Thompson as Chief Financial Officer and Alec Dreyer as an additional Non-Executive Director. Former CFO, Jack MacDonald is now Director of Corporate Development, focusing on identifying and executing strategic opportunities, with particular emphasis on acquisitions and project investments.
- EcoSecurities and Credit Suisse inaugurated their joint €1 billion carbon purchase facility in February 2008, with the signing of emission reduction purchase agreements with a Chinese renewable energy project developer for several wind farm projects.
- The Group's cash balance as at 29 February was approximately €78 million.

The Group's contracted carbon credit projects at 31 December 2007 can be broken down as follows:

Carbon credit type:	Gross volume (million)	Net entitlement to Group (million)
CERs to 2012 (principal)	131	123
CERs to 2012 (agency)	9	4
CERs to 2012 (project development)	4	3
Subtotal CER portfolio to 2012	144	130
CERs to 2012 (in due diligence)	22	20
Subtotal contracted CERs to 2012	166	150
CERs post-2012 (options and ERPAs)	103	103
VERs	11	11
Total volume contracted	280	264

The Group's contracted projects and CERs on a net basis can be analysed as follows:

Project cycle landmark (cumulative values)	31 December 2007		31 December 2006	
	No. of projects	Million CERs	No. of Projects	Million CERs
Contracted	437	150	353	127
Due diligence	37	20	0	0
Portfolio	400	130	353	127
Operational stage:				
Financed	342	104	283	105
Construction started	292	88	162	61
Operation started	148	39	84	31
CDM stage:				
PDD complete	239	73	132	39
Submitted to Validation	223	66	125	38
HNA obtained	181	55	67	10
Validated	115	24	65	10
Submitted to Registration	110	23	62	10
Registered	95	13	53	10

Mark Nicholls, Chairman of EcoSecurities, commented: "EcoSecurities continued to develop its CDM carbon credit portfolio during the year and, despite challenging market conditions, continued to expand while maintaining its position as a market leader. The Group maintained its strategic focus on the development of its core activities of originating, implementing and commercialising CERs. In addition it exploited other favourable expansion opportunities, particularly in VERs and the secondary trading of CERs, and agreed a landmark strategic partnership with Credit Suisse."

The Group's preliminary results for the year ended 31 December 2007 accompany this press release.

### Analyst meeting

The Group is holding a meeting for analysts today at 09:00 GMT. The presentation will also be available via a dial in facility on +44 (0) 1452 565 289 quoting Conference ID: 37684791. The presentation slides will be available on the EcoSecurities website 15 minutes prior to the commencement of the meeting. A replay facility will be available shortly after the presentation on +44 (0) 1452 55 00 00, Access Number: 37684791#, for a period of seven days.

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## Notes to Editors

CDM = Clean Development Mechanism, the provision of the Kyoto Protocol that governs project level carbon credit transactions between developed and developing countries

CER = Certified Emission Reduction, carbon credits created by Clean Development Mechanism projects. One CER corresponds to 1 tonne of CO<sub>2</sub>e emission reductions

DOE = Designated Operational Entities, independent validation and verification companies.

Gross = In respect of contracted and portfolio acquisitions of emission reductions includes the total project volumes without adjustment for EcoSecurities share of emission reductions from individual contracts.

IPCC = Intergovernmental Panel on Climate Change

ITL = International Transactions Log, an essential component of the trading infrastructure as it forms the central hub of the settlement system which will deliver traded allowances from sellers to buyers

Net = In respect of contracted and portfolio acquisitions of emission reductions adjusts for EcoSecurities share of emission reductions from individual contracts.

Net Trading Margin = Represents the net spread on principal arrangements, net agency fees (after commission to third parties) and project development margins, and excludes other direct cost inputs and fixed cost allocations

PDD = Project Design Document

UNFCCC = UN Framework Convention on Climate Change

VER = Verified Emission Reduction, carbon credits created through voluntary emission reduction projects. One VER corresponds to 1 tonne of CO<sub>2</sub>e emission reductions

EcoSecurities is one of the world's leading companies in the business of originating, developing and trading carbon credits. EcoSecurities structures and guides greenhouse gas emission reduction projects through the Kyoto Protocol, working with both project developers and buyers of carbon credits.

EcoSecurities works with companies in developing and industrialising countries to create carbon credits from projects that reduce emissions of greenhouse gases. EcoSecurities has experience with projects in the areas of renewable energy, agriculture and urban waste management, industrial efficiency, and forestry. With a network of offices and representatives in more than 25 countries on five continents, EcoSecurities has amassed one of the industry's largest and most diversified portfolios of carbon projects.

EcoSecurities also works with companies in the developed world to assist them in meeting their greenhouse gas emission compliance targets. Utilising its highly diversified carbon credit portfolio, EcoSecurities is able to structure carbon credit transactions to fit compliance buyers' needs, and has executed transactions with both private and public sector buyers in Europe, North America and Japan.

Working at the forefront of carbon market development, EcoSecurities has been involved in the development of many of the global carbon market's most important milestones, including developing the world's first CDM project to be registered under the Kyoto Protocol. EcoSecurities' consultancy division has been at the forefront of significant policy and scientific developments in this field. EcoSecurities has been recognised as the world's leading greenhouse gas advisory firm over the last seven years by reader surveys conducted by Environmental Finance Magazine.

EcoSecurities Group plc is listed on the London Stock Exchange AIM (ticker ECO).

Additional information is available at [www.EcoSecurities.com](http://www.EcoSecurities.com).

## Chairman's statement

2007 marked EcoSecurities' 10<sup>th</sup> anniversary and 10 years since the launch of the Kyoto Protocol of the UN Framework Convention on Climate Change ('UNFCCC'). Coinciding with these landmarks, a series of climate policy developments occurred during 2007 that are of significance to the operations of EcoSecurities Group.

There were both positive and negative developments affecting the Kyoto Protocol's Clean Development Mechanism ('CDM'), the main regulatory policy process affecting the Group. During the year, changes in the CDM process led to delays in project registration and carbon credit generation. Such delays led the Group to conduct a thorough assessment of its projects, leading to a portfolio write-down in November as described below.

On a more positive note, the resolutions of the Conference/Meeting of the Parties of the UNFCCC that took place in December 2007 in Bali established a roadmap for the development of a framework for carbon trading beyond 2012. The Bali roadmap includes a proposal to reduce emissions by 2020 to levels 20 to 40% below 1990 levels, significantly more advanced than the current 5.2% reductions adopted for the first commitment period of the Kyoto Protocol (2008 to 2012).

Climate change and the need to mitigate greenhouse gas emissions have significantly risen in public prominence. The publication of the Stern Report and the 4<sup>th</sup> Assessment Report of the Intergovernmental Panel on Climate Change ('IPCC') have both helped to raise public concern about this issue, culminating with the Nobel Prize award to the IPCC.

Australia announced its intention to adopt the Kyoto Protocol's emission reduction targets, a welcome development which will result in an increase in the international carbon market size. Internal policy developments in the US have also been encouraging and the introduction of mandatory emission targets at a federal level would, if enacted, significantly increase the size of the global emission reductions market and could extend timeframes well beyond the current 2012 cut-off point of the first commitment period of the Kyoto Protocol.

EcoSecurities positioned itself to participate in the market segments that are developing worldwide as a result of these policy changes. To capture these opportunities, EcoSecurities raised €100 million for the Group in mid-2007. The stronger balance sheet and the partnership agreement signed with Credit Suisse as part of its investment are both important elements of the Group's strategy to continue to participate in the international carbon market in the long run.

The Group achieved several significant milestones and continued to expand while maintaining its position as a market leader. The Group maintained its primary focus on the development of its core activities of originating, implementing and commercialising Certified Emission Reductions ('CERs'). In parallel with the evolution of the policies related to the compliance market, there has been a significant rise in demand for emission reduction credits among non-regulated sectors over the last 18 months, placing increased emphasis on the development of voluntary Verified Emission Reduction credits ('VERs') from projects worldwide, including in the US. The Group successfully expanded into the VER markets and also initiated secondary CER trading activities, both key components of the expansion plan announced last summer.

As previously announced, the Board took the view that delays in the CDM registration and issuance process, seen in the latter part of 2007, were not just a short term anomaly. Accordingly, in line with Group's policy of continually assessing the project portfolio to take account of operational, regulatory and market risk, the Board decided it was prudent to make a comprehensive portfolio write down in November 2007. While this was disappointing, the Group's portfolio now reflects the current realities of the CDM registration process. In addition, the Group has subsequently tightened further the due diligence procedures that are undertaken prior to a project entering its portfolio.

At 29 February 2008 the Group had contracts for CERs from 479 CDM projects, of which 411 projects have passed due diligence and have been included in the Group's portfolio. The contracted projects are capable of generating 171 million CERs to 2012. In addition, the Group has 108 million CERs under contract for issuance beyond 2012 and 13 million VERs. In total, the gross contracted volume by the Group amounts to 279 million CERs. On a net basis, the CER portfolio projects, excluding projects under due diligence, are capable of generating 122 million CERs to EcoSecurities to 2012.

The Group continued to develop its partnership with Credit Suisse, which enables EcoSecurities to differentiate its origination and commercialisation offerings in what is becoming an increasingly competitive environment. In February 2008, EcoSecurities and Credit Suisse inaugurated their joint €1 billion carbon purchase facility.

EcoSecurities' geographic reach was extended with new offices and representatives established in Japan, Peru, Switzerland, Italy and Bahrain and the Group now has a presence in 27 countries. This network facilitates sourcing and servicing projects throughout the world and by the year end the Group had projects in 34 countries.

The Group significantly advanced projects through the Clean Development Mechanism with 42 additional projects registered with the CDM Executive Board during the year, bringing the overall total to 95 projects registered by year end. In order to accelerate the process of project registration and issuance, the Group increased implementation capacity by adding additional resources, as well as conducting continuous prioritisation of strategic projects in its portfolio.

During the year the Group continued to expand its commercialisation activities, offering new and innovative products to the market. A highlight was EcoSecurities Carbon I a ground-breaking structured CER transaction established in partnership with Credit Suisse, which placed over 5 million CERs in 2007, the revenues of which will commence in 2009. Furthermore, secondary trading in CERs has presented new opportunities for the Group with additional value generated from projects outside of its portfolio. EcoSecurities is using its global network of offices and employees to source secondary CERs from both EcoSecurities' clients and competitors' projects, thereby providing a service to CDM project developers and generating incremental revenue for the Group.

EcoSecurities' VER activities continued to progress well, with the Group having rapidly expanded its offering and raised its profile within this emerging area of the carbon market. Strategic agreements to develop VER projects were signed in key markets such as the US, Turkey and China. The successful development of this product has helped EcoSecurities to mitigate some of the financial impact resulting from delays in the CDM project cycle.

Since the year end one of the Group's forward CER delivery customers has given notice that it is unable, as a result of its Mauritian jurisdiction, to receive CERs in accordance with the terms of the contract signed in 2005. As a result the Group is required to deliver a cash settlement equivalent to the market value of the CERs in March 2008. As explained further in the financial review, the Group has accounted for a net financial cost of €9.2 million as a result. CERs which would have been used for settlement of this contract will be available for sale to the Group's other customers.

Given the continued growth and expansion of the Company and the Board's earlier commitment to strengthen its senior management team, EcoSecurities has made several new board level appointments over the last six months. These include James Thompson as Chief Financial Officer, Adrian Fernando as Chief Operating Officer and Alec Dreyer and Paul Ezekiel as additional Non-Executive Directors. In addition, the Group has recruited Martin Enderlin, former CDM Executive Board member, as Director of Government and Regulatory Affairs. Former CFO, Jack MacDonald, is now Director of Corporate Development, focusing on identifying and executing strategic opportunities, with particular emphasis on acquisitions and project investments.

The global emissions trading markets in which the Group operates are primarily influenced by the formulation and implementation of policy and regulation. Several key policy developments occurred during the last year, most notably the UNFCCC's Bali conference and the publication of the EU ETS phase III proposals. In both cases EcoSecurities has been and will continue to be engaged in a constructive dialogue with regulators and policy makers. On a less positive note there continue to be significant delays in the linking of the UNFCCC's International Transaction Log to the European Union's Community Independent Transaction Log. The evolution of an effective central settlement system for CERs is important and the Group will continue to be prudent with respect to its cash position until the EU has confirmed the connection timetable.

Throughout 2008, the Group will focus on progressing its contracted emission reduction projects through the CDM project cycle. By continuing to innovate and add to its commercialisation offering the Group will optimise the potential of its portfolio. EcoSecurities plans to accelerate its activities in secondary trading of CERs and VER markets, developing projects to high quality emission reduction standards, in order to meet the changing needs of large corporate buyers.

With a strong balance sheet and enhanced implementation resources, EcoSecurities remains well positioned not only to realise the value of the assets it has within its existing portfolio, but also to continue growing its business. The capital increase mid-year enabled the Group to strengthen its balance sheet, putting the Group in a strong cash position for the year ahead. The Board is confident in the Group's prospects for the current year and beyond, providing emission reduction credits to a continuously expanding market environment.

## Executive Directors' review

2007, EcoSecurities' 10<sup>th</sup> anniversary year, was one of consolidation of earlier successes to provide the Group with the ability to continue growing in a dynamic market environment and building its carbon credit portfolio to enable market leadership over the long term. Alongside its core focus on origination, implementation and commercialisation of CERs, the Group was quick to recognise and exploit further growth opportunities which included the acquisition of post-2012 emission reductions, trading opportunities in the secondary market and the emerging VER markets in the US and globally. The Group also strengthened its balance sheet, holding significant cash reserves following the institutional placing and the strategic investment made by Credit Suisse. The Group's market share remained significant, with 95 of the 896 projects registered by the CDM Executive Board at the year end having been implemented by EcoSecurities.

## Origination

While origination activity during 2007 continued to progress, the Group's net portfolio to 2012 increased only slightly from 127 million CERs in December 2006 to 130 million CERs at 31 December 2007. In the second half of 2007 the Group enhanced its project selection and due diligence process to assess systematically the operational, financial and CDM viability of projects before they are added to the portfolio. At the 2007 year end a further 20 million CERs on a net basis were in the Group's due diligence process and, although under contract, will not be included in the portfolio numbers until conclusion of such assessments. This process prevents the entry of projects with low likelihood of success into the portfolio, increasing its inherent quality and reducing volatility in portfolio volume.

At year end the Group had contracts for CERs from 437 CDM projects, of which 400 projects have passed due diligence and were included in the Group's portfolio. The contracted projects are capable of generating 166 million CERs to 2012 on a gross basis (2006: 156 million). The average acquisition price to the Group at year end was €6.45 per CER.

Based on the increasing recognition of the need for greenhouse gas mitigation, as well as repeated signals that carbon trading will remain part of the global effort against climate change, the Group made a strategic decision to contract for the purchase of CERs beyond 2012. During 2007 the Group made a concerted effort to enter into options for the purchase of post-2012 CERs and by the year end had rights to over 103 million post-2012 CERs.

EcoSecurities continued to form strategic partnerships with organisations such as the Dubai Multi Commodities Centre (a strategic initiative of the Dubai government to establish a commodity market place there) and Stantec (a large North American engineering company) to maximise project origination activities in these regions and to expand its reach and effectiveness. Furthermore, the partnership with Credit Suisse also provided the Group with a competitive advantage in the market place and during February 2008 EcoSecurities announced that it had inaugurated its joint €1 billion carbon purchase facility, with the signing of emission reduction purchase agreements with a Chinese renewable energy project developer for several wind farm projects.

At the beginning of 2007, the Group commenced its voluntary emission reduction project activities, both in the US and internationally and by year end it has already originated 10.7 million VERs. The Group was also successful in selling VERs to European and American buyers, as described in the Commercialisation section.

The Group's contracted carbon credit projects at 31 December 2007 can be broken down as follows:

<b>Carbon credit type:</b>	<b>Gross volume (million)</b>	<b>Net entitlement to Group (million)</b>
CERs to 2012 (principal)	131	123

CERs to 2012 (agency)	9	4
CERs to 2012 (project development)	4	3
Subtotal CER portfolio to 2012		
	144	130
CERs to 2012 (due diligence)	22	20
Subtotal contracted CERs to 2012		
	166	150
CERs post-2012 (options and ERPAs)	103	103
VERs	11	11
Total volume contracted	280	264

## Implementation

There continued to be significant delays throughout the CDM project development cycle which had an overall impact on EcoSecurities' ability to progress projects quickly through to registration and issuance. These delays are particularly acute in relation to the CDM Executive Board, Designated Operational Entities ('DOEs') and, in some countries, host nation approval. Despite these challenges, EcoSecurities increased the number of registered projects from 53 to 95 at year end, with these projects capable of producing 13 million CERs by 2012 on a net entitlement basis to the Group. Of the 437 projects at contract and term sheet stage at year end, 239 projects had completed project design documents ('PDD'), 181 had received host nation approval and 115 had been validated. A total of 342 projects in the Group's portfolio were financed and 148 were operating at year end, with the ability to produce 39 million CERs to 2012 for EcoSecurities.

The Group's contracted projects and CERs on a net basis can be analysed as follows:

Project cycle landmark (cumulative values)	31 December 2007		31 December 2006	
	No. of projects	Million CERs	No. of projects	Million CERs
Contracted	437	150	353	127
Due diligence	37	20	0	0
Portfolio	400	130	353	127
Operational stage:				
Financed	342	104	283	105
Construction started	292	88	162	61
Operation started	148	39	84	31
CDM stage:				
PDD complete	239	73	132	39
Submitted to Validation	223	66	125	38
HNA obtained	181	55	67	10
Validated	115	24	65	10
Submitted to Registration	110	23	62	10
Registered	95	13	53	10

By the year end, the Group had seen its implementation portfolio increase to 11% of the global market (calculated as a percentage of the registered projects out of the total number of projects in the UNEP-Risoe CDM Pipeline). In order to accelerate the process of project registration and issuance, the Group added further implementation capacity during the year. It increased its headcount of CDM specialists to 84 and deployed staff close to the projects in its regional offices to enhance project monitoring capacity. In combination with increasing the size of the team, the Group instigated a series of process improvements as well as a further prioritisation of project work to optimise the way in which the most valuable and strategic projects progress through the CDM project cycle. At the same time, the Group continued to grow and improve its capacity to monitor operations of its projects, an essential component to enable carbon credit creation, verification and issuance to the requirements of the CDM.

The Group's implementation division continued to add to its list of achievements in 2007. It helped to register the first gas flaring project in the Gulf Cooperation Council region, registered the first ever project in Thailand and finalised the CDM implementation work for the Group's first N<sub>2</sub>O abatement project in China.

### Commercialisation

Commercialisation made good progress in 2007. The Group sold forward a further 13 million CERs during the year. At the year end a net total of 42 million CERs were sold forward through 2013 (2006: 29 million), of which 2.8 million are for 2008. This represents expected forward CER revenues of €558 million and a Net Trading Margin of €282 million by 2013. The weighted average price on the forward contracts is €13.10, an increase over the year (2006: €11.30).

The Group continued to expand its commercialisation product offering helped by its strategic partnership with Credit Suisse. December saw the placing of over 5 million CERs via EcoSecurities Carbon I, a special purpose vehicle developed jointly with Credit Suisse. This innovative structure allowed sales of CERs to a number of new credit-worthy clients and achieved a premium price without

EcoSecurities incurring any guaranteed delivery obligation. Revenue for the Group from EcoSecurities Carbon I will commence in 2009.

Secondary trading had a productive initial year, with increased revenue and net profit. Pricing, trading and risk systems are in place and are being parallel tested to ensure accuracy and flexibility. The Group's global network of offices and relationships positions us to capitalise upon market trends and trading opportunities.

EcoSecurities VER activities continued to gain momentum with the Group achieving sales of 170,000 tonnes to clients such as Netjets Europe and Yahoo.

The Group's CER net committed delivery schedule net is 0.4 million in 2008, 7.9 million in 2009, 8.1 million in 2010, 5.1 million in 2011, 4.4 million in 2012 and 2.9 million in 2013. Considering its current CER inventory, planned verifications during 2008 and CER production profile of the portfolio, the Group is comfortable with its ability to meet its delivery commitments.

### **Consultancy**

During 2007 Consultancy focused on integrating the operations of Trexler Climate + Energy Services. The acquisition, which took place in February 2007, greatly enhanced EcoSecurities' presence in the United States.

Consultancy significantly grew its external client base during the year. It continued to work with international organisations focusing on climate change policy and capacity building such as the World Food Programme, International Finance Corporation and the Global Mechanism. In addition, the Group continued to expand its corporate carbon footprinting work, as well as providing ongoing support for the development of strategies by the American utilities to support the integration of emissions trading under California's AB32 and the Low Carbon Fuel Standard. The Group's Ecosystem Services team continued to contribute extensively to the policy processes related to including avoided deforestation into an international carbon trading scheme.

### **Policy and operational matters**

Policy making and regulation continued to have a significant impact on the Group's business in 2007. Throughout the course of the year, the Group engaged in a constructive dialogue with national governments, Designated National Authorities, policy makers, industry associations and NGOs to enhance the efficiency and effectiveness of the CDM process in mitigating against climate change. The Group was encouraged to see that some of the CDM process improvements that had been recommended by industry bodies and EcoSecurities had been incorporated in the official documentation produced by the Conference/Meeting of Parties of the UN Framework Convention on Climate Change in Bali last December.

During 2007, the Group devoted substantial efforts to develop and implement its corporate social responsibility policy and procedures. A clear framework was developed to assist in ensuring that our projects make a positive difference to the environment and at the same time protecting the interests of our investors.

Despite experiencing some market challenges in 2007, the Group continued to build on earlier achievements, with more market 'firsts' which included being the first company to successfully register CDM projects in Thailand and the Gulf Cooperation Council region. In recognition of its role in the market, EcoSecurities was awarded Best CDM/JI Project Developer – Kyoto Project Credits 2007 and Best Advisory – Kyoto Project Credits 2007 by Environmental Finance Magazine, the 7<sup>th</sup> year in a row in which the Group received awards by readers of this publication. The Group was also ranked number 22 in CNBC European Business Magazine's 'Top 100 Low Carbon pioneers'. It is also

pleasing to see the work of the IPCC, which included contributions from three of EcoSecurities' senior staff, Pedro Moura Costa, Agus Sari and Mark Trexler, recognised through the Nobel Prize.

During the year, new representative offices and subsidiaries were opened in Tokyo, Lima, Bern, Rome and Manama. This brought the total number of offices and representatives to 30 at year end (2006: 25). Staffing levels increased to 300 by year end, representing an increase of 44%, primarily to provide additional resource in implementation to progress the project portfolio through the CDM approval cycle. In order to support the growth of the Company, significant improvements were made in IT infrastructure.

The cost base of the Group expanded in line with management's expectations as the Group achieved its staff recruitment targets. The Group remains in a strong cash position following the capital increase mid-year.

## **Outlook**

With the start of the 1<sup>st</sup> commitment period of the Kyoto Protocol in 2008, EcoSecurities' focus during 2008 and beyond will be on the delivery of CERs to compliance buyers. This will involve the further strengthening of people and processes as well as deploying additional staff closer to project operations in local offices. The Group has built capacity in monitoring and verification and anticipates increased focus on these activities to ensure carbon credit production and issuance. As significant components of the CDM project cycle are dependent on the work of DOEs, EcoSecurities established framework agreements with the major DOEs to ensure that these allocate capacity to conduct the validations and verifications needed for the Group's projects. The volumes planned and scheduled to be verified until the end of the year give the Board confidence that EcoSecurities will meet its delivery obligations.

Certainty of delivery commitments to European Union (EU) buyers is conditional on there being a connection of the International Transactions Log (ITL) registry to the EU's Community ITL registry. While in some cases it is anticipated that transactions may be settled via national registries outside the EU, the Group will be particularly prudent in conserving its cash balances until there is confirmation of the timetable for the connection of these registries. Currently, EcoSecurities does not assume that this will occur before the limit date of April 2009 set by the EU.

In addition to its efforts related to the CDM, EcoSecurities plans to continue building its presence in the voluntary markets in the US and internationally. Additional resources are being devoted to create and sell VERs, with a focus on meeting the needs of large corporate buyers in Europe and the US.

Origination will focus on acquisition of CERs and VERs worldwide and there will be an increased effort on securing rights to carbon credits beyond 2012. The Board believes that the Group's strong international presence gives it significant competitive advantage in the sourcing of high quality CER and VER projects and intends to continue to expand its operations in the promising US market. In summary, and in line with the Bali Roadmap and likely policy changes in the US, the Group is positioning itself for a wider market and regulatory environment that will become clearer from the end of 2009. The Group will continue to engage in various policy dialogues with stakeholders to help design or improve regulatory schemes related to greenhouse gas mitigation in various jurisdictions.

EcoSecurities and its senior management team are positive about the prospects and opportunities related to the future of the carbon market and are confident as to the capacity of the Group to maintain its market leadership in 2008 and beyond.

## Financial review

### Income statement

Group revenue rose by 135% to €7.2 million. This was largely on the back of emission reduction sales increasing by nearly 200% with volumes increasing to 454,000 tCO<sub>2</sub>e. The launch of EcoSecurities Carbon I towards the end of the year marked a step forward in the commercialisation process and revenue from this transaction is anticipated to commence in 2009. Consulting revenues at €1.2 million rose by 12%.

The gross profit margin was low and not representative of the average prices of the deliveries on forward sales and CERs from the portfolio due to high level of secondary sales and the price of CERs allocated to cost of sales.

Administrative expenses increased by 61% in line with expectations principally as a result of the planned expansion of the implementation team. The primary business expense continues to relate to staff and associated costs. Staff increased from 209 to 300 during the year, of which 84 were in implementation. Administrative expenses also included costs of €0.1 million in relation to the 2007 capital increase and costs in relation to EcoSecurities Carbon I of €0.8 million.

Within financing income and costs, the Group has recognised a net charge of €9.2 million. This charge relates to a fixed price sale contract signed in 2005 where the buyer is now unable, as a result of its Mauritian jurisdiction, to receive CERs in settlement of the Group's delivery obligations. In these circumstances, the sale contract provides for the settlement to be in cash and to be calculated as the difference between the deemed market price of CERs in March 2008 and the contracted sale price (if lower). Since the sale price under this agreement is lower than the year end market price, a financial liability has been reflected. CERs intended to have been used in settlement of this contract will be otherwise available for sale to the Group's other customers.

Other finance income amounted to €6.1 million of which €3.4 million was interest received on the Group's cash deposits and the remaining €2.7 million represents the gain on the mark to market of derivative contracts. Other finance costs of €4.3 million comprise an exchange loss of €2.5 million arising principally on the British Pound denominated deposits held as a currency hedge against the Group's British Pound based future operating costs, a charge of €1.5 million relating to the value of the option to purchase CERs granted to Credit Suisse in 2005 and interest payable on the Credit Suisse loan that has since been repaid.

The Group incurred a tax charge of €1.7 million as a result of taxes payable by subsidiaries. At the year end accumulated tax losses of €62.4 million were available to offset future profits.

The retained loss for the year amounted to €45.0 million, an increase of €25.0 million from the prior year driven principally by the Group's increase in headcount and the provisions described above.

### **Balance sheet**

Intangible assets increased by €0.6 million to €4.0 million at the year end. This balance primarily relates to project related expenditure and advances and includes €0.8 million of identifiable internal costs of CDM project implementation capitalised during the year in accordance with the Group's policy.

Investments in project related plant and equipment in the year amounted to €2.0 million spread over 37 investment in 3 countries. At the year end the Group had additional commitments amounting to €13.2 million for future capital expenditure in relation to emission reduction projects. €1.0 million was spent on expanding the Group's administrative infrastructure including fixtures, fittings and computer equipment

Inventories comprised 837,000 issued CERs and 942,000 issued VERs.

Restricted cash balances amounting to €19.4 million principally relate to cash provided as collateral for delivery commitments, €14.5 million of which is due to be released by June 2008.

### **Capital increase**

In June and July the Company increased its capital by placing 19.4 million shares with investors, including 9.2 million shares subscribed by Credit Suisse. The placing raised a total of €96.5 million for the Company net of expenses of €3.5 million.

### **Cash flow**

The operating cash outflows amounted to €51.1 million as the Group increased its implementation capability and working capital in particular inventory and trade receivables. Project related expenditure and advances amounted to €2.3 million. Net financing inflows amounted to €75.5 million comprising the mid year capital increases of €100 million, repayment of borrowings of €(7.8) million, movements of €13.1 million to restricted cash and costs associated the placing which amounted to €3.5 million.

The net increase in cash and cash equivalents over the year amounted to €16.4 million and in addition interest bearing loans and borrowings reduced by €7.8 million. The year end balance of cash and cash equivalents was €88.1 million and there were no interest bearing loans or borrowings outstanding.

### **Hedging policies**

The Group has a treasury and commercial hedging policy that covers interest rate, foreign exchange and commodity price exposures. Normally, and where appropriate, the Group may hedge a proportion of its net production of emission reductions to protect cash flows against commodity price and exchange rate fluctuations. The Group also maintains cash balances in major operating currencies relative to operational cash requirements in those currencies and incurred a loss of €2.5 million in the year principally as a result of the Group's holding of British Pounds. The Group uses other hedging arrangements in relation to specific currency exposures when prudent.

**Summary consolidated income statement  
For the year ended 31 December 2007**

	<b>2007</b> <b>€000</b>	2006 €000
Revenue	<b>7,222</b>	3,073
Cost of sales	<b>(6,499)</b>	(1,374)
Gross profit	<u>723</u>	<u>1,699</u>
Administrative expenses	<b>(36,633)</b>	(22,721)
Loss before financing costs	<u>(35,910)</u>	<u>(21,022)</u>
Finance expense (note 3)	<b>(14,464)</b>	(856)
Finance income (note 3)	<b>7,043</b>	2,405
Loss before tax	<u>(43,331)</u>	<u>(19,473)</u>
Income tax expense	<b>(1,748)</b>	(573)
Loss for the financial year attributable to equity holders of the Group	<u><b>(45,079)</b></u>	<u>(20,046)</u>
Basic loss per share (€ cent per share)	<u><b>(44.0)</b></u>	<u>(21.7)</u>
Diluted loss per share (€ cent per share)	<u><b>(44.0)</b></u>	<u>(21.7)</u>

**Summary consolidated statement of recognised income and expense  
For the year ended 31 December 2007**

	<b>2007</b> <b>€000</b>	2006 €000
Loss for the financial year	<b>(45,079)</b>	(20,046)
Currency translation reserve movement	<b>(432)</b>	(22)
Total recognised income and expense for the year	<u><b>(45,511)</b></u>	<u>(20,068)</u>

**Summary consolidated balance sheet**  
**At 31 December 2007**

	2007 €000	2006 €000
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	4,039	3,412
Property, plant and equipment	4,712	2,463
Deferred tax asset	229	-
Trade and other receivables	834	531
<b>Total non-current assets</b>	<b>9,814</b>	<b>6,406</b>
<b>Current assets</b>		
Inventory	10,916	-
Derivative financial assets	2,641	-
Trade and other receivables	20,973	5,020
Cash and cash equivalents	88,076	60,452
<b>Total current assets</b>	<b>122,606</b>	<b>65,472</b>
<b>Total assets</b>	<b>132,420</b>	<b>71,878</b>
<b>Shareholders' equity</b>		
Issued capital	282	232
Share premium	173,127	76,446
Share based payment reserve	902	664
Currency translation reserve	(506)	(74)
Other reserves	(573)	(573)
Retained earnings	(70,019)	(25,009)
<b>Total shareholder's equity attributable to shareholders of the Group</b>	<b>103,213</b>	<b>51,686</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Trade and other payables	3,040	3,040
Deferred tax liabilities	186	58
<b>Total non-current liabilities</b>	<b>3,226</b>	<b>3,098</b>
<b>Current liabilities</b>		
Interest bearing loans and borrowings	-	7,582
Trade and other payables	12,137	8,884
Derivative financial liabilities	1,505	-
Current tax payable	1,411	628
Provisions for liabilities	10,928	-
<b>Total current liabilities</b>	<b>25,981</b>	<b>17,094</b>
<b>Total liabilities</b>	<b>29,207</b>	<b>20,192</b>
<b>Total equity and liabilities</b>	<b>132,420</b>	<b>71,878</b>

**Summary consolidated cash flow statement**  
**For the year ended 31 December 2007**

	2007 €000	2006 €000
<b>Cash flows from operating activities</b>		
Loss for the financial year	(45,079)	(20,046)
Income tax expense	1,748	573
Finance income	(7,043)	(2,405)
Finance expense	14,464	857
Depreciation of property, plant and equipment	587	200
Impairment and amortisation of intangible assets	1,460	52
Project costs transferred to inventory	-	125
Write-down on inventory	429	-
Loss on disposal of property, plant and equipment	-	139
Share-based payment expense	307	385
Foreign exchange differences	(994)	(294)
Change in inventory	(11,345)	-
Change in trade and other receivables	(8,773)	(3,981)
Change in trade and other payables	3,610	9,626
Creation of provisions	816	-
Interest paid	(334)	(428)
Tax paid	(974)	-
<b>Net cash out flow from operating activities</b>	<b>(51,121)</b>	<b>(15,197)</b>
<b>Cash flows from investing activities</b>		
Interest received	3,262	2,170
Acquisition of businesses	(170)	-
Purchase of property, plant and equipment	(2,849)	(2,673)
Investment in intangible assets	(8,214)	(3,487)
<b>Net cash used in investing activities</b>	<b>(7,971)</b>	<b>(3,990)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of ordinary share capital	100,045	85
Payment of share issue transaction costs	(3,502)	(2,222)
Repayment of borrowings	(7,866)	(300)
Movement restricted cash deposits	(13,136)	(5,824)
<b>Net cash generated / (used) from financing activities</b>	<b>75,541</b>	<b>(8,261)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>16,449</b>	<b>(27,448)</b>
Cash and cash equivalents at start of year	54,045	82,565
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(1,865)	(1,073)

**Cash and cash equivalents at end of year**

**68,629**

**54,045**

**Notes to the financial information**

## 1. Basis of Preparation

This preliminary financial information has been derived from the Group's consolidated financial statements for the year ended 31 December 2007 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies applied in preparing the Group's consolidated financial statements for the year ended 31 December 2007 are as published in the Annual Report for 2006. The audited financial statements will be issued in due course and will include an unqualified opinion from our auditors, KPMG Chartered Accountants.

## 2. Segment reporting

### (a) Business segments

The Group has defined the following two business segments based on its operating activities as follows:

#### (i) Emission reductions

This segment comprises emission reduction project activities where the Group contracts with project developers in order to acquire or sell emission reductions on their behalf, or development activities where the Group develops its own interest in emission reduction projects as either lead project entity or as part of a collaboration.

#### (ii) Consulting

This segment provides emission reduction advisory services to commercial and governmental organisations.

	2007			2006		
	<i>Emission reductions</i>	<i>Consulting</i>	<i>Total</i>	<i>Emission reductions</i>	<i>Consulting</i>	<i>Total</i>
	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	6,061	1,161	7,222	2,038	1,035	3,073
Segment result	(36,019)	(2,300)	(38,319)	(21,267)	(1,305)	(22,572)
Unallocated Group expenses			(4,813)			(1,523)
Loss before financing costs			(35,910)			(21,022)
Net finance income			(7,421)			1,549
Income tax expense			(1,748)			(573)
Loss for the financial year			(45,079)			(20,046)
Segment assets	61,447	1,133	62,580	14,555	1,271	15,826
Unallocated Group assets			69,840			56,052
Total assets			132,420			71,878
Segment liabilities	(25,545)	(387)	(25,932)	(6,999)	(1,011)	(8,010)
Unallocated Group liabilities			(3,275)			(12,182)

Total liabilities			<b>(29,207)</b>			(20,192)
Capital expenditure	<b>10,998</b>	<b>65</b>	<b>11,063</b>	6,135	25	6,160
Depreciation, amortisation and impairment losses	<b>1,950</b>	<b>97</b>	<b>2,047</b>	229	23	252

## (b) Geographical segments

The Group's emission reduction business is conducted on a global scale, with presence in most continents. The Group employs significant assets overseas which are reported by continent. The Group's consulting business is undertaken through offices in the UK, US, Brazil and Netherlands.

	2007			2006		
	Revenue	Total assets	Capital expenditure	Revenue	Total assets	Capital expenditure
	€'000	€'000	€'000	€'000	€'000	€'000
Europe	6,104	117,891	9,646	823	68,012	4,090
North America	1,064	9,710	26	1,605	636	150
South America	45	1,002	69	477	724	475
Africa	9	55	10	92	24	-
Asia	-	3,762	1,312	76	2,482	1,445
	<b>7,222</b>	<b>132,420</b>	<b>11,063</b>	<b>3,073</b>	<b>71,878</b>	<b>6,160</b>

In presenting the information on the basis of geographical segments, segment assets are based on the geographical location of the assets. Segment revenue is based on the geographical location of customers.

### 3. Financial income and expense

During the year ended 31 December 2005, the Group entered into an agreement to sell a specified number of CERs at a fixed price for delivery in 2008. While the Group originally expected to settle this obligation through the delivery of CERs, the Group has been informed that the buyer cannot now receive CERs in settlement of the delivery obligation under the original contract because the buyer is not able to set up an account to receive the CERs. A provision within the original contract provides that, in such circumstances, the settlement is required to be made in cash at the deemed market price of the CERs at a fixed date prior to the settlement.

The buyer separately made available the rights to the CERs on the open market and, in the year ended 31 December 2006, the Group acquired the rights to a portion of these CERs at a cost of €1.3m. These rights were shown as intangible assets in the balance sheet at 31 December 2006. The Group acquired the rights to a further portion of these CERs in 2007 at an aggregate cost of €5.1m. As a consequence of this, the rights to the CERs acquired by the Group are now regarded an entitlement to receive a portion of the cash delivered under the original contract.

As a result of the above, and because the fixed sales price under the agreement is less than the estimated market price at the balance sheet date, the Group has recorded:

- a provision of €10.1m in respect of the best estimate of its obligations under the original contract as at 31 December 2007 measured based on forward prices; and
- a receivable of €7.4m representing the estimated cash receivable in place of the contractual rights to CERs acquired in 2006 and 2007.

The actual settlement of these contracts will be based on market prices at future dates as specified in the contract and the Group's net exposure in this regard remains subject to uncertainty. Settlement is due in April 2008.

The transactions above give rise to a net financial loss to the Group of €9.2m, comprising finance income of €958k and finance expense of €10.1m, both of which have been recognised in the income statement.

#### 4. Loss per share

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares is calculated as follows:

	2007 Number ( '000)	2006 Number ( '000)
<b>Issued ordinary shares</b>		
At start of year	92,657	91,627
Effect of shares issued during the year	9,730	584
<b>Weighted average number of shares for year</b>	<u>102,387</u>	<u>92,211</u>

Basic and fully diluted loss per share is calculated as follows:

	2007	2006
Loss for the year attributable to equity shareholders of the Company (€000)	(45,079)	(20,046)
Weighted average number of shares ( '000)	102,387	92,211
<b>Loss per share (€cent)</b>	<u>(44.0)</u>	<u>(21.7)</u>

#### 5. Cash and cash equivalents

	2007 €000	2006 €000
Cash at bank and in hand	33,875	4,410
Short term bank deposits	34,754	49,635
Cash and cash equivalents for the purposes of the cash flow statements	<u>68,629</u>	54,045
Restricted cash	19,447	6,407
Cash and cash equivalents	<u>88,076</u>	<u>60,452</u>

#### Restricted cash deposits

At 31 December 2007, the Group had posted cash collateral of €19.4m (2006: €6.4m), which is reflected in cash and cash equivalents as restricted cash at year end. The Group has committed to sell CERs to third parties through the end of the first Kyoto commitment period. Under certain

contracts, the Group posts cash or near-cash collateral or pledges agreements to purchase CERs to purchasers' escrow accounts until the Group's delivery commitments are fulfilled. €7.6m of this restricted cash will be released on the settlement of the obligations described in note 3.

In addition, the Group also posts cash collateral in respect of letters of credit, guarantees and bid-bonds issued under a standby letter of credit facility. The terms of the facility require that collateral be posted in the form of cash against all outstanding obligations. The Group has issued a number of standby letters of credit under this facility to support investment and CER related transactions.

### Short term bank deposits

The Group's short term bank deposits are invested in money market deposits which match the forecasted functional currency requirements of the business. Details of these deposits are as follows:

Currency	Balance invested €000	Weighted average interest rate	Weighted average term
Euro	14,954	3.40%	16 days
Sterling	19,800	6.16%	25 days
	34,754		

## 6. Share Capital, Share Premium and Reserves

	Share Capital	Share Premium	Currency translation reserve	Share based payment reserve	Other reserves	Retained earnings	Total
	€000	€000	€000	€000	€000	€000	€000
<b>At 1 January 2007</b>	<b>232</b>	<b>76,446</b>	<b>(74)</b>	<b>664</b>	<b>(573)</b>	<b>(25,009)</b>	<b>51,686</b>
New shares issued in the year:							
- pursuant to strategic investment	48	99,919	-	-	-	-	99,967
- in connection with acquisition	-	188	-	-	-	-	188
- on exercise of share options	2	76	-	-	-	-	78
Transaction costs capitalised	-	(3,502)	-	-	-	-	(3,502)
Total recognised gains and losses	-	-	(432)	-	-	(45,079)	(45,511)
Share-based payment	-	-	-	307	-	-	307
Transfer on exercise of share options	-	-	-	(69)	-	69	-

At 31 December 2007

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282	173,127	(506)	902	(573)	(70,019)	103,213
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