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Camco International Limited Annual Report 2006

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camco
INTERNATIONAL

solutions to climate change

camco
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Solutions to Climate Change.
Camco is a market leader in the origination, co-development and placement of carbon credits.

Camco works with companies in the developing world to identify and develop greenhouse gas emission reduction projects, managing the entire process from project initiation to the delivery of carbon credits for sale in the international market.

Camco is a market leader in China and Russia – two of the largest potential markets for Carbon Credits – as well as in Eastern Europe and Africa.

Mission Statement
To be an innovative global company delivering profitable solutions to mitigate climate change.

Strategy
Our strategy is to utilise our expertise in managing and delivering carbon credits on a local basis in an international arena. By doing this our aim is to increase our overall carbon portfolio in terms of both volume and value.

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Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

Highlights as at 31 December 2006

- Admitted to AIM in April 2006 raising £24.90 million (€37.07 million)
- Winner – Best Project Developer 2007
- Acquired MCF Finance and Consulting Co Ltd in Russia
- Established operations in South Africa

Volume:

- 102.9 million tonnes under exclusive contract in portfolio, up from 71.0 million tonnes or 45% since IPO

Operational delivery:

- 43.0 million tonnes have received Host Country Letters of Approval, up from 1.4 million tonnes at IPO
- 32.1 million tonnes have been validated, up from 2.2 million tonnes at IPO
- 2.8 million tonnes have been submitted for registration, up from 0.7 million tonnes at IPO

Value:

- Camco has rights to acquire 22.1 million tonnes of carbon credits
- 35.8 million tonnes have Emission Reduction Purchase Agreements (ERPAs) signed
- 0.9 million Voluntary Emission Reductions (VERs) credits commercialised
- Two milestone deals in the global carbon market with delivery commencing in 2007:
  - > The world's largest clean energy project to date, Yangquan Coal Mine Methane (17.8 million tonnes)
  - > One of the world's largest clean energy projects to date, Jinan Iron and Steel Group (12.3 million tonnes)

Financials:

- Revenue of €0.83 million
- Loss before tax of €3.97 million
- Cash position at the end of the year of €24.72 million

Highlights post 31 December 2006

- 5 new projects are under exclusive contract, representing a net increase in the contracted portfolio of 1 million additional tonnes, after prudential adjustments
- 34.2 million tonnes are in late stage negotiation. This excludes projects in the pipeline
- 11.3 million tonnes have received Host Country Letters of Approval
- 12.9 million tonnes have been registered by the Clean Development Mechanism (CDM) Executive Board
- Issuance of first Certified Emission Reductions (CERs)

At a glance

Best Project Developer

Carbon Market Award 2007 by Point Carbon

£24.9m

raised at admission to AIM

102.9m

under exclusive contract in portfolio

43.0m

tonnes have received Host Country Letters of Approval

35.8m

have Emission Reduction Purchase Agreements (ERPAs) signed

€0.83m

in revenue

Climate change is happening now.

22bn

Global consumption of fossil fuels is estimated to release 22 billion tonnes of CO_2 into the atmosphere every year – and the amounts are still climbing. (Source: UNFCCC.org)

-20%

1% of global GDP is required to be invested a year in order to mitigate the effects of climate change, and failure to do so could risk global GDP being up to 20% lower than it otherwise might be. (Source: Stern Review on the Economics of Climate Change – 30 October 2006)

What is climate change?

Climate change refers to the build-up of man-made gases in the atmosphere that trap the sun's heat, causing changes in weather patterns on a global scale. The effects include changes in rainfall patterns, sea level rise, increased droughts and flooding, habitat loss and heat stress.

Global climate dynamics are unpredictable. Climactic models show that the short to medium term impacts of an increase in the atmosphere's concentration of greenhouse gases is likely to lead to increased warming in some areas with deep cooling in others. The Stern Review, a UK government-commissioned report on climate change, warned that unchecked global warming could shrink the world economy by as much as 20%, or £3.68 trillion. Sir Nicholas Stern, former chief economist of the World Bank, says 1% of global GDP should be spent now to combat climate change and cut global carbon emissions.

How can we tackle climate change?

Governments across the world are leading initiatives to look at how climate change can be abated. These include mandatory targets for renewable energy generation, reduction in car emissions and adherence to the Kyoto Protocol.

We can all take action on an individual level, by reducing our carbon footprint through energy efficiency in the home, reduction in car use and air travel. Unlike government regulations, these are voluntary.

For those countries that have not signed up to the Kyoto Protocol voluntary emission reduction schemes are now becoming more popular and are being regulated by organisations such as NGOs.

What is a carbon credit?

Carbon credits signify the number of tonnes by which greenhouse gas emissions have been reduced. Carbon credits are verified and certified by independent third parties to create a commodity that can be purchased by companies that want to take part in reducing the effects of climate change created by their businesses.

There are various types of carbon credits, some go through regulated markets namely the Clean Development Mechanism and Joint Initiative (CDM and JI) created by the Kyoto Protocol and others through Voluntary Emission Reductions (VERs) markets.

What is the Kyoto Protocol?

In December 1997, the first binding commitments to reduce greenhouse gas (GHG) emissions were proposed under the Kyoto Protocol. In the years following this historic global agreement, more and more countries ratified the Protocol. Following its ratification by Russia, the Kyoto Protocol entered into force on 16 February 2005.

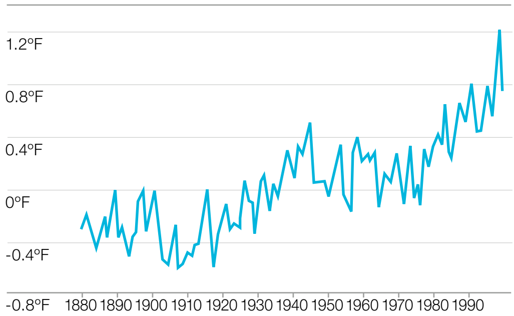
Under the Protocol, industrialised countries have committed to reduce their GHG emissions by, on average, 5% over the period 2008-2012 as compared with their 1990 levels.

To address this challenge and to enrol the private sector in the fight against climate change, the Protocol provides, for flexible market-based mechanisms aimed at reducing emissions while minimising the cost of Kyoto compliance. The two project-based mechanisms are the Clean Development Mechanism (CDM) and Joint Implementation (JI).

Under the project-based mechanisms, countries can purchase verified carbon credits from projects. This results in real, measurable and long-term GHG emissions reductions. Provided such project-based activities are “additional to any which would otherwise occur”, valid credits can be generated from investments that reduce net GHG emissions both in countries with emissions reduction targets of their own (under JI) and in those without (under the CDM). The further requirement for CDM projects to contribute to the sustainable development of the countries where they are hosted has created a market-based instrument that stimulates environmentally sound development on an unprecedented scale.

Camco is actively involved in developing projects under the Clean Development Mechanism, Joint Implementation and in the voluntary Verified Emissions Market (VEM).

Global Temperature Changes (1880-1999)

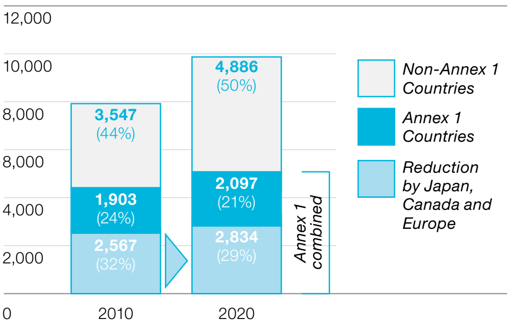


The adjacent graph shows Global Temperature Changes (as Departure from Long-Term Mean) between 1880 and 1999. (Source: National Climatic Data Center)

Tackling climate change early will be cheaper than dealing with the consequences later.

Annex 1 Countries: Countries listed in Annex 1 to the UN Framework Convention on Climate Change (industrialised countries and economies in transition). Under the Kyoto Protocol, countries listed in Annex 1 to the convention are obliged to reduce greenhouse gas emissions.
(Source: The IPCC Third Assessment Report)

Worldwide CO_2 Emission Forecasts



Supply and Demand

The potential size of the carbon market is huge: up to 454 billion tonnes of emission reductions to 2012[1]. Currently, the Kyoto Protocol requires greenhouse gases to be reduced to 5% below 1990 levels by 2012: this is an estimated 90 billion tonnes that need to be removed every year. In many respects, however, the Kyoto Protocol's 2008-2012 First Commitment Period is a trial phase – and has successfully proven that a global carbon credit market can be used to reduce greenhouse gas emissions at the lowest cost. The IPCC believes that in order to keep atmospheric levels below 550 parts per million, a level above which is considered very dangerous to life as we know it, greenhouse gases need to be reduced to between 70% and 90% below 1990 levels. This is not impossible, and regions such as the EU have already agreed to reduce greenhouse gas emissions by up to 20% below 1990 levels by 2020 and 30% below 1990 levels if other countries agree to similar targets.

[1] Source: Environmental Finance 8 March 2007

2012 and beyond

There are many questions in the market about what will happen to the carbon industry post 2012, beyond which the Kyoto Protocol has no binding targets.

First, there already are a number of schemes in place which are expected to form the building blocks of a carbon credit world post 2012. In California, the trading scheme to meet the AB32 reduction targets and in New England the states that have signed up to the RGGI will all exist post 2012. The European Union has agreed to a Phase Three of its Emissions Trading Scheme, which will start in 2013. In Australia the NSW Greenhouse Gas Abatement Scheme was launched in 2003. Building on this experience, the National Emissions Trading Taskforce (NETT) and the Prime Minister's Task Group on Emissions Trading have been established to review the options for a national scheme. All of these schemes will be based on market mechanisms that are expected to have inter-regional connectivity, whereby carbon credits from one area can be traded into another area, similar to the way Camco currently trades carbon credits from areas such as China and Russia into Japan, the EU and the USA.

Second, there is a big political push currently underway to create a formal successor to the Kyoto Protocol. The science of climate change is definitive and the economics of climate change clearly show that tackling climate change early will be cheaper than dealing with the consequences later. Public opinion in both developed and developing countries supports action to reduce global greenhouse gas emissions. The green agenda has been fully embraced by political leaders across the world, and as such, it is highly probable that there will be a formal successor to the Kyoto Protocol.

The price of carbon credits

The most visible price for carbon credits in the world is the price of carbon credits on the European Union Emission Trading Scheme (EU ETS). When commentators discuss the price of carbon, this is typically the price that they quote.

The EU ETS has two main prices: prices for Phase 1, which ends in 2007, and prices for Phase 2, which begins in 2008 and ends in 2012. The projects that Camco has developed typically generate carbon credits from 2008 and so Phase 1 prices are not that relevant. Phase 2 prices have been trading in a band between €15 and €30 per carbon credit. Many market commentators and analysts believe that the "natural" cost of carbon should be between €20 and €40 per carbon credit.

The EU ETS price is for carbon credits that have been issued from operational facilities. For carbon credits that have not been issued, there are other prices – from buyers in the EU, Japan and elsewhere who want carbon credits early through long-term contracts. These prices are currently linked to the EU ETS, but there is no long-term reason for them to be connected: increased demand from Japan, for example, could result in higher prices for carbon credits than quoted on the EU ETS.

Camco has very good visibility on pricing pre-issued carbon credits: Camco not only originates carbon credit projects, but also negotiates the sale of the carbon credits that result from its projects with most of the major carbon credit buyers in the market.

electricity
from waste heat

Anhui Conch Cement Company Ltd
Clean Development Mechanism
Cement waste heat recovery projects in China

Camco is working with the largest cement manufacturer in China on a programme of waste heat recovery projects at multiple production facilities. Currently one project is awaiting registration with the CDM Executive Board, a further six projects are at the late stage of validation, and more projects are under development.

All seven projects will collectively generate around 1 million Certified Emission Reductions (CERs) per year. The projects employ advanced Japanese technology never before commercially financed in China. This is a major advancement in industrial efficiency in China.

Camco opened up the cement sector in China to the CDM through the development of the waste heat recovery methodology AM0024 in 2005.

Anhui Conch Cement Company Ltd

5,462,628

tonnes of carbon credits to 2012

We manage carbon credits from origination to delivery.

Project origination activities form the basis of the carbon credit industry. Camco works in the developing world to help identify and develop greenhouse gas emission reduction projects from the beginning through to the delivery of carbon credits for sale in the international market.

62
projects worldwide

43
members of staff

7
offices around the world

An overview of our process:

Creating carbon credits is a complex process and Camco simplifies it for the benefit of its clients. The key steps are:

Origination
Camco's origination activity focuses on identifying existing and new industrial projects and processes that have the potential to reduce greenhouse gas (GHG) emissions, and thus generate carbon credits.

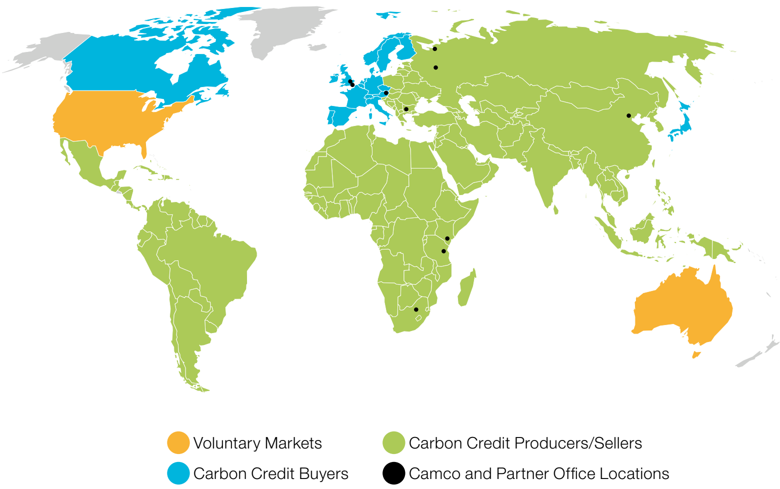
Qualification
Carbon credit opportunities need to be qualified by independent third-party auditors to ensure that they really represent reductions in greenhouse gases. This is achieved by ensuring that they follow a methodology that complies with the Clean Development Mechanism (CDM) requirements under the Kyoto Protocol. Camco applies and has the expertise to develop methodologies for accessing significant carbon credit opportunities in new sectors.

Structuring and Placement
The carbon credits generated by projects are then sold in the international carbon credit markets, which offer an ever-increasing range of deal structures and terms. Camco is in a unique position in the market, with excellent knowledge of the best prices and terms and conditions that are available to projects from a wide range of potential buyers. This knowledge provides Camco's clients with optimal value for their efforts in reducing greenhouse gases.

Asset Management
Once projects are operational, Camco uses its in-house monitoring and technical support team to help clients achieve successful verification of emission reduction activity. Camco also provides key support to project developers by providing support funds and access to finance.

The global carbon credits market:

Camco maintains strategic partnerships in many markets, thereby enhancing Camco's capacity to originate and deliver projects.



One of Camco's key partners is ESD Ltd, which is a world-leading adviser and developer in the climate change arena. With 100 members of staff, it has advised and developed over 1,000 projects.

Most of Camco's business is linked to the heavily regulated Kyoto Protocol market and the flexible mechanisms that operate under it. Increasing public awareness of the threat of global warming, caused by greenhouse gas emissions, has resulted in new market opportunities for Camco in the voluntary markets, such as the USA and Australia.

Camco's main geographies for the origination of projects are China, Russia, Central and Eastern Europe, and Sub Saharan Africa.

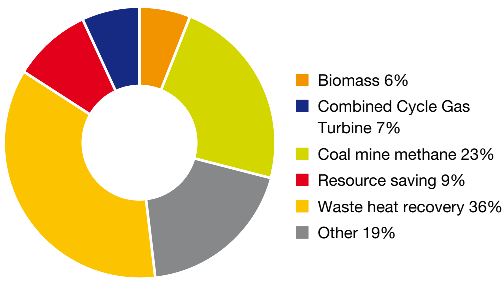
Camco's main markets for the commercialisation of carbon credits are the European Union, Japan, the United States and Australia. Camco has developed over 60 projects worldwide, with the potential to create 103 million carbon credits to the end of 2012.

During the second half of 2006 Camco saw a significant increase in the number of buyers seeking to purchase carbon credits from its projects. The most interesting new entrants were from Australia and the United States. Since neither has ratified the Kyoto Protocol nor has a compliance need to buy credits, their involvement is an important development.

Our projects:

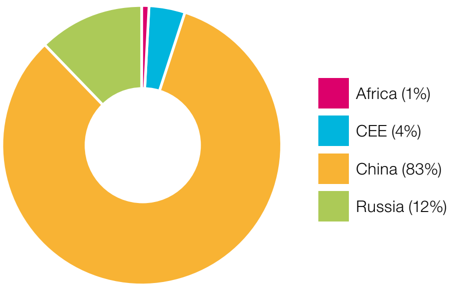
Camco's diverse portfolio covers multiple technology types, including renewable energy, increasing energy efficiency and reducing emissions from industrial and organic waste streams.

Camco has contracted with major industrial companies to develop projects and place emission reduction credits. Camco has secured Emission Reduction Purchase Agreements (ERPAs) with several buyers, and is currently negotiating ERPAs for further tranches of tonnes from our contracted project portfolio.



Well placed for growth in a global market.

Geographical split of our business



China

China has one of the world's largest and fastest growing economies. Energy and the environment are two critical themes in China's development planning for the 21st century. The country's strong dependence on coal and on other fossil fuels to feed this growth mean that by 2009 China is expected to be the world's number one source of greenhouse gas emissions.

Camco has led the market in these sectors in China through the development of new CDM Methodologies for projects in the cement industry and in coal mine methane utilisation. In addition to reducing greenhouse gas emissions, these projects contribute significantly to China's sustainable development objectives by increasing the efficiency of resource utilisation, improving energy security, lowering local air pollution and promoting the transfer of technology.

Camco has 34 projects in China under exclusive contract projected to reduce 79 million tonnes of greenhouse gas emissions to the end of 2012.

In November 2006 Camco facilitated an Emission Reduction Purchase Agreement (ERPA) for two clean energy projects implemented by the Yangquan Coal Industry (Group) Company in Shanxi Province. These CDM projects are expected to produce 17.8 million tonnes of carbon credits to the end of 2012.

The project involves the capture and utilisation of methane currently released into the atmosphere. The captured methane will be utilised to generate power and as a fuel source for a new industrial facility.

In addition, Camco successfully facilitated an ERPA for the sale of carbon credits for the Jinan Iron and Steel Group Corporation. The project is expected to produce 12.3 million tonnes of carbon credits from 2007 to the end of 2012.

The project is one of the largest Clean Development Mechanism (CDM) energy efficiency projects developed in China and reduces greenhouse gas emissions through the capture and utilisation of waste gases from the steelworks.

Regulatory stage (or equivalent non-CDM stage)	Volume at IPO	Projects at IPO	Volume at 31 Dec 06	Projects at 31 Dec 06	% change in Volume
Exclusive contract	71,479,000	36	102,920,485	62	44
PDD Complete	49,277,000	20	77,958,711	33	58
DNA Approval	1,468,000	5	43,005,733	19	2,830
Validated	2,168,000	6	34,078,316	14	1,472
Submitted for registration	668,000	3	2,841,591	4	325
Registered	668,000	3	2,841,591	4	325

Climate Change represents the greatest and widest-ranging market failure ever seen.

The Stern Review – October 2006.

Russia

The establishment of procedures in Russia has recently been boosted by the agreement by five Russian government ministries that Joint Implementation (JI) is a key source of sustainable foreign direct investment.

Camco is a leader in Russia, with a portfolio of 18.8 million tonnes from 19 Russian projects, including two monopolies in the power and cement sector, two large pulp and paper mills, an important steel mill, and numerous sawmills.

Camco is currently working with one of the leading steel producers in Russia located in the Orenburg region to modernise electric-arc furnaces and installing continuous casting machines. This will result in a more sustainable form of steel production, reduction of carbon intensive inputs and an overall reduction of 3 million tonnes of greenhouse gas emissions.

Sub Saharan Africa

South Africa is expected to become Camco's third largest market and is our most recently developed region. Energy efficiency projects and the mining sector are forecast to lead in the creation of the world's fifth largest market for carbon credits. Nevertheless, South African projects represent less than 1% of total global Clean Development Mechanism (CDM) projects registered with the United Nations Framework Convention on Climate Change (UNFCCC).

In December 2004 the Designated National Authority was established within the Department of Minerals and Energy of South Africa and given a legal mandate to oversee the CDM process. Uptake of CDM opportunities in South Africa has been slow, as only the World Bank and a limited number of multinational companies were pursuing opportunities. Since 2006, there has been a rapid increase in projects under development as local companies react to the CDM opportunity.

Chairman's Statement

David Potter

It has been a year in which there have been huge strides in both the awareness of climate change as a real issue and of the commercial business response.

David Potter
Chairman,
Camco International
8th March 2007

Dear Shareholder

A year ago Camco International was established to acquire, develop and sell the carbon assets derived from the long-standing activities of our founder sponsors: ClearWorld Energy, Energy for Sustainable Development and KWI.

We have come a long way in the ensuing year.

We commenced assembling a management team in January 2006, we floated on AIM in April and we now have the pleasure of reporting our maiden annual results to you.

It has also been a year in which there have been huge strides in both the awareness of climate change as a real issue and of the commercial business response.

The almost universal acceptance of the scientific evidence that global warming is a serious issue is a large step forward. Whilst there may still be disagreement about the pace of this change and the appropriate response, it has moved to centre stage with policy makers, opinion formers, the public and politicians. What is particularly interesting is the way in which public opinion and the business community have reacted by "trying to do something". This will inevitably have a political reverberation. Governments and politicians naturally move slowly, but it would seem that even they too have generally realised that things are changing, need focusing on and that the voters are beginning to demand action. I would anticipate significant political movement in the coming year, especially from the USA.

Whilst it is still too early to see what will happen post the current Kyoto period, I believe we can safely say that Camco occupies a business space with enormous potential. However, it should be noted that there are a large number of public and private companies in this arena with a plethora of business models. There are also large amounts of investment funds seeking to capitalise on the business potential.

The lesson of previous high growth sectors shows us three things. Firstly, that the fundamental vision is correct: computers, technology and dotcoms, for instance. Secondly, that for early entrants the key issue is to create a soundly managed and profitable business in an environment often characterised by huge media and market attention with the attendant risks of over-hyping and overheated stock prices. Thirdly, new companies in new markets take time to fulfil their ambitions. All of this underlines the need to be responsive to a new market as it develops.

In our first eight months as a public company we have tried to take these lessons to heart in building a business with sound management, reporting and control systems. In the meantime, we have endeavoured to maintain an entrepreneurial approach whilst developing our pipeline of new business and starting to broaden our footprint.

During the year we expanded in other locations, by acquisition in Russia and by the establishment of an office in South Africa. At the same time we have increased our resources in China, which remains our principal source of business.

The contracted tonnes in our portfolio have grown from 71 million at IPO to 103 million at the end of 2006. The cost base required to achieve all of this has been larger than anticipated at the time of the IPO. Obviously, the ultimate revenues from our activities, which as indicated at the time of the IPO will start to flow in 2008 and beyond, are dependent on the carbon price which has been volatile in 2006. Whilst such volatility can be expected to continue in 2007, the strategic environment points to a higher carbon price in the medium term. This, coupled with the potential for growth in the Voluntary Emission Reduction market, enables your Board to face the future with a degree of confidence informed by the need for tight management, a conservative approach to the valuation of our pipeline and the political risk in some of the countries in which we operate.

I want to pay tribute to our management team and staff in all our locations for their hard work and dedication, to our founder partners for their support and co-operation and finally to our clients and business partners.

retrieving

energy from waste

Archangelsk Pulp and Paper Mill
Joint Implementation
Wood waste-to-energy project in Russia

Camco is working with one of the largest pulp and paper companies located in the timber-focused North West region of Russia,

The project will utilise up to 150,000m^3/year of bark waste and 115,000 tonnes of sludge and generate power from this biomass waste.

APPM is one of the first Russian companies to adopt a voluntary limit on its emissions of greenhouse gases. The region will benefit from a decrease of emissions of greenhouse gases and other pollutants: carbon dioxide, nitric oxide, sulphur dioxide, coal dust, wood waste and sludge.

Archangelsk Pulp and Paper Mill

1,021,452
carbon credits to 2012

Business Review
Tristan Fischer, CEO
Scott McGregor, CFO

Increased public awareness of the threat of global warming has resulted in new market opportunities for Camco in voluntary markets, including the USA and Australia.

Tristan Fischer
Chief Executive Officer

Scott McGregor
Chief Financial Officer

Business overview

Camco identifies potential greenhouse gas reduction projects within industrial companies and utilities, produces carbon credits from these reductions and then facilitates the sale of these carbon credits to international buyers.

Greenhouse gas emissions are released locally, but the impact is global. As such, the market is influenced by policy decisions at a global and local level. Camco's business is linked to the regulated Kyoto Protocol market and the mechanisms that operate under it, such as the Clean Development Mechanism and Joint Implementation.

Increased public awareness of the threat of global warming has resulted in new market opportunities for Camco in voluntary markets, including the USA and Australia.

Camco's strategy is to maximise volume, operational delivery and value of carbon credits.

- Camco identifies potential clients through origination teams located in the largest carbon markets;
- Camco maximises delivery of carbon credits by operating on an "at risk" basis, under the same incentives as both the project sponsor and the buyer;
- Camco is uniquely positioned to create value through its large network of carbon credit buyers.

Financial review

Revenue for the period was €0.83 million and came from the sale of carbon credits. Camco takes a conservative approach to revenue recognition and these sales are from contracts which have verified carbon credits.

Administrative expenses of €5.52 million and a loss before tax of €3.97 million are broadly in line with expectations and are a result of operating and expanding the business. Camco operates a project development business that requires an outlay of administrative costs and working capital in the initial years of a project's development, followed by revenues during the First Commitment Period of the Kyoto Protocol, between 2008 and 2012.

Proceeds from the IPO were €37.07 million, of which €3.07 million was capitalised as costs attributable to the IPO process. Carbon Development Contract assets of €12.25 million include €10.71 million due to assets capitalised on the acquisition of ClearWorld Energy's carbon projects, Camco GmbH and MCF Finance and Consulting Co Ltd. Camco maintains a conservative policy on cost capitalisation and only capitalises costs directly attributable to its projects.

Camco has cash reserves of €24.72 million at 31 December 2006. The Group is currently highly liquid, with significant cash resources available to develop the business. Treasury policy is to hold this reserve in low risk cash deposits. The Group is entirely funded by equity, which is considered appropriate given the status of the market and political risks faced by the business.

Client acquisition

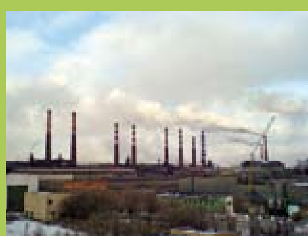
Camco has origination teams who seek out potential clients in the following markets and sectors: China and South East Asia, Russia and the former Soviet Union, Sub Saharan Africa and Eastern Europe. Its main sector focus is on energy efficiency from large industrial facilities, coal mine methane, and renewable energy. This strategy provides a balance between focus and diversification.

clean
technology transfer

Ural Steel
Joint Implementation
Resources saving project in Novotroitsk, Russia

Camco is working with one of the leading steel producers Novotroitsk, Russia. The modernisation of the electric-arc furnaces and the installation of continuous casting machines will result in a more energy efficient form of steel production and a reduction of carbon-intensive inputs.

The project will attract additional investment to develop its manufacturing facilities, increase the industrial potential of Orenburg Region, and result in a decrease of greenhouse gas emissions and other pollutants.



Ural Steel

3,164,729
carbon credits to 2012

largest

clean energy carbon transaction in the world

**Yangquan Coal Industry (Group) Company Ltd.
Clean Development Mechanism
Coal Mine Methane (CMM) Capture
and Utilisation Project in China**

Located in the coal mining area of Shanxi, China, the project will capture and utilise coal mine methane (CMM) that is currently drained from a number of operating coal mines and vented into the atmosphere.

The CMM will be used in gas engines to generate power and as the combustion fuel for the industrial furnace of a newly established alumina production plant. Camco assisted the client in lowering the project implementation risks and adding substantial value to their proposed investment by structuring and implementing the projects as CDM projects.

Yangquan Coal Industry (Group) Company Ltd.

18,004,773

carbon credits to 2012

Operational delivery

Camco operates on an "at risk" basis: Camco has the same incentives as both the project sponsor and the buyer in ensuring that the project delivers carbon credits at the right time and in the right quantity. Camco's operational excellence in project management skills, quality control and assurance, and internal systems are essential to ensure that the credits are delivered. This strategy makes use of both internal and external resources, whose aim is to strike the balance between cost control and growth due to increased numbers of projects.

Sale of carbon credits

Most of Camco's business is linked to the heavily regulated Kyoto Protocol market and the flexible mechanisms that operate under it. Increasing public awareness of the threat of global warming, caused by greenhouse gas emissions, has resulted in new market opportunities for Camco in the voluntary markets (VERs), including those in the USA and Australia.

During the second half of the year Camco saw a significant increase in the number of buyers seeking to purchase carbon credits from its projects. The most interesting new entrants were from Australia and the USA. Since neither have ratified the Kyoto Protocol nor have a compliance need to buy credits, their involvement is an important development.

Camco's portfolio consists of some of the largest projects in the industry and therefore benefits from industry-leading margins, particularly in the areas of technology in which Camco is strongest, such as energy efficiency, coal mine methane and renewables.

Forward looking information

With the current Kyoto Protocol running from 2008 until 2012 and no tangible progress towards establishing a global successor, the industry has started to experience a slowdown in the development of new greenhouse gas reducing projects. This is because projects that come on stream post 2008 have less time in which to generate sufficient revenues to payback the capital invested in the GHG reducing equipment. Thus, despite the strong growth in Camco's portfolio by 63 million tonnes in 2006, it is unlikely that this level of growth will be maintained in 2007. In the event that an effective post 2012 agreement is reached in 2007, this would have a positive and material impact on Camco's ability to develop new projects.

In contrast, the Voluntary Emission Reduction market may become one of the fastest growing carbon credit commodities traded in 2007, particularly in the USA. Camco is well-placed to capitalise on this, as underlined by achieving a large VERs commercialisation project in 2006.

Operations

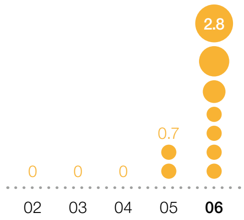
Operations work is likely to increase significantly during 2007, in order to process the projects developed in 2006 and 2007, and to ensure that they are capable of generating revenues from 2008.

Camco's portfolio consists of some of the largest projects in the industry and therefore benefits from industry-leading margins, particularly in the areas of technology that Camco is strongest in, such as energy efficiency, coal mine methane and renewables.

Risk review

Project development, price and regulatory risks are the key risks to the business.

Project management skills, quality control and assurance, and robust internal systems are essential to ensure that carbon credits are delivered to buyers on time and in the right quantity. There are multiple internal and external counterparties, ranging from the project sponsor to local government and the UN to international buyers. Camco continues to develop strong internal control systems to maximise its delivery of carbon credits.



2.8m

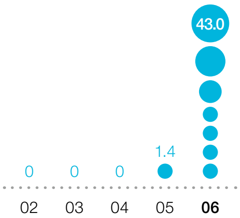
tonnes have been submitted for registration, up from 0.7 million tonnes at IPO

Camco develops large carbon credit projects and, as a result, the development cycle is longer than the industry average. The many advantages of developing larger industrial projects include:

- lower operating costs;
- enhanced ability to manage multiple project;
- execution risk and potentially higher returns.

Camco manages project development risk and conservatively announces volume adjustments to total tonnes under development.

To demonstrate our commitment, Camco has adopted a comprehensive environmental policy and we have integrated environmental awareness into the business development process.



43m

tonnes have received Host Country Letters of Approval, up from 1.4 million tonnes since IPO

Commodity price risk is significant. Although some contracts have fixed returns due to forward sales based on best efforts delivery at fixed prices, the majority of Camco's portfolio is subject to forward contracts linked to future or spot delivery of carbon credits. As Camco's portfolio of large industrial projects mature, so will certainty of delivery. The price of a carbon credit will typically also rise as a project moves through the project development cycle towards spot delivery.

Regulatory and market risks are outside of Camco's control. Camco manages this risk by continuing to adapt its business model to the regulatory environment. Camco's policy has been not to hedge its portfolio of carbon credits.

Contractual and other relationships essential to the business

Camco has framework agreements in place to provide additional engineering and technical support from ESD, ClearWorld Energy and KWI. In addition, it is developing long-term framework agreements with UN Designated Operational Entities and Accredited Independent Entities to ensure security of supply for validation and verification work for its carbon credits.

Employees

At the financial year end, the company employed 43 people from a diverse regional and ethnic background. The company has an open recruitment policy and encourages an open and communicative culture between the board, management and staff.

KPIs

The management's focus during 2007 will be to develop our carbon credit pipeline and lay the groundwork for the sales of carbon credits in 2008, which is the beginning of the Kyoto Protocol's First Commitment Period. At the same time, prudent cost control and operational management will remain key to performance.

Sustainability Report

Camco recognises that balancing non-financial factors such as environmental and social issues with financial priorities is an essential part of good corporate citizenship, in addition to being fundamental to risk management and the protection of investors.

Whilst our core business operations mitigate climate change through flexible mechanisms under the Kyoto Protocol, we still have a direct impact on the environment through our daily consumption of energy, the impact of global travel and the use of paper resources.

To demonstrate our commitment, Camco has adopted a comprehensive environmental policy and we have integrated environmental awareness into the business development process.

Carbon reporting

Camco will report the aggregate greenhouse gas emission reductions from our projects on an annual basis.

Renewable energy investment

Camco International has invested in renewable energy generation projects.

Internal greenhouse gas reductions

Camco will ensure that we reduce our carbon footprint by going carbon-neutral in 2007. We have conducted an audit of our activities and found that we can make significant reductions in air travel by better planning, combining multiple activities in a single trip or replacing travel with Internet-based communications. This saves time and money, and with part of the financial savings we will purchase carbon credits to offset remaining unavoidable emissions. We will enhance existing energy management programmes to reflect best practices across our offices globally.

Paper procurement

Camco uses environmentally friendly paper, such as post-consumer waste recycled content paper for all of our printing requirements. We procure our paper from suppliers who source their products from independent third-party certified, well managed sustainable forests.

maximising
the power of wind

Dating Jilin Wind Power Stockholding Company Ltd
Clean Development Mechanism
Wind Project in China

49.3 MW installed capacity Wind Project in North East China. The project replaces on-grid electricity generated mainly by fossil fuels, and achieves annual emission reductions of 95,000 tCO_2e. It was the first project from China to be accepted by the Austrian JI/CDM Programme.

In December 2006 Camco assisted the project developer in completing the monitoring activities necessary to achieve a successful verification of the credits prior to the issuance of 71,385 CERs.

Dating Jilin Wind Power Stockholding Company Ltd

647,555

carbon credits to 2012

Board of Directors

David Potter, Chairman and Non-executive Director

David Potter has been the Chairman and Non-executive Director of several listed companies including Solar Integrated Technologies.

He has worked in the finance sector for 35 years with Investec, Guinness Mahon, Midland Bank, CSFB and Samuel Montagu.

David has been the Chairman of our Board of Directors since February 2006 and is a member of the Audit, Nomination and Remuneration Committees.

David has an MA (Hons) in Politics, Philosophy and Economics from Oxford University.

Tristan Fischer, Chief Executive Officer

Tristan Fischer has a track record in the global renewable energy sector, having previously worked as a project developer for Shell WindEnergy. He also led the establishment of new businesses in the wave and solar sectors for Shell Renewables and Shell Technology Ventures. He has widespread geographical experience in regions including Eastern Europe, South America and Asia, and has led a number of of early-stage companies. He began his career with Citigroup project finance, developing power and infrastructure projects.

Tristan has been a member of our Board of Directors since March 2006.

Tristan has an MA (Hons) in Oriental Studies from Cambridge University.

Scott McGregor, Chief Financial Officer

Scott has strong experience in fund raising and strategic development within early-stage and high growth companies. He has been a commercial specialist at Rio Tinto, and an internal consultant in Merrill Lynch Global Debt Derivatives. Scott has advised leading corporations in North America and Europe on environmental initiatives and he has designed a patented environmental management system methodology.

Scott has been a member of our Board of Directors since March 2006.

Scott qualified as a Chartered Accountant through PricewaterhouseCoopers and has an MBA from the London Business School. He has a BE from Monash University.

Dr Alex Westlake, Chief Operating Officer

Alex Westlake has lived in China since 1998 and he developed two of the Approved Methodologies for the Clean Development Mechanism (CDM). He developed China's first CDM project and is internationally recognised as an expert in this field.

He was a project developer with PowerGen in Asia and has 10 years' experience in renewable energy and in the electricity utility sector.

Alex has been a member of our Board of Directors since March 2006.

Alex speaks Mandarin. He has a PhD in Wind Energy from Durham University.

Dr Jeff Kenna, Non-executive Director

Jeff Kenna has 30 years' experience managing small and medium sized enterprises in the sustainable energy sector, from incubation to full commercial development.

He has been an advisor to the European Commission, the World Bank, the UN and the UK government on energy policy and market growth.

Jeff has been a member of our Board of Directors since February 2006 and is a member of the Remuneration and Audit Committees, and also the Chairman of the Nomination Committee.

Jeff has a PhD in Solar Energy from the University of Wales and a BSc in Applied Physics from the University of Bath.

Michael Farrow, Non-executive Director

Michael Farrow is a principal and director of Consortia Partnership Limited, a Jersey licensed trust company. He currently sits on the boards of a number of listed companies. He has also been group company secretary of Cater Allen Jersey, a banking, trustee and investment management group.

Michael has been a member of our Board of Directors since March 2006 and is a member of the Audit and Nomination Committees, and also the Chairman of the Remuneration Committee.

Michael was formerly an Army Officer and holds an MSc in Corporate Governance and is a Fellow of the Chartered Institute of Secretaries & Administrators.

Dr Herta von Stiegel, Non-executive Director

Herta von Stiegel is chairman of Stargate Capital Investment Group. She previously held senior positions at Citibank, JP Morgan and AIG Financial Products. She serves on several boards in the corporate and not-for-profit sectors.

Herta has been a member of our Board of Directors since March 2006 and is a member of the Remuneration and Nomination Committees, and also the Chairman of the Audit Committee.

Herta is a Member of the State Bar of Michigan and New York and holds a Juris Doctor degree from Thomas M Cooley Law School, a Masters of Law degree in Taxation from New York University School of Law and a BA from Andrews University, Michigan.

Directors' report

The Directors submit their report and financial statements for the period from the date of incorporation on 8 February 2006 to 31 December 2006 (the "period").

Tax and company status

Camco International Limited (the "Company") is a public company, having been admitted to the London Stock Exchange's Alternative Investment Market ("AIM") on 25 April 2006, incorporated in Jersey under Companies (Jersey) Law 1991 and regulated by the Jersey Financial Services Commission ("JFSC"). It has applied for and been granted tax exempt status by the Jersey Comptroller of Income Tax for the period.

Principal Activity

The principal activity of the Company and its subsidiaries (together the "Group") is to originate, co-develop and place carbon credits in line with the flexible mechanisms of the Kyoto Protocol and into voluntary markets. The Group partners with industrial companies and utilities to identify and develop greenhouse gas emission reduction projects, managing the entire process from project initiation to carbon credit delivery. Its current objective is to maximise shareholder value through growth in the size and security of its carbon credit portfolio.

Performance during the period

The financial statements of the Group and Company for the period appear on pages 28 to 49.

The loss after tax attributable to equity holders for the period is €3,975,000. The Directors do not recommend the payment of a dividend for the period.

During the period, the Group completed an initial business expansion programme through organic growth and acquisition. The organic growth was achieved through the implementation of a suitable corporate structure, opening a network of offices and hiring the necessary staff to develop the business. The Group acquired two businesses during the period, MCF Finance and Consulting Co. Ltd. (a company incorporated in the Russian Federation) and Carbon Asset Management International GmbH (a company incorporated in Austria).

In addition, the Company continued its core business of entering into Carbon Development Contracts ("CDCs"). The majority of revenue on these contracts is expected to be recognised during the 2008-2012 phase of the Kyoto Protocol. Some revenue has been recognised where CDCs have delivered carbon credits ahead of the 2008-2012 phase and the Group has successfully commercialised these in the period.

The loss in the period is in line with the Directors' expectations given the business expansion costs and the small number of revenue items.

Financial position at the end of the period

Total equity is €34,607,000 and is based on significant cash resources of €24,719,000 remaining following admission to AIM and issuance of
new share capital in the period.

The total value of CDCs held is €12,249,000 and includes the cost of CDCs acquired and directly attributable costs capitalised in the period. The acquisition of Russian operations gave rise to goodwill on acquisition of €1,156,000 and deferred consideration of €3,312,000.

At the period end and as a result of the business expansion outlined above the Company had 7 direct or indirect subsidiaries and the Group had 43 employees.

The Company had no interest bearing debt in the period and the Directors considered that financial gearing was not suitable for the Group during this investment and business expansion period. Accordingly, the Directors consider the Group to be in a strong financial position from which to continue its growth and market development strategy.

Operations

The Group operates through a network of offices in Europe, Asia and Africa. In general, these offices do not enter into CDCs but provide marketing, origination and advisory services to the Company to enable it to do so. Once the Company has entered into CDCs the offices may also provide management services in respect of these contracts.

Admission to AIM

On 25 April 2006 the Company was admitted to AIM. The Company issued 38,969,620 new ordinary shares and raised gross proceeds of £24,900,000 (€37,074,000).

Directors' interests
Details of Directors' interests in the Company's shares are shown in note 24. Save as shown in note 24, no Director had any disclosable interest in the shares of the Company or its subsidiaries during the period.

Corporate governance
The Directors are committed to a high standard of corporate governance for which they are accountable to stakeholders and particularly shareholders. The Group and Company applies, having regard to its size and nature, and so far as it considers practical and appropriate, the principles contained in Part 1 of the Combined Code appended to the Listing Rules published by the UK Listing Authority. The Company continues to monitor developments in the area of corporate governance.

The Board
The Board is ultimately responsible for the effectiveness of the Group's system of internal control. The roles and responsibilities of the Board and senior management are clearly defined and regularly reviewed. The Board includes an appropriate balance of executive and non-executive Directors and meets formally six times a year and on such other occasions as required by the demands of the business. It is supplied with information by senior management in a timely and accurate manner, appropriate to enable it to discharge its duties of reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions.

The roles of the Chairman and the Chief Executive Officer
The division of responsibilities between Chairman of the Board and the Chief Executive Officer is clearly defined. Their responsibilities are outlined below.

The Chairman
The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of non-executive Directors and manages constructive relations between non-executive and executive Directors. The Chairman ensures that regular reports from the Company's brokers are circulated to the non-executive Directors to enable non-executive Directors to remain aware of shareholders' views. The Chairman ensures effective communication with the Company's shareholders.

The Chief Executive Officer
The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive Officer has formed a Management Committee to enable him to carry out the responsibilities delegated to him by the Board. The Management Committee comprises all executive Directors and senior managers from each business region. The Management Committee meets on a regular basis to consider operational matters and implement the Group's strategy.

Directors

David Potter	Chairman	Appointed 21 February 2006
Tristan Fischer	Chief Executive Officer	Appointed 16 March 2006
Scott McGregor	Chief Financial Officer	Appointed 16 March 2006
Alexander Westlake	Chief Operations Officer	Appointed 16 March 2006
Jeff Kenna	Non-executive	Appointed 8 February 2006
Michael Farrow	Non-executive	Appointed 16 March 2006
Herta von Stiegel	Non-executive	Appointed 16 March 2006
Michael Ashburn	Executive	Appointed 8 February 2006 resigned 16 March 2006

The Board's Committees
The Board has formally established three committees in accordance with the Combined Code to provide oversight to support the proper governance of the Company, these are outlined over the page.

The Audit Committee

The Audit Committee comprises Herta von Stiegel (Chairman), Jeff Kenna, Michael Farrow and David Potter who are all non-executive Directors.

The Committee is responsible for the following functions recommended by the Combined Code including:

- reviewing of the annual financial statements and interim reports prior to approval, focusing on changes in accounting policies and practices, major judgemental areas, significant audit adjustments, going concern and compliance with accounting standards, Stock Exchange and legal requirements;
- receiving and considering reports on internal financial controls, including reports from the auditors and report their findings to the Board;
- considering the appointment of the auditors and their remuneration including reviewing and monitoring of independence and objectivity;
- meeting with the auditors to discuss the scope of the audit, issues arising from their work and any matters the auditors wish to raise;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services;
- reviewing the Group's corporate review procedures and any statement on internal control prior to endorsement by the Board;
- responsibility for a study and review of risk management process and making recommendations to the Board; and
- reviewing the requirement for an internal audit function.

The Remuneration Committee

The Remuneration Committee comprises Michael Farrow (Chairman), Jeff Kenna, Herta von Stiegel and David Potter who are all non-executive Directors.

The Committee has the following key duties:

- reviewing and recommending the emoluments, pension entitlements and other benefits of the executive Directors and as appropriate other senior executives; and
- reviewing the operation of share option schemes and Long Term Incentive Plans and the granting of such options.

The Nomination Committee

The Nomination Committee comprises Jeff Kenna (Chairman), Michael Farrow, Herta von Stiegel and David Potter who are all non-executive Directors.

The Committee is responsible for considering all potential appointments to the Board and making suitable proposals to the Board in relation to potential appointments.

The Company Secretary

The Company secretary is Consortia Partnership Limited a Jersey-based limited liability company regulated by the JFSC. Michael Farrow is a Director of this company.

Relations with shareholders

The Company provides shareholders and stakeholders with relevant information in a timely and balanced manner. We understand and respect the rights of shareholders, will convene Annual General Meetings in full consideration of these rights, and encourage full participation of both institutional and private investors.

Internal control

The Audit Committee is responsible on behalf of the Board for the Group's system of internal control and has taken into account the relevant provisions of the Combined Code in formulating the systems and procedures in operation by the Group. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and provide only reasonable and not absolute assurance against material misstatement or loss. The Board is aware of the need to conduct regular risk assessments to identify any deficiencies in the controls currently operating over all aspects of the Group. The Board will conduct a formal risk assessment on an annual basis but will also report by exception on any material changes during the year.

In determining what constitutes a sound system of internal control the Board considers:

- the nature and extent of the risks regarded as acceptable for the Company to bear within its particular business;
- the threat of such risks becoming reality;
- the Company's ability to reduce the incidence and impact on business if the risk crystallises;
- the costs and benefits resulting from operating relevant controls; and
- recommendations from the Audit Committee as part of its overall responsibility for risk.

Through the regular meetings of the Board and the schedule of matters reserved for the Board's committees, the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. For each financial period, the Board considers and approves a strategic plan and financial budget. In addition, there are established procedures and processes for planning and controlling expenditure and making investments. These processes include the following:

- review of monthly management accounts with comparison of actual performance against budget; and consideration of the outturn for the year;
- monthly reconciliation of all control accounts;
- approval by the Board for major investments outside the budget;
- segregation of duties between relevant functions and departments; and
- approval by the Board of all financial commitments entered into for which there is a commitment which extends beyond a single calendar year.

Going concern
The Directors are satisfied that the Group and the Company have adequate resources to continue to operate for the foreseeable future. For this reason, they consider it appropriate for the financial statements to be prepared on a going concern basis.

Political donations
In line with Group policy no donations were made to political parties during the period.

Audit information
Pursuant to article 112 of Companies (Jersey) Law 1991, each of the Directors confirms that: (a) so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware; and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of such information.

Auditors
On 22 August 2006 the Company resolved to appoint KPMG Audit Plc as the Group's auditors for the period from date of incorporation on 8 February to 31 December 2006.

In accordance with article 109 of Companies (Jersey) Law 1991, a resolution to reappoint KPMG Audit Plc as the Group's auditors will be put to the forthcoming Annual General Meeting.

By Order of the Board

Christopher McFadyen
Director
Consortia Partnership Limited
Company Secretary

Registered Office:
Channel House
Green Street
St Helier JE2 4UH

6 March 2007

Report of the Remuneration Committee

Composition and terms of reference

The Remuneration Committee was established on admission to AIM on 25 April 2006 and comprises only independent non-executive Directors. Its members during the period were Michael Farrow (Chairman), Jeff Kenna, Herta von Stiegel and David Potter. The Committee's terms of reference take into account the provisions of the Combined Code on corporate governance for smaller companies and ensure that processes designed to retain and remunerate the executive Directors and management are consistent with current best practice.

Directors' remuneration policy

Non-executive Directors

The Company's policy for non-executive Directors (including the Chairman) is to pay fees which are competitive with fees paid by other similar AIM listed companies of commensurate size and growth prospects. Non-executives are not currently eligible for bonuses, share options, long-term incentives, pensions or performance related remuneration.

Executive Directors

The Company's policy for executive Directors is to provide remuneration and other benefits sufficient to attract, retain and motivate executives of the calibre required. Total remuneration includes salary, performance related bonuses, share options and long-term incentives. Bonuses are provided at the discretion of the Remuneration Committee and are performance related. Share options and long-term incentives are provided to motivate and retain executive Directors' services.

Directors' remuneration during the period

	2006 Salaries and fees €'000	2006 Sign on bonus €'000	2006 Performance bonus €'000	2006 Pension contribution €'000	2006 Total €'000
Executive Directors					
Tristan Fischer	147	73	22	7	**249**
Scott McGregor	122	–	19	4	**145**
Alexander Westlake	129	–	19	–	**148**
Non-executive Directors					
David Potter	65	–	–	–	**65**
Michael Farrow	29	–	–	–	**29**
Herta von Stiegel	29	–	–	–	**29**
Jeffrey Kenna	33	–	–	–	**33**
Total	**554**	**73**	**60**	**11**	**698**

The Group operates a defined contribution retirement benefit plan for qualifying Directors and employees. The assets of this plan are held separately from those of the Group. The only obligation of the Group is to make the contributions.

Camco International Limited 2006 Executive Share Plan (the "Plan")

Under the Plan the Group, or the trustee of the Employee Benefit Trust ("EBT"), can make awards of share options or conditional rights to receive shares to selected Directors and managers.

The purpose of the Plan is to reward Directors for services provided pre-admission to AIM and to retain their services over the vesting period. The past services resulted in the successful flotation of the Company on the AIM market.

The service condition stipulates that the director or employee must provide continuous service over the vesting period.

The number of awards made to Directors of the Company and amounts payable per share are set out below.

	Share awards outstanding Number	Vesting after 12 months Number	Vesting after 24 months Number	Price payable (per share) €
Tristan Fischer	321,429	128,572	192,857	0.05
Scott McGregor	321,429	128,572	192,857	0.05
	642,858	257,144	385,714	

Long-Term Incentive Plan (the "LTIP")

The Board has approved the LTIP under which Directors and employees are entitled to equity-settled payment following a vesting period after 31 December 2008 and upon certain market and non-market performance conditions being met for the reporting period ending 31 December 2008.

The purpose of the LTIP is to incentivise Directors and employees to ensure profit and share price performance targets are met over the vesting period. The LTIP will help to align Directors' objectives with those of the shareholders.

The LTIP will vest at different levels depending on the Company's share price performance as compared with comparator groups over the vesting period. The comparator groups consist of a basket of SmallCap companies at the grant date (adjusted for mergers, demergers and delistings during the performance period). The Company's percentage rank is its rank in a comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. If the Company's percentage rank is less than 50% none of the shares vest. At a percentage rank of 50-70% half of the shares will vest, at 70-85% three quarters of the shares will vest and at 85-100% all the shares will vest.

The LTIP will vest at differing levels depending on the achievement of profit targets over the vesting period.

	Outstanding at the start of the period Number	Granted Number	Forfeited Number	Outstanding at the end of the period Number	Price payable (per share) €
Tristan Fischer	–	2,597,975	–	2,597,975	0.01
Scott McGregor	–	1,558,785	–	1,558,785	0.01
	–	4,156,760	–	4,156,760	

Directors' service contracts

Non-executive Directors, including the Chairman, hold office under the Company's Articles of Association and do not have service contracts. The Chairman is entitled to 6 months' notice prior to termination of his appointment. The other non-executive Directors are entitled to 3 months' notice prior to termination of their appointment. Following these notice periods there is no further entitlement to compensation or other benefits.

The Group's policy is that executive Directors' notice periods should not exceed one year. Tristan Fischer, Scott McGregor and Alex Westlake have employment contracts with the Group dated 16 March 2006 and are terminable with 6, 3 and 3 months' notice respectively given by the Group or employee. There are no provisions for compensation for early termination of these contracts, with the exception of change of role in the event of a merger or acquisition.

Audit

The tables in this report have been audited by KPMG Audit Plc.

By Order of the Board

Michael Farrow
Chairman, The Remuneration Committee
6 March 2007

Statement of Directors' responsibilities

in respect of the annual report and the financial statements

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 group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRS as adopted by the EU and applicable laws.

The group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period; the Companies (Jersey) Law 1991 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position of the parent company at any time and enable them to ensure that its financial statements comply with Companies (Jersey) Law 1991. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of Camco International Limited

We have audited the Group and parent Company financial statements (the ''financial statements'') of Camco International Limited for the period from 8 February 2006 (the date of incorporation) to 31 December 2006, which comprise the Consolidated Income Statement, the Consolidated and parent Company Balance Sheets, the Consolidated and parent Company Cash Flow Statements, the Consolidated and parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the Report of the Remuneration Committee that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements of Schedule 7A to the Companies Act 1985.

This report is made solely to the Company's members, as a body, in accordance with article 110 of the Companies (Jersey) Law 1991. 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 International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 26.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and, under the terms of our engagement letter, to audit the part of the Report of the Remuneration Committee that is described as having been audited.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991 and whether the part of the Report of the Remuneration Committee to be audited has been properly prepared as if the Company were required to comply with the requirements of Schedule 7A of 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.

In addition we report to you if, in our opinion, the Group 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 the other information contained in the annual report and consider whether it is consistent with the audited financial statements. 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 and the part of the Report of the Remuneration Committee to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report of the Remuneration Committee to be audited 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 and the part of the Report of the Remuneration Committee to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its loss for the period from 8 February to 31 December 2006;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of Companies (Jersey) Law 1991, of the state of the parent Company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with Companies (Jersey) Law 1991;
- the information given in the Directors' Report is consistent with the financial statements; and
- the part of the Report of the Remuneration Committee that we were engaged to audit has been properly prepared having regard to Schedule 7A to the United Kingdom Companies Act 1985, as if those requirements were to apply to the Company.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

6 March 2007

Consolidated income statement

for the period from the date of incorporation on 8 February 2006 to 31 December 2006

	Notes	€'000	Continuing operations 2006 €'000
Revenue	2		830
Cost of sales			(673)
Gross profit			157
Administration expenses		(4,945)	
Share-based payments	5	(577)	
Total administration expenses	3		(5,522)
Loss from operations			(5,365)
Finance income	7		1,450
Finance expense	7		(58)
Loss before tax			(3,973)
Taxation	8		(2)
Loss after tax attributable to equity holders			**(3,975)**
Basic and diluted loss per share in € cents	9		(3.42)

Statement of recognised income and expense

for the period from the date of incorporation on 8 February 2006 to 31 December 2006

	Notes	Group 2006 €'000	Company 2006 €'000
Loss for the period		(3,975)	(2,536)
Exchange differences on translation of foreign operations		(22)	–
Total recognised income and expense for the period attributable to equity holders		**(3,997)**	**(2,536)**
Analysed in reserves as:			
Retained earnings	20	(3,975)	(2,536)
Net expense recognised directly in equity – translation reserve	20	(22)	–
		(3,997)	**(2,536)**

Balance sheets
as at 31 December 2006

	Notes	Group 2006 €'000	Company 2006 €'000
Assets			
Non-current assets			
Property, plant and equipment	10	304	134
Goodwill on acquisition	11	1,156	–
Carbon development contracts	12	12,249	6,123
Investments in subsidiaries	13	–	4,997
Total non-current assets		**13,709**	**11,254**
Current assets			
Trade and other receivables	15	1,608	2,489
Cash and cash equivalents		24,719	24,063
Total current assets		**26,327**	**26,552**
Total assets		**40,036**	**37,806**
Liabilities			
Current liabilities			
Trade and other payables	17	(2,117)	(1,738)
Total current liabilities		**(2,117)**	**(1,738)**
Non-current liabilities			
Deferred consideration	18	(3,312)	–
Total non-current liabilities		**(3,312)**	**–**
Total liabilities		**(5,429)**	**(1,738)**
Net assets		**34,607**	**36,068**
Equity			
Share capital	19	1,299	1,299
Share premium	20	36,909	36,909
Share-based payment reserve	20	577	577
Retained earnings	20	(3,975)	(2,536)
Translation reserve	20	(22)	–
Own shares	20	(181)	(181)
Total equity		**34,607**	**36,068**

These financial statements were approved by the Board of directors on 6 March 2007 and were signed on its behalf by:

Scott McGregor

Scott McGregor
Chief Financial Officer
Director

Cash flow statements

for the period from the date of incorporation on 8 February 2006 to 31 December 2006

	Notes	Group 2006 €'000	Company 2006 €'000
Cash flow from operating activities			
Cash receipts under carbon development contracts	2	313	–
Cash paid to suppliers and employees		(6,231)	(4,682)
Interest received		565	551
Income tax paid		(1)	–
Net cash flow from operating activities		**(5,354)**	**(4,131)**
Cash flow from investing activities			
Payment for acquisition of subsidiaries	14	(366)	–
Repayment of loan notes issued for acquisition of subsidiary	14	(3,150)	(3,150)
Cash acquired with subsidiaries	14	248	–
Payment for purchase of carbon development contracts		(896)	(2,116)
Payment for purchase of property, plant and equipment	10	(330)	(149)
Net cash flow from investing activities		**(4,494)**	**(5,415)**
Cash flow from financing activities			
Proceeds from the issue of loan notes		5,000	5,000
Repayment of loan notes		(5,000)	(5,000)
Loans made to subsidiaries		–	(1,384)
Proceeds from issuance of shares	20	37,074	37,074
Costs of raising capital	20	(3,069)	(2,643)
Net cash flow from financing activities		**34,005**	**33,047**
Change in cash and cash equivalents		**24,157**	**23,501**
Cash and cash equivalents at date of incorporation		–	–
Effect of exchange rate fluctuations		562	562
Cash and cash equivalents at the end of the period		**24,719**	**24,063**

1 Significant accounting policies

Camco International Limited (the "Company") is a public company incorporated in Jersey under Companies (Jersey) Law 1991. The address of its registered office is Channel House, Green Street, St Helier, Jersey JE2 4UH. The consolidated financial statements of the Company for the period from date of incorporation on 8 February to 31 December 2006 comprise the Company and its subsidiaries (together the "Group"). Separate financial statements of the Company are also presented. The accounting policies of the Company are the same as for the Group except where separately disclosed.

The Company was admitted to the Alternative Investment Market ('AIM') of the London Stock Exchange on 25 April 2006.

A Statement of compliance

These consolidated and separate company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRS").

These consolidated and separate company financial statements have been prepared in accordance with and in compliance with Companies (Jersey) Law 1991.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006 and have not been applied in preparing these consolidated financial statements:

- IFRS 7 "Financial instruments: Disclosure" applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in the current year would not have affected the balance sheets or income statement as the standard is concerned only with disclosure. The Group plans to adopt it in 2007.
- Amendments to IAS 1 "Presentation of Financial Statements: Capital Disclosures" applicable for years commencing on or after 1 January 2007. The application of IAS 1 in the current year would not have affected the balance sheets or income statement as the standard is concerned only with disclosure. The Group plans to adopt it in 2007.
- IFRS 8 "Operating Segments" applicable for years commencing on or after 1 January 2009. The application of IFRS 8 in the current year would not have affected the balance sheets or income statement as the standard is concerned only with disclosure. The Group plans to adopt it in 2009.

B Basis of preparation

The financial statements are presented in Euros, the functional currency of the Company, rounded to the nearest thousand Euros.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The most significant techniques for estimation are described in the accounting policies below and note 25.

The accounting policies set out below have been applied consistently to the period presented in these consolidated financial statements. The accounting policies have been consistently applied across all Group entities for the purposes of producing these consolidated financial statements.

The financial statements have been prepared on the historical cost basis.

C Accounting for Carbon Development Contracts ("CDCs")

The Group enters into CDCs with clients from which carbon credits are produced. Carbon credits, also known as Certified Emission Reductions ("CERs") or Emission Reduction Units ("ERUs") are generated through the highly regulated Clean Development Mechanism ("CDM") and Joint Implementation ("JI") processes. These follow a number of steps including the approval of the project methodology and monitoring procedures, project design, project approval by the Designated National Authority ("DNA"), project validation by a Designated Operational Entity or equivalent ("DOE"), project acceptance by the host country, registration, verification and certification by a DOE. Verification of carbon credit production will take place at least once a year during the production period. The Group works with the client at all stages of the process using proprietary knowledge and experience to negotiate this complex process.

Revenue recognition

Revenue from CDCs is recognised at the point that the carbon credit has been verified by a DOE and the risk of delivery into the final CDM registry or equivalent (the "registry") is minimal. The Company expects that the verification and delivery into the registry would take place within six months following the carbon credit production taking place. Where the Company takes ownership rights in carbon credits from CDCs, revenue will be recognised when verification, delivery and sales contracts for delivery are complete.

1 Significant accounting policies (continued)

C Accounting for Carbon Development Contracts ("CDCs") (continued)-

Voluntary Emission Reductions ("VERs") and other carbon credit revenue may be generated from carbon credit projects not operating under CDM or JI processes. The regulation criteria are agreed between all parties and generally revenue is recognised from VERs when all acceptance and confirmation notices have been issued by the relevant parties and the significant risks and rewards of ownership have been transferred.

The CDCs are scheduled to deliver the majority of carbon credits over the 2008-2012 phase of the Kyoto Protocol.

Treatment of CDC costs
CDCs acquired by the Group are recorded initially at cost (or fair value if through business combination).

Subsequently, the directly attributable costs are added to the carrying amount of CDCs. These costs are only carried forward to the extent that they are expected to be recouped through the successful completion of the contracts. The costs comprise consultancy fees, license costs, technical work and directly attributable administrative costs. All other costs are expensed as incurred.

Most of the Group's CDCs have not yet reached the stage at which income can be recognised. Once the income recognition criteria on these contracts are met (as described above), the CDC costs will be expensed on the basis of carbon credits delivered as a proportion of total expected carbon credit production over the contract period.

D Goodwill on acquisition

Goodwill on acquisition represents the excess of the costs of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

E Property, plant and equipment

Computer and office equipment
Computer and office equipment is held at historical cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight line basis over the estimated useful life of three years.

F Investments in subsidiaries in the parent company accounts

Investments in subsidiaries are carried at cost less provision for impairment.

G Impairment

The carrying amounts of the Group's property, plant and equipment and goodwill on acquisition are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount is the greater of the net selling price and the value in use. Value in use is calculated as the present value of estimated future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. An impairment loss in respect of goodwill on acquisition is not reversed.

H Foreign exchange

Foreign currency transactions
Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Financial statements of non-Euro operations
The assets and liabilities of operations whose functional currency is not the Euro, including goodwill and fair value adjustments arising on consolidation, are translated at exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation of foreign operations are recognised directly in a separate component of equity, the translation reserve, and are released upon disposal of the non-Euro operation.

I Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to insignificant risk of changes in value, net of bank overdrafts.

J Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Company has applied for and been granted “exempt” company status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, for the calendar year ended 31 December 2006 and intends to apply at the appropriate time for such status for subsequent calendar years.

K Employee benefits

Camco International Limited 2006 Executive Share Plan
The Group has applied the requirements of IFRS 2 to share option schemes allowing certain employees within the Group to acquire shares in the Company. For all grants of share options, the fair value as at the date of the grant is calculated using an appropriate option valuation model (Black-Scholes) taking into account the terms and conditions upon which the options were granted and the corresponding expense is recognised as an employee expense with a corresponding increase in equity over the period during which the employees become unconditionally entitled to the options.

Long-Term Incentive Plan
The Group enters into arrangements that are equity-settled share-based payments with certain employees (including Directors) under a Long-Term Incentive Plan. These are measured at fair value at the date of grant, which is then recognised in the income statement on a straight-line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model (Black-Scholes). In valuing equity-settled transactions, no account is taken of any vesting conditions, other than market conditions linked to the price of the shares of Camco International Limited. The charge is adjusted at each balance sheet date to reflect the actual number of shares expected to vest based on non-market performance conditions such as Group profit targets and employment service conditions. The movement in cumulative changes since the previous balance sheet is recognised in the income statement with a corresponding entry in equity.

L Own shares held by the Employee Benefit Trust (“EBT”)

Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the parent company and Group financial statements. In particular, the trust’s purchases of shares in the Company are debited directly to equity.

M Earnings per share

Basic earnings per share is determined by dividing the result attributable to equity holders by the weighted average number of shares in issue during the period.

2 Segmental reporting

Geographic	2006 EMEA €'000	2006 Asia €'000	2006 Total €'000
Consolidated income statement			
Revenue	10	820	830
(Loss)/profit from operations	(5,372)	7	(5,365)
Net finance income	1,392	–	1,392
(Loss)/profit before tax	(3,980)	7	(3,973)
Taxation	(2)	–	(2)
(Loss)/profit after tax attributable to equity holders	**(3,982)**	**7**	**(3,975)**
Consolidated balance sheet			
Property, plant and equipment	240	64	304
Goodwill on acquisition	1,156	–	1,156
Carbon development contracts	2,878	9,371	12,249
Other assets	25,290	1,037	26,327
Total assets	29,564	10,472	40,036
Total liabilities	(4,775)	(654)	(5,429)
Net assets	**24,789**	**9,818**	**34,607**
Consolidated cash flow statement			
Cash receipts under carbon development contracts	10	303	313
Capital expenditure	(266)	(960)	(1,226)

Segment information is presented in respect of the Group's business and geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segmental capital expenditure is the total incurred during the period to acquire CDCs and property, plant and equipment.

Geographical segments
The CDC business is managed on a world-wide basis but operates in two principal geographic areas, EMEA (comprising Europe, Russia, Middle East and Africa) and Asia. In EMEA the Group operates primarily in Russia, Eastern Europe and Africa. In Asia the Group operates primarily in the People's Republic of China. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the projects generating carbon credits and not the location of the Group entity recording the revenue. Segment assets are based on the location of the project for CDCs and the physical location of the asset for all other assets.

Business segments
The Group currently operates in one business segment being that of CDCs.

3 Administration expenses

Administration expenses are analysed below:

	2006 €'000
Depreciation of property, plant and equipment – owned assets	27
Share-based payments	577
Exceptional item – discretionary M&A expense	439
Other administration expenses	4,479
Administration expenses	**5,522**

Services provided by the Group's auditor

During the period the Group obtained the following services from the Company's auditors, KPMG Audit Plc and its associates:

	2006 €'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	111
Fees payable to the Company's auditor and its associates for other services:	
Audit of the Company's subsidiaries	34
IPO advice to the Company	203
Tax advice to the Company	168
Total services	**516**

Non-audit services

These services are those that could be provided by a number of firms. Work is allocated to the auditors only if it does not impact on the independence of the audit team. Tax advice provided by the auditors is carried out by teams which are independent of the audit process.

4 Staff costs

	2006 €'000
Wages and salaries	2,429
Payroll taxes	69
Share-based payments (note 5)	577
Pension costs	19
Staff costs	**3,094**

The average number of employees during the period was 25.

Wages and salaries shown above include salaries paid in the period and bonuses relating to the period. These costs are charged within administration expenses.

5 Share-based payments

The Group operates two share-based incentive plans for its employees, the Camco International Limited 2006 Executive Share Plan (the "Plan") and the Long-Term Incentive Plan (the "LTIP"). The charge for each scheme for the period is as follows:

	2006 €'000
Camco International Limited 2006 Executive Share Plan	552
Long-Term Incentive Plan	25
	577

Camco International Limited 2006 Executive Share Plan

Under the Plan the Company, or the trustee of the Employee Benefit Trust ("EBT"), can make awards of share options or conditional rights to receive shares to selected Directors or key employees of the Company or its subsidiaries.

Purpose

The purpose of the Plan is to reward Directors and key employees for services provided pre-admission to AIM and to retain their services over the vesting period. The past services resulted in the successful flotation of the Company on the AIM market.

Service condition

The service condition stipulates that the Director or key employee must provide continuous service over the vesting period.

The number of awards made to Directors and key employees and amounts payable per share are set out below.

	Share awards outstanding Number	Vesting after 12 months Number	Vesting after 24 months Number	Price payable (per share) €
Directors	642,858	257,144	385,714	0.05
Key employees	3,015,000	955,000	2,060,000	0.01
	3,657,858	**1,212,144**	**2,445,714**	

Options were granted to individual Directors and key employees at various dates between 10 February and 14 March 2006. No options were exercised or exercisable during the period and no options lapsed in the period. The options have an expiry date 10 years following date of grant.

The fair value of each share option at grant is determined based on the Black-Scholes formula. The inputs to this model were as follows:

	2006
Share price at grant (€ cents)	34.7
Weighted average fair value of option (€ cents)	33.2
Weighted average exercise price (€ cents)	1.7
Average expected volatility (%)	40.2
Expected life (years)	2.0
Average risk free rate (%)	4.54
Average expected dividend yield (%)	–

The expected volatility was determined using the historical volatility of Camco International Limited's share price over the period since listing on AIM.

Long-Term Incentive Plan

The Board has approved the LTIP under which Directors and employees are entitled to equity-settled payment following a vesting period after 31 December 2008 and upon certain market and non-market performance conditions being met for the reporting period ending 31 December 2008.

Purpose

The purpose of the LTIP is to incentivise Directors and employees to ensure profit and share price performance targets are met over the vesting periods, the first of which ends on 31 December 2008. The LTIP will align management's objectives with those of the shareholders.

Market-based performance condition

The LTIP will vest at different levels depending on the Company's share price performance as compared with comparator groups over the vesting period. The comparator groups consist of a basket of SmallCap companies at the grant date (adjusted for mergers, demergers and delistings during the performance period). The Company's percentage rank is its rank in a comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. If the Company's percentage rank is less than 50% none of the shares vest. At a percentage rank of 50-70% half of the shares will vest, at 70-85% three quarters of the shares will vest and at 85-100% all the shares will vest.

Non-market performance conditions

The LTIP will vest at differing levels depending on the achievement of profit targets over the vesting period.

	2006 Number of shares
Outstanding at start of the period	–
Granted	6,506,759
Forfeited	–
Outstanding at end of the period	**6,506,759**

	2006
Weighted average share price at grant (€ cents)	77.0
Weighted average fair value of option (€ cents)	14.4
Exercise price (€ cents)	1.0
Weighted average life at grant (years)	2.2

The shares outstanding at the end of the period have a remaining contractual life of 2.0 years.

6 Retirement benefit obligation

In the UK, the Group operates a defined contribution retirement benefit plan for qualifying employees. The assets of this plan are held separately from those of the Group. The only obligation of the Group is to make the contributions.

The total expense recognised in the income statement is €19,000, which represents the contributions paid to the plan. There were no outstanding payments due to the plan at the balance sheet date.

7 Net finance income

	2006 €'000
Finance income	
Interest on bank deposits	860
Exchange movements	590
	1,450
Finance expense	
Unwinding of discount	(58)
	(58)
Net finance income	**1,392**

8 Taxation

	2006 €'000
Current tax	
Jersey corporation tax	–
Foreign tax	(2)
	(2)
Deferred tax	
Deferred income tax	–
Total income taxes in the income statement	**(2)**

Reconciliation of income taxes in the income statement

The tax charge for the period is different to the exempt rate (0%) of corporation tax in Jersey and the differences are explained below:

	2006 €'000
Loss before tax	**(3,973)**
Loss before tax multiplied by the exempt rate of corporation tax in Jersey (0%)	–
Effects of:	
Foreign tax	(2)
Total income taxes in the income statement	**(2)**

The Company has applied for and been granted tax exempt status by the Jersey Comptroller of Income Tax for the period. The Company will apply for and expects to be granted similar tax exempt status for future periods.

The Company's subsidiaries carry on business in other tax regimes where the corporation tax rate is not zero. At 31 December 2006, tax losses carried forward for utilisation in future periods amounted to €1,255,000. The tax charge for the period represents the minimum amount payable under Austrian tax law. Due to the uncertainty as to the timing and extent of future profits no deferred tax assets have been recognised in respect of these tax losses carried forward.

9 Loss per share

Loss per share attributable to equity holders of the Company is calculated as follows.

	2006 € cents per share
Basic and diluted loss per share	(3.42)

	€'000
Loss used in calculation of basic and diluted loss per share	(3,975)
Weighted average number of shares used in calculation	116,307,918

10 Property, plant and equipment

Computer and office equipment	Group 2006 €'000	Company 2006 €'000
Cost at 8 February 2006	–	–
Additions	330	149
Acquired through business combinations	1	–
Cost at 31 December 2006	331	149
Accumulated depreciation at 8 February 2006	–	–
Charge for the period	(27)	(15)
Accumulated depreciation at 31 December 2006	(27)	(15)
Net book amount at 8 February 2006	–	–
Net book amount at 31 December 2006	**304**	**134**

There are no assets held under finance leases.

11 Goodwill on acquisition

	Group 2006 €'000
Cost at 8 February 2006	–
Acquisitions	1,156
Cost at 31 December 2006	1,156
Impairment at 8 February 2006	–
Impairment charge	–
Impairment at 31 December 2006	–
Net book value at 8 February 2006	–
Net book value at 31 December 2006	**1,156**

The goodwill arose on acquisition of MCF Finance and Consulting Co. Ltd. (note 14).

12 Carbon development contracts

	Group 2006 €'000	Company 2006 €'000
Cost at 8 February 2006	–	–
Acquisitions	10,708	4,716
Carbon development contract costs capitalised	1,681	1,407
Cost at 31 December 2006	12,389	6,123
Utilisation and write-down at 8 February 2006	–	–
Amount charged to cost of sales in the period	(68)	–
Write-down of CDC costs previously capitalised	(72)	–
Utilisation and write-down at 31 December 2006	(140)	–
Net book value at 8 February 2006	–	–
Net book value at 31 December 2006	**12,249**	**6,123**

The write-down was recognised following a review of the carrying amounts of CDCs. Where the discounted future cash flows on a contract were deemed insufficient to support the recoverability of the asset a write-down to the lower value was made (note 25).

13 Investments in subsidiaries

	Company 2006 €'000
Cost at 8 February 2006	–
Acquisition through business combinations	4,996
Additions	1
Cost at 31 December 2006	4,997
Net book value at 8 February 2006	–
Net book value at 31 December 2006	**4,997**

A full list of subsidiaries is given in note 23.

14 Business combinations

On 10 February 2006, the Company acquired 100% of the share capital of Carbon Asset Management International GmbH ("Camco GmbH") (formerly Carbon Asset Management International AG), a company that is engaged in holding CDCs, for a total consideration of €4,995,900. The consideration was in the form of shares issued to the value of €1,845,900 and a loan note of €3,150,000. The loan note was subsequently repaid by the Company during the period.

Fair value of identifiable net assets of Camco GmbH at date of acquisition	Acquiree's book values €'000	Fair value adjustments €'000	Acquisition amounts €'000
Carbon development contracts	–	5,173	5,173
Cash and cash equivalents	247	–	247
Trade and other receivables	46	–	46
Trade and other payables	(470)	–	(470)
Net identifiable (liabilities)/assets acquired	**(177)**	**5,173**	**4,996**

Net cash out flow to acquire Camco GmbH	€'000
Settlement of loan notes	3,150
Cash and cash equivalents acquired	(247)
Net cash out flow	**2,903**

Goodwill recognised on acquisition	€'000
Issuance and settlement of loan notes	3,150
Shares issued	1,846
Total purchase consideration	4,996
Less fair value of identifiable net assets acquired	(4,996)
Goodwill recognised on acquisition	**–**

14 Business combinations (continued)

In the period from date of acquisition on 10 February to 31 December 2006, Camco GmbH recorded a retained profit of €407,000. If Camco GmbH had been part of the Group from the date of incorporation on 8 February 2006 the recorded retained profit would have been €370,000 with no effect on the Group's revenue.

On 22 September 2006, the Company acquired 100% of the charter capital of MCF Finance and Consulting Co. Ltd. ("MCF"), a company registered in the Russian Federation that is engaged in CDCs, for a total purchase consideration of €3,620,000.

Fair value of identifiable net assets of MCF at date of acquisition	Acquiree's book values €'000	Fair value adjustments €'000	Acquisition amounts €'000
Carbon development contracts	–	2,462	2,462
Property, plant and equipment	1	–	1
Cash and cash equivalents	1	–	1
Trade and other receivables	1	–	1
Trade and other payables	(1)	–	(1)
Net identifiable assets acquired	**2**	**2,462**	**2,464**

Net cash out flow to acquire MCF	€'000
Cash consideration paid	200
Acquisition costs	166
Cash and cash equivalents acquired	(1)
Net cash out flow	**365**

Goodwill recognised on acquisition	€'000
Cash consideration paid	200
Acquisition costs	166
Deferred consideration at 22 September 2006	3,254
Total purchase consideration	3,620
Less fair value of identifiable net assets acquired	(2,464)
Goodwill recognised on acquisition	**1,156**

The value placed by the Directors on MCF's personnel, brand and reputation gave rise to the goodwill on acquisition.

In the period from date of acquisition on 22 September to 31 December 2006, MCF recorded a loss of €158,000. If MCF had been part of the Group from the date of incorporation on 8 February 2006 the recorded loss would have been €159,000 with no effect on the Group's revenue.

A full list of subsidiaries is provided in note 23.

15 Trade and other receivables

	Group 2006 €'000	Company 2006 €'000
Prepayments	496	429
Interest receivable	301	301
Trade receivables	681	676
Other receivables	130	–
Amounts due from subsidiary undertakings	–	1,083
	1,608	**2,489**

There are no receivables due after more than 1 year.

16 Financial risk management

A comprehensive risk management framework is operated by the Group which covers all of the Company's subsidiaries. This framework addresses the following key risks.

Market risk
The value of future contracted revenue is dependent on the future market price of carbon credits. The Group does not hedge the market risk inherent in the portfolio but manages project performance risk on a project-specific basis.

Credit risk
The Group's financial assets are predominantly trade and other receivables relating to CDCs, over which the Directors consider the maximum credit risk to be the recovery of these assets. These CDCs are managed on a project-specific basis by project managers.

Liquidity risk
The Group had cash resources at the end of the period of €24,719,000.

Foreign exchange risk
The foreign currency exposures of the Group are to Sterling, US dollar, Russian Rouble and Chinese Yuan as outlined below:

	2006 Euro €'000	2006 Sterling €'000	2006 US Dollar €'000	2006 Russian Rouble €'000	2006 Chinese Yuan €'000	2006 Total €'000
Cash and cash equivalents	546	24,078	–	69	26	24,719

Interest rate risk
The Group has no borrowing over which interest is charged. The Directors consider interest rate risk to be immaterial. The majority of the Group's cash is deposited at a competitive money market rate based on LIBOR.

Fair value of financial assets and liabilities
The Directors are of the view that there is no difference between the carrying values and fair values of the Group's financial assets and liabilities except for deferred consideration which is held at a discount that has unwound by €58,000 in the period.

17 Trade and other payables

	Group 2006 €'000	Company 2006 €'000
Trade payables and other accruals	1,955	1,401
Deferred income	161	–
Tax liability	1	–
Amounts due to subsidiary undertakings	–	337
	2,117	**1,738**

The Directors consider that the fair value of other accruals approximates to the carrying value of other accruals.

18 Deferred consideration

	Group 2006 €'000	Company 2006 €'000
Balance at 8 February 2006	–	–
Arising from acquisition in the period	3,254	–
Unwinding of discount	58	–
Balance at 31 December 2006	**3,312**	**–**

On 22 September 2006, the Group acquired 100% of the charter capital of MCF Finance and Consulting Co. Ltd. (a company registered in the Russian Federation) for total purchase consideration of €3,620,000 (note 14) including deferred consideration of €3,254,000 held at amortised cost. The unwinding of the discount has been charged within net finance income (note 7). The deferred amount can be settled, at the Group's option, in cash or by issuing shares in the Company. Settlement will occur after more than 1 year.

19 Issued capital

	2006 Number '000	2006 €'000
Authorised		
Ordinary shares of €0.01	1,250,000	12,500
Issued and fully paid		
Ordinary shares of €0.01 (all classified in shareholders' funds)	129,899	1,299

20 Equity

	Group 2006 Share capital €'000	Group 2006 Share premium €'000	Group 2006 Share-based payment reserve €'000	Group 2006 Retained earnings €'000	Group 2006 Translation reserve €'000	Group 2006 Own shares €'000	Group 2006 Total equity €'000
Balance at 8 February 2006	–	–	–	–	–	–	–
Total recognised income and expense	–	–	–	(3,975)	(22)	–	(3,997)
Share-based payments	–	–	577	–	–	–	577
Issuance of shares	1,299	39,978	–	–	–	–	41,277
Costs incurred in the raising of capital	–	(3,069)	–	–	–	–	(3,069)
Own shares	–	–	–	–	–	(181)	(181)
Balance at 31 December 2006	**1,299**	**36,909**	**577**	**(3,975)**	**(22)**	**(181)**	**34,607**

	Company 2006 Share capital €'000	Company 2006 Share premium €'000	Company 2006 Share-based payment reserve €'000	Company 2006 Retained earnings €'000	Company 2006 Translation reserve €'000	Company 2006 Own shares €'000	Company 2006 Total equity €'000
Balance at 8 February 2006	–	–	–	–	–	–	–
Total recognised income and expense	–	–	–	(2,536)	–	–	(2,536)
Share-based payments	–	–	577	–	–	–	577
Issuance of shares	1,299	39,978	–	–	–	–	41,277
Costs incurred in the raising of capital	–	(3,069)	–	–	–	–	(3,069)
Own shares	–	–	–	–	–	(181)	(181)
Balance at 31 December 2006	**1,299**	**36,909**	**577**	**(2,536)**	**–**	**(181)**	**36,068**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. During the period the Company issued 129,898,733 ordinary shares for a consideration of €41,277,000 settled in cash (€37,074,000), shares in subsidiaries (€1,845,900), CDCs acquired (€2,177,100) and EBT shares (€180,000).

On 19 April 2006, the Company established and sponsored an employee benefit trust, the Camco International Limited Employee Benefit Trust (the "EBT"). The trustee of the EBT is Consortia Trustees Limited a professional trust corporation based in Jersey. On 30 March 2006, Consortia Trustees Limited subscribed for 3,600,000 ordinary shares represented by an increase in the Company's share capital and reserves of €180,000. Subsequently, Consortia Trustees Limited acquired an additional 135,000 ordinary shares from existing shareholders of the Company for an aggregate consideration of €1,350. As at 31 December 2006, the EBT holds 3,735,000 ordinary shares of the Company, acquired for a total consideration of €181,350. Transactions of the EBT are treated as being those of the Company, and shares held by the EBT are therefore reflected in the financial statements as a reduction in reserves of €181,350. The EBT shares have a nominal value of €37,350 representing 2.9% of the issued share capital of the Company.

The shares held by the EBT had a market value of €1,908,000 at 31 December 2006.

On 31 December 2006, the Company established and sponsored another employee benefit trust, the Camco International Limited LTIP Trust (the "LTIP Trust"). The trustee of the LTIP Trust is also Consortia Trustees Limited. On 31 December 2006 the LTIP Trust held no shares.

21 Financial commitments

The Group and Company's financial commitments are outlined below:

Operating lease commitments	Group 2006 €'000	Company 2006 €'000
Office rental	224	10

At 31 December 2006, the Group was committed to office rental charges totalling €224,000 and the Company €10,000. There were no commitments due after more than 1 year.

Carbon development contract purchase obligations

During the period the Company entered into an agreement to purchase a CDC from Energy for Sustainable Development Limited. The Directors estimate the total committed consideration to be €80,000.

22 Related parties

The Group has various related parties stemming from relationships with founding shareholders, a related business partner and key management personnel. In addition, the Company has related parties in respect of its subsidiaries.

Founding shareholders and a related business partner

The founding shareholders who continue to hold a significant interest in the Company and who provide services to the Group are ClearWorld Energy Limited ("CWE"), Energy for Sustainable Development Limited ("ESD") and the shareholders of KWI Consulting AG ("KWI"). Alexander Westlake, an executive Director of the Company, is a Director of CWE and Jeffrey Kenna, a non-executive Director of the Company, is a Director of ESD.

CWE and ESD both provide support, management and environmental services to the Group under a number of separate agreements. KWI provide environmental and accountancy services to the Group. The amounts charged to administration expenses in respect of these services is shown in the table below.

In addition, the Group and Company also purchased assets from CWE, ESD and KWI including CDCs, an investment in subsidiary and property, plant and equipment. These assets are outlined in the table below.

The related business partner is Consortia Partnership Limited ("Consortia") which has been appointed Company Secretary. Michael Farrow, a non-executive Director of the Company, is a Director of Consortia. Consortia also provide accounting services to the Company. The amounts charged to administration expenses in respect of these services is shown in the table below:

Income statement	Group 2006 €'000	Company 2006 €'000
Administration expenses		
ClearWorld Energy Limited	435	435
Energy for Sustainable Development Limited	559	559
Consortia Partnership Limited	63	63
KWI Consulting AG	33	–

Balance sheet	Group 2006 €'000	Company 2006 €'000
Asset purchases		
Carbon development contracts purchased from CWE	3,027	3,027
Carbon development contracts purchased from ESD	46	46
Investment in subsidiary purchased from shareholders of KWI	–	4,996
Property, plant and equipment purchased from CWE	64	–
Trade and other payables		
ClearWorld Energy Limited	–	–
Energy for Sustainable Development Limited	199	199
Consortia Partnership Limited	22	22
KWI Consulting AG	3	–

On 10 February 2006, the Company issued loan notes to some of its shareholders to the value of €4,000,000 in partial consideration for the acquisition of shares in its subsidiary and of CDCs. A further loan was received from shareholders of €2,403,905, of which €1,403,905 was utilised to repay the initial balance, leaving a balance due at 10 February 2006 of €5,000,000. Of this amount, €761,773 was payable to ESD and €2,500,000 to CWE. All loan notes issued were fully repaid during the period.

Key management personnel
The Group's key management personnel comprises the Board of Directors whose emoluments are shown in the Report of the Remuneration Committee. Directors' interests in the shares of the Company are disclosed in note 24.

Subsidiaries
The Company has entered into services agreements with all of its immediate subsidiaries. The subsidiaries either provide directly or procure services for the Company relating to origination, marketing, management and advisory in the field of CDC project management. Once the Company enters into CDCs a subsidiary may also manage the project on the Company's behalf.

Carbon Asset Management International GmbH ("Camco GmbH"), an immediate subsidiary of the Company, also enters into CDCs. The Company provides services to Camco GmbH in respect of these contracts resulting in service fee income. The Company also recharged MCF acquisition costs of €166,000 to CI Camco (Cyprus) Limited in the period.

The income and expense in respect of each subsidiary is analysed below:

Income statement	Company 2006 €'000
Services fee income	
Camco GmbH	200
Services fee expense	
Camco GmbH	(175)
Camco Services (UK) Limited	(1,453)
CI Camco (Cyprus) Limited	(58)
Camco (Mauritius) Limited	(92)

22 Related parties (continued)

The balance sheet position with each subsidiary is analysed below:

Balance sheet	Company 2006 €'000
Amounts due from subsidiary undertakings	
Camco Services (UK) Limited	166
CI Camco (Cyprus) Limited	637
Camco (Mauritius) Limited	8
MCF Finance and Consulting Co. Ltd.	272
Amounts due to subsidiary undertakings	
Camco GmbH	(337)

In the period, the Company also purchased CDCs from Camco GmbH for total consideration of €1,643,000.

23 Group entities

Significant subsidiaries

Name	Country of incorporation	Principal activity	Registered office
Camco International Carbon Assets Information Consulting (Beijing) Co. Ltd.	The People's Republic of China	Business services	Rm. 906, Lucky Tower A, No.3 North Road, East 3rd Ring Road, Chaoyang District, Beijing 100027
Camco Services (UK) Limited	England and Wales	Support services	17 Cavendish Square, London, W1G 0PH
MCF Finance and Consulting Co. Ltd.	Russian Federation	Business services	109456 Moscow, Ryazanskiy Propekt 77
Carbon Asset Management Company (Pty) Ltd.	Republic of South Africa	Business services	Twickenham Building, The Campus, Cnr Sloane & Main Road, Bryanston 2021
Carbon Asset Management International GmbH	Austria	Business services	Burggasse 116, 1070 Vienna
Camco (Mauritius) Limited	Mauritius	Holding company	Felix House, 24 Dr. Joseph Rivière Str., Port Louis
CI Camco (Cyprus) Limited	Cyprus	Holding company	Gr. Xenopoulu, 17 P.C. 3106, Limassol

The list above comprises the principal subsidiary undertakings as at 31 December 2006 all of which were wholly owned. Each of the above subsidiary undertakings is included in the consolidated accounts of the Group.

24 Directors' share interests

	2006 Number
Executive Directors	
Tristan Fischer	–
Scott McGregor	–
Alexander Westlake	13,008,675
Non-executive Directors	
David Potter	80,645
Michael Farrow	72,004
Herta von Stiegel	72,004
Jeff Kenna	1,546,831

The beneficial interests of the Directors in the ordinary share capital of the Company are shown above. In addition, the executive Directors have conditional rights to acquire shares arising from awards granted under the Camco International Limited 2006 Executive Share Plan and Long-Term Incentive Plan. These awards are detailed in the Report of the Remuneration Committee on pages 24 to 25.

25 Accounting estimates and judgements

Below is a discussion of the key assumptions concerning the future and key sources of estimation or uncertainty at the balance sheet date that may cause material adjustment to the carrying amounts of assets or liabilities within the next financial year.

Balance sheet	Group 2006 €'000
Carbon development contracts	12,249

Initial allocation of CDC purchase cost

The CDC purchase cost has been determined by first allocating the acquisition price to the fair value of the likely CDCs with the remaining value classified as a customer relationship intangible asset and then goodwill on acquisition. CDC purchases were generally for multiple contracts at varying degrees of completion ranging from those in the advanced stages of the CER process to those considered pipeline projects. The CDC purchase cost has been allocated to individual projects. For the purposes of this exercise the Directors have only allocated purchase cost to CDCs that were considered 100% certain to progress to signed CDC status. This assumption excludes pipeline projects from the initial allocation. The allocation was made pro rata based on the Directors' valuation of these projects at date of acquisition.

The initial impact of this policy is that more of the total purchase cost has been attributed to less CDCs. However, these CDCs are more certain to provide future profits. This policy directly affects the amount and timing of future write-downs in the event that a CDC fails to deliver the forecast carbon credit revenue.

Realisable value reviews

The Group policy is to perform regular realisable value reviews to ensure the carrying amount of CDCs is not above fair value. The fair value is determined by discounting CDC cash flows to identify the net present value of the contract. The key assumptions made in this calculation relate to amount and timing of cash flows (project development risk) and revenue cash flows (price risk).

The project development risk is managed by the Group's continued development of strong internal control systems to better forecast and maximise delivery of carbon credits. However, severe project delays or technical difficulties in delivering carbon credits may result in the impairment of CDCs.

The carbon credit price used in the calculation is a conservative estimate in line with the average market price in the period less a discount for assumed selling costs. The carbon credit price used is the same as that currently widely accepted by brokers and analysts when valuing the Group and our competitors. The impact of a sustained fall in the carbon credit price may result in the impairment of CDCs.

Additionality
Under the Kyoto Protocol, certificates from JI and the CDM (see explanations below) will be awarded only to project-based activities where emission reductions are “additional to those that otherwise would occur”.

Annex B Countries
Annex B countries are the 39 emission-capped countries listed in Annex B of the Kyoto Protocol. These countries are natural buyers of carbon credits.

Annex I Countries
Annex I countries are the 36 countries and economies in transition listed in Annex I of the UNFCCC. Belarus and Turkey are listed in Annex I but not Annex B; and Croatia, Liechtenstein, Monaco and Slovenia are listed in Annex B but not Annex I.

Cap and Trade
A cap and trade system is an emission trading system, where total emissions are limited or ‘capped’. The Kyoto Protocol is a cap and trade system in the sense that emissions from Annex B countries are capped and that excess permits might be traded. However, normally cap and trade systems will not include mechanisms such as the CDM, which will allow for more permits to enter the system, i.e. beyond the cap.

Carbon Dioxide Equivalent (CO_2e)
This is a measurement unit used to indicate the global warming potential (GWP) of greenhouse gases. Carbon dioxide is the reference gas against which other greenhouse gases are measured.

Carbon Neutral
Carbon neutrality is calculating the quantity of emissions associated with a particular activity or set of activities and procuring an equivalent number of carbon credits to offset these emissions.

Certification
Certification is when an independent auditor certifies that a certain quantity of emission reductions have been generated by a project, as determined in accordance with the approved monitoring plan of that project.

Clean Development Mechanism (CDM)
The CDM is a mechanism for project-based emission reduction activities in non-Annex I Countries established by Article 12 of the Kyoto Protocol. Certificates will be generated through the CDM from projects that lead to certifiable emission reductions that would otherwise not occur.

Clean Development Mechanism (CDM) Executive Board (EB)
The CDM EB is accountable to the Conference of the Parties to the Kyoto Protocol (see below). It registers validated project activities as CDM projects, issues certified emission reductions to relevant projects participants, and manages a series of technical panels and working groups meetings (see Methodologies Panel).

Coal Mine Methane/Coalbed Methane
Coalbed methane is methane contained in coal seams, and is often referred to as virgin coalbed methane, or coal seam gas. Coal mine methane is the subset of coalbed methane that is released during the process of coal mining.

Commitment Period
The five-year Kyoto Protocol Commitment Period is scheduled to run from calendar year 2008 to calendar year-end 2012.

Crediting Period
The crediting period is the duration when a project generates carbon credits. For CDM projects the crediting period is for a 7-year period, which can be renewed twice to make a total of 21 years, or for a 10-year period. For JI projects the crediting period overlaps with the first commitment period under the Kyoto Protocol (2008-2012). The end of the crediting period can be after 2012 subject to the approval by the host Party.

Designated National Authority (DNA)
To participate in CDM/JI, a Party needs to appoint a Designated National Authority. The DNA issues a Letter of Approval (LOA) individual projects.

Designated Operational Entity (DOE),
An entity accredited and designated by the CDM EB to validate and to verify CDM projects. The DOE validates and requests registration of proposed CDM project activities as well as verifies emission reductions of registered CDM project activities.

Determination, see also Validation and Verification.
The process of independent evaluation of a JI project by an accredited Independent Entity which establishes whether the Project Design Document (PDD) fulfils all requirements to JI projects under Article 6 of the Kyoto Protocol and the JI guidelines. Verifications also refer to ex-post determinations of reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks pursuant to paragraph 37 of the JI guidelines.

Emission Reduction Unit (ERU)
Certificates achieved through a Joint Implementation project.

Emission Trading
Emission Trading allows for transfer of emission allowances between countries (e.g. as AAUs) or between companies (e.g. as EUAs) covered by a Cap and Trade scheme.

Emission Reduction Purchase Agreement (ERPA)
Binding purchase agreement signed between buyer (of CERs or ERUs) and seller.

European Union Emission Trading Scheme (EU ETS)
Trading Scheme within the European Union. The first compliance phase is from 2005 to 2007, while the second compliance phase continues from 2008 to 2012.

Fungibility
Ability to inter-change different types of carbon credits achieved under different schemes (e.g. bringing CERs/ERUs into the EU ETS).

Greenhouse gases (GHGs)
Greenhouse gases (GHGs) are trace gases that control energy flows in the Earth’s atmosphere by absorbing infra-red radiation. Some GHGs occur naturally in the atmosphere, while others result from human activities. There are six GHGs covered under the Kyoto Protocol. In order of intensity they are: carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydro fluorocarbons (HFCs), per fluorocarbons (PFCs) and sulphur hexafluoride (SF6).

Host Country
A host country is the country where a JI or CDM project is physically located. A project has to be approved by the host country to receive CERs or ERUs.

Intergovernmental Panel on Climate Change (IPCC)
The IPCC was established by the World Meteorological Organisation (WMO) and the United Nations Environmental Programme (UNEP) in 1988 to assess scientific, technical and socio-economic information relevant for the understanding of climate change, its potential impacts and options for adaptation and mitigation. It is open to all members of the UN and of the WMO.

Issuance
Issuance refers to the instruction by the CDM Executive Board to the CDM registry administrator to issue a specified quantity of CERs for a project activity into the pending account of the Executive Board in the CDM registry.

Joint Implementation (JI)
Joint Implementation is a mechanism established under Article 6 of the Kyoto Protocol for the transfer of emission permits from one Annex B country to another, for example from Russia to France. JI generates ERUs on the basis of emission reduction projects leading to quantifiable emission reductions.

Joint Implementation Supervisory Committee (JISC)
Joint Implementation Supervisory Committee (JISC) supervises the verification of ERUs generated by JI projects following the verification procedure under the JISC.

Kyoto Protocol
The Kyoto Protocol originated at COP-3 to the UNFCCC in Kyoto, Japan, December 1997. It specifies emission obligations for the Annex B countries and defines the three Kyoto mechanisms: JI, CDM and emission trading. It entered into force on 16 February 2005.

Letter of Approval (LOA)
A letter required from the host country and cooperating country DNAs for approval of a project as a JI or CDM Project.

Monitoring
Once a project has been registered and is operational, monitoring activities must be conducted in accordance with the monitoring plan to determine the exact amount of GHGs that can be claimed in the relevant monitoring period.

National Authorities and Designated National Authorities
The national authority is the official body representing the Government which takes part in the arrangement of CDM/JI projects. For JI host countries, the national authority approves the projects and issues the emission reduction units. For CDM host countries, the designated national authority issues a Letter of Approval (LOA) for the project approval, if it agrees that a project is in line with its sustainable development goals.

National Allocation Plan (NAP)
Allocation of emission allowances at the national level to individual sites participating in the European Union Emission Trading Scheme.

Non-Annex I countries
Annex I is an Annex in the UNFCCC listing those countries that are signatories to the Convention and committed to emission reductions. The non-Annex I countries are developing countries, such as China and South Africa, and have no emission reduction targets.

Project Design Document (PDD)
The document completed on behalf of projects in order to qualify them under the CDM or JI.

Project Idea Note (PIN)
This is a project description that provides basic information about the type, size and location of the project and the estimated number of carbon credits to be produced.

Registration
Registration is the formal acceptance by the Executive Board of a validated project activity as a project activity. Registration is a prerequisite for the verification, certification and issuance of credits related to that project activity.

United Nations Framework Convention on Climate Change (UNFCCC)
The UNFCCC stemmed from the 1992 Rio Earth Summit. It is the overall framework guiding the international climate negotiations. Its main objective is the "stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic (man-made) interference with the climate system".

Validation
The process whereby a project is assessed prior to registration by an independent entity, according to the requirements of the CDM EB/JISC.

Verification
The process whereby an operational project is audited post registration by an independent UN approved entity to confirm that emission reductions have occurred.

Verified Emission Reductions (VERs)
VERs are generated by projects which are assessed and verified by third party organisations rather than through the UNFCCC. VERs are frequently referred to as Voluntary Emission Reductions.

Voluntary Emission Market (VEM)
Voluntary markets for emission reductions cover those buyers and sellers of Verified Emission Reductions (VERs), which seek to manager their emission exposure for non-regulatory purposes.