

6 March 2014

**REACT Energy plc**  
**("REACT")**

**Acquisition of the business of GG Eco Solutions Limited**  
**Proposed issue of secured loan notes**

REACT Energy plc (AIM:REAC), the energy infrastructure developer and operator which focuses on the production of clean energy in the UK and Ireland, is pleased to announce the acquisition, through a newly incorporated wholly owned UK subsidiary Grass Door Limited, of certain assets and business of GG Eco Solutions Limited ("**GGES**"), a developer and operator of biomass heat generation projects in the UK (the "**Acquisition**").

**Key Points:**

- Today's news marks a key milestone in REACT's group (the "**Group**") strategy to act as a consolidator of the fragmented UK biomass energy infrastructure market, and increases the depth and experience of the management team;
- The Directors believe that GGES' strong pipeline and relationships in the biomass sector, combined with its already operational plants, positions REACT as a leader in the mid-market biomass power generation sector in the UK;
- Proposal to raise up to £1.5 million (before expenses) through the issue of secured loan notes to fund the ongoing development of the Group through organic and acquisitive growth; and
- The Board is currently considering a select number of further strategic bolt-on acquisitions in the mid-market biomass sector that includes biomass conversion plants from 500kW to 20 MW in capacity.

**Background on GGES**

GGES was formed through a Swedish and UK partnership, and has been operating in the UK market since 2009. It is the project developer, part-owner and operator of two existing biomass power generating plants in the UK and has five projects in development which are expected to be built over the next 12 months.

The projects include:

- the Culford School heating plant in Suffolk, which has a 15 year Heat Supply Agreement ("HSA"), in operation for almost two years;
- the Kimbolton School Heating plant in Cambridgeshire, which also has a 15 year HSA, and was recently brought into operation; and
- GGES in November 2013, signed a 20-year HSA with Old Buckenham Hall School in Suffolk, with the heating plant expected to be commissioned in Q2 2014.

GGES's projects typically range from 150KW to 1MW thermal capacity, use wood as a sustainable fuel source, and utilise proven, mature technology. The addressable market for the GGES solution includes over 600 schools and universities, over 10,000 private hospitals and care homes, and over 5,000 country house hotels in the UK. The Directors believe that long term HSAs and qualification for the Renewable Heat Incentive ("**RHI**") add significant value to GGES.

In July 2013, GGES signed an agreement with Equitix ESI Finance Limited ("**Equitix**") providing GGES with access of up to £5 million of committed project finance from the Green Investment Bank and a number of institutional investors. Drawdown of this facility has already commenced in order to fund existing projects and it is intended to draw down the remaining facility over the next 12 months.

### **Terms of Acquisition**

The Acquisition will comprise an initial consideration of £2 million for certain of the assets and business of GGES. This consideration is being satisfied through the issue of 5,263,158 ordinary shares of €0.10 each in the capital of REACT, to be issued at an effective price of £0.38p per share. An additional maximum deferred consideration of £1.7 million (also to be satisfied through the issue of ordinary shares in REACT), may become payable subject to certain performance criteria being achieved, namely construction and installation of additional biomass heat projects with an approximate Internal Rate of Return of 15%. The deferred consideration amount is linked to projects funded under the Equitix funding line, which GGES already has in place.

As part of the transaction REACT will also issue 789,474 new ordinary shares of €0.10 each to Pinfold Investments Limited ('Pinfold') a company controlled by Lyndon Dodd a shareholder in GGES, which is converting a loan note amounting to £225,000 issued by GGES to Pinfold in relation to the Kimbolton School Heating Plant.

The total initial transaction cost for the Acquisition, including the conversion of the Pinfold loan, is £2.3 million.

GGES and Pinfold will be subject to a Lock-In agreement in relation to the ordinary shares that it will receive in consideration for the Acquisition or will acquire for a period of twelve months from the date of issue.

The assets being acquired include the Kimbolton School Heating Plant, the Old Buckenham Hall School Heating Plant that is in commissioning and GGES's investment in GG Eco Energy Limited ("**GG Eco**") a company that is 30% owned by GGES and 70% owned by Equitix. The book value of assets acquired totals approximately £855,000. As at 31 March 2013 turnover in relation to the acquired assets was c.£290,000. Although the assets acquired are currently loss making, the Directors expect the acquired business to breakeven in the next 12 months.

Key members of the senior management of GGES will remain with the business post completion of the Acquisition increasing the depth and experience of the overall team.

Pursuant to the Acquisition, application has been made for the admission of new 6,052,630 ordinary shares of €0.10 each in REACT to trading on AIM. The new ordinary shares, which will be issued, fully paid, will rank pari passu in all respects with the existing ordinary shares of REACT. Admission of the new ordinary shares to trading on AIM is expected to occur on Tuesday 11 March 2014.

Following the Acquisition, REACT's total issued and voting share capital will comprise 28,422,674 ordinary shares. Shareholders should use this figure as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in REACT, under the FCA's Disclosure and Transparency Rules.

Following the Acquisition, GGES will hold 5,263,158 shares in REACT amounting to 18.52% of the issued share capital.

### **Loan Notes**

The Board of REACT also announces that it is proposing to raise up to £1.5 million (before expenses) through the issue of secured loan notes ("**SLNs**"). The SLNs are intended to fund the ongoing development of the enlarged Group through organic and acquisitive growth, which includes GGES. It is the intention that the issue of the SLNs will be by way of subscription for an initial tranche of £600,000 (the "**Initial Tranche**") followed by subscription for a further tranche of £900,000 (the "**Additional Tranche**").

The Group has received commitments for the Initial Tranche from Farmer Business Developments plc ("**Farmers**"), REACT's largest shareholder, for the total sum of £300,000 and certain shareholders of GGES, including Mr. Goran Nylin and Mr. Lyndon Dodd for the total sum of £300,000.

Following subscription for the Initial Tranche by Farmers and GGES shareholders, the Group intends to market the Additional Tranche to independent qualified investors.

The SLNs will be issued at a fixed rate of 10% per annum, the interest on which will be rolled up quarterly in arrears and included as principal to be repaid.

The SLN's will be for a fixed three-year term and together with rolled up interest will be repayable at the end of the term.

The SLNs will be secured by a first charge over the shares held by REACT in its project operating and development companies.

Farmers is a substantial shareholder of REACT and as such the subscription for the SLNs is a related party transaction for the purposes of Rule 13 of the AIM Rules. The Independent Directors (being the directors other than Dermot O'Connell), having consulted with Shore Capital and Corporate Limited (the Company's nominated adviser), consider that the terms of the SLNs are fair and reasonable insofar as shareholders of REACT are concerned.

Gerry Madden, CEO of REACT, commented: "**The Board of REACT is delighted to be acquiring the assets of a company with a strong pipeline in the mid market biomass sector, its already operational plants and its strong relationships with funders such as Equitix.**"

**"This Acquisition is a key part of the Group's strategy to act as a consolidator of the fragmented UK biomass energy infrastructure market. This Acquisition also increases the depth and experience of the management team, with senior management coming across with the GGES business. We believe that this now positions the Group as the leader in the mid-market biomass power generation sector in the UK.**"

**“The proposed issue of loan notes is a proactive, financially prudent step by the Group to ensure that we are able to continue moving ahead with electricity and heat projects.**

**“The Board is currently considering a select number of further strategic bolt-on acquisitions given the significant opportunity that it has identified in the mid-market biomass sector.”**

Goran Nylin, Chairman and Founder of GGES, commented: **"The Acquisition of the business by REACT creates a positive and exciting new chapter to build heat energy infrastructure throughout the UK. This provides us with great opportunities to expand our platform and expertise. We are excited about joining forces with REACT. GGES and REACT's focus on power generation from biomass make the two organizations a natural fit. Furthermore, our combined experience, expertise and employees will benefit significantly from the increased scale and delivery capabilities that this combination will be able to offer enabling a further acceleration in the growth rate of both REACT and GGES."**

**- Ends -**

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## **About GGES**

GG Eco Solutions Limited is an innovative UK renewable energy specialist that designs, owns, installs and operates wood fuelled biomass energy systems for customers within the healthcare, education, hospitality, commercial, industrial and facilities management sectors. The company's systems are operated through heat supply agreements under long-term contracts via on-site biomass energy installations. Headquartered in Cambridge, the company is run by an expert UK and Swedish management team, collectively instrumental in the development of more than 100 successful bioenergy projects, representing an installed capacity of over 50 megawatts. For further information please visit:

[www.ggecosolutions.com](http://www.ggecosolutions.com)

## **About REACT**

REACT Energy plc is an energy infrastructure portfolio developer and operator whose business strategy is to identify, develop, build, own and operate electricity and

heat generation plants in the UK and Ireland using clean technologies. The Group possesses significant knowledge of energy markets, clean technologies, fuel sources, project development, project finance and project delivery.

In the UK, the Group is focused on converting wood waste Biomass into electricity and heat. The Group currently operates in the 1MW to 20MW sector of power generation.

The Group, in conjunction with its partner and major shareholder Farmer Business Developments plc, has completed phase 1 of a £15 million 4MW advanced gasification biomass power plant in Newry, Northern Ireland. Having completed phase 1 the Group recently received approval from its funding partner Ulster Bank Limited to proceed to phase 2 of the development. The operating company, Newry Biomass Limited, has signed a seven year Power Purchase Agreement (“PPA”) with Bord Gais Eireann an all island utility company owned by the state.

The Group is in the final stages of completing financial close on a c.£46 million 10MW biomass gasification plant in Enfield in London with its funding partner Foresight Group. In Derbyshire, the Group, together with its partner Larkfleet Energy, is seeking approval to construct and operate a 10MW biomass conversion power plant, which will cost approximately £40 million. The Group, in conjunction with the London and Devonshire Trust, is also seeking approval to construct and operate a 10MW biomass conversion power plant in Plymouth, which will also cost in the region of £40 million.

1MW of power has the potential to provide power to up to 2,000 homes annually.

In Ireland the REACT is currently operating an 800kW wind turbine in County Cork. This plant was part financed by AIB Bank plc and has a 15 year PPA with Viridian Energy Limited. The Group has also received planning permission to construct six additional single wind turbine projects in Ireland. In conjunction with its co-development partner, REACT is currently seeking approval to construct a number of wind farms totalling over 50MW in the North West of the island.

REACT is in on going discussion with a select number of landowners in the UK and Ireland regarding sites for the future development of energy infrastructure projects.

Biomass Power generation of Electricity and Heat has the potential to address the UK's key energy challenges of energy security and carbon commitment. The green credentials of Biomass Power and Heat generation can make it a significant contributor to the energy mix and help achieve committed 2020 targets.

REACT is listed on the AIM market of the London Stock Exchange (AIM:REAC).

[www.reactenergyplc.com](http://www.reactenergyplc.com)