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Annual Report 2003/04

CARBON TRUST

Making business sense of climate change

Reduce Carbon Emissions Now

Develop Low Carbon Technologies

Understand the Impact of Climate Change

Our aim is to promote the cost effective reduction of carbon emissions both now and in the future, constantly highlighting the business opportunities it offers. Having this goal gives us a powerful position to influence the climate change debate and provide analysis and insight to drive the transition to a low carbon economy.

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Measuring carbon emissions

In industrialised countries, 80% of greenhouse gas emissions are carbon dioxide (CO_2) released into the atmosphere, mostly from the burning of fossil fuels. Other greenhouse gases produced by industrial and agricultural processes include: methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF_6).

In order to produce a uniform measurement of greenhouse gas emissions, greenhouse gases other than CO_2 are converted into units of carbon dioxide equivalent (CO_2e). Carbon is a shorthand unit derived from CO_2 and CO_2e used in international climate change negotiations. 3.66 tonnes of CO_2 or CO_2e is equivalent to one tonne of carbon.

Our achievements

In 2003/04:

- We helped our customers to identify 7.5 million tonnes of CO_2 savings – between 0.9 and 1.8 million tonnes of CO_2 savings have been realised, making cost savings of £70-135 million.
- We worked with leading companies and public sector organisations in the UK on the Carbon Management pilot scheme, an innovative project to assess the potential effect of climate change mitigation strategies on their activities and to demonstrate the business case for significant carbon emission reduction.
- We reached an estimated 10 million people with the 'Lifeblood' advertising campaign to raise awareness of energy efficiency as a source of cost saving, resulting in over 20,000 businesses contacting us and nearly doubling the number of calls to our helpline and hits on our website.
- We offered £3.2 million in interest free loans for energy saving investment to SMEs.
- We established the Local Authority Energy Financing scheme, a £9.3 million scheme to finance a series of 'invest-to-save' energy efficiency funds within selected local authorities.
- We launched the Marine Energy Challenge which aims to establish a world-class wave and tidal energy industry in the UK.
- We started the Advanced Metering trial to evaluate the potential of advanced metering techniques to reduce carbon emissions.
- We set up the small-scale CHP trial to assess the real-world performance of small-scale CHP.
- We awarded 59 grant funding contracts during the year.
- We created the UK's first low carbon technology incubator/spin-out centres.
- We expanded our portfolio of equity investments to five by investing a further £1.3 million and leveraging a further £4.9 million.

Chairman's statement

Since our launch three years ago, the Carbon Trust has achieved a great deal in helping to make business sense of climate change.

- We have helped thousands of UK businesses and public sector organisations identify and implement measures to reduce carbon emissions now, usually through energy efficiency.
- We have invested in the development of low carbon technologies that we believe can both reduce emissions and create economic value for UK plc.
- And finally we have provided analysis and insight to business, investors and government as they, like us, plan for a low carbon economy.

Since last year's Energy White Paper, developments such as the planned introduction of the EU Emissions Trading Scheme, increasing electricity, gas and oil prices and a general increase in public awareness of climate change have started, slowly, to change the context in which business decisions are made. This should, over time, increase the uptake of low carbon measures and in particular, energy efficiency.

As many of these measures are cost effective today, making them a core business issue requiring management focus will improve productivity and medium term competitiveness.

Our message to both business and the public sector is that climate change should be seen as an opportunity, not a cost and that its impact will grow over time, providing additional benefits for those who act early.

Evidence of this shift in the business context comes from the Carbon Management initiative which we piloted in 2003/04 and through which we are helping some of the biggest companies in the UK to reduce their carbon emissions.

We work closely with these companies to help them to understand the rapidly evolving policy response to climate change and the wide ranging strategic impacts on their businesses. We have highlighted the growing materiality of climate change as a core business issue, driven by regulatory, competitive and reputational risks and opportunities.

We help companies to get a firm grasp on the carbon emissions that they produce and then propose ways of reducing these. This might, for example, involve investment in new energy efficient refrigerators in major retail outlets, the sourcing of renewable power or enabling companies to switch to alternative fuel sources. It could involve changing a company's manufacturing process and supply chain to have a major impact on the carbon emissions they are producing, with the added benefit of possible new revenue streams.

We have made significant progress in alerting institutional investors to the need to consider a company's approach to carbon emission reduction in their assessment of future performance. Through our research and analysis, as well as through our communications activity, we have helped to bring this issue to the top of the corporate agenda.

We have also continued our work in developing the low carbon technologies of tomorrow and in helping to build the infrastructure for a world-class industry in the UK. An example is our investment in the European Marine Energy Centre on Orkney, a UK centre of excellence for testing wave and tidal devices from around the world.

This combination of the practical, the technological and the visionary is what makes our work so important, both for the present and the future. Our challenge is to provide clear leadership in all three roles, every day. I am confident that we have a team whose approach makes this possible, and that we will be rigorous and unstinting as we continue to face this challenge in the years ahead.

Ian McAllister CBE
Chairman

Chief Executive's review

Success in tackling climate change requires sustained innovation and investment over a very long period. It needs the continuing involvement of government to provide an effective regulatory framework, appropriate financial incentives and a step-change in public attitudes.

The Carbon Trust has a key role to play in all of this by:

- helping UK businesses and the public sector to reduce their carbon emissions;
- improving the competitiveness of UK businesses through energy efficiency; and
- accelerating the development of a low carbon industry sector in the UK.

The Carbon Trust occupies a unique position in the low carbon landscape – being at once independent, business led and government backed. Our task is to accelerate the transition to a low carbon economy by building momentum for behavioural change and stimulating investment in energy efficiency and new low carbon technologies, products, processes and services. To be effective in this, we must prove that climate change is a real business opportunity:

- we are working with 25 companies in the FTSE100, as well as thousands of smaller businesses and organisations across the UK. We leverage policy measures and regulation by providing know-how and financial support; and
- we accelerate innovation by investing in low carbon technologies of the future including fuel cells, wave power and biomass. We collaborate internationally but focus on business opportunities for UK plc.

To ensure that our programmes are cost effective we have assessed their impact in reducing carbon emissions in 2003/04, details of which are contained in the performance measurement section on page 26. In short, we believe that our activities helping organisations to reduce carbon emissions now are amongst the most cost effective in the UK and that our low carbon technology development and innovation support will deliver significant savings in the medium to long term.

Structured for delivery

Our activities must be grouped so that they are relevant to and aligned with our customers' needs. They can be summarised as follows:

Reducing
Carbon Emissions Now

Direct engagement
Customised services
Carbon Management pilot scheme for business and local authorities
On-site surveys
Design advice

Indirect engagement
Helpline, website, publications & events
Sector, technology and professional bodies

Financial incentives
Interest free SME loan pilot scheme
Local Authority Energy Financing pilot scheme
Government's Enhanced Capital Allowance scheme for energy saving investment

Developing
Low Carbon Technologies

RD&D
Carbon Vision
Open call research development & demonstration (RD&D)

Technology acceleration
Marine Energy Challenge
European Marine Energy Centre (Orkney)
Small CHP trials
Advanced metering trials

Investments
Venture capital
Incubators

Helping
to understand the Impact of Climate Change

Carbon Trust publications

Awareness raising campaigns
'Lifeblood'
'Carbon Rationing'
'Smart Companies'

Carbon Trust events

Investor engagement

Chief Executive's review continued

Reducing carbon emissions now

We deliver a service to UK business and public sector with different customer offerings appropriate to energy saving potential. We are focusing on direct engagement with customers and have taken overall management in-house to gain direct control of output and quality. This has produced strong results in 2003/04 with a lifetime cost effectiveness of £3-6 per tonne of CO_2 saved and has helped our customers to save between 0.9-1.8 million tonnes of CO_2 and £70-135 million in costs. Demand for these services has grown significantly, reflecting the value our customers see in them.

Highlights for 2003/04 include:

- launching a customised service to help organisations save energy, particularly suitable for larger energy users, which attracted over 150 customers;
- launching the Carbon Management Pilot Scheme, an innovative project working with leading UK companies and public sector organisations to assess the potential effect of climate change mitigation strategies on their activities and to demonstrate the business case for significant carbon emission reduction;
- improving existing site survey services and processes, demonstrated by an 85% customer satisfaction rating and two-thirds of survey reports being graded as 'good' or better;
- launching the Lifeblood campaign to raise awareness of energy efficiency as a source of cost saving, which reached an estimated 10 million people, caused over 20,000 businesses to contact us and nearly doubled the number of calls to our helpline and hits on our website;
- embarking on a major knowledge management project to allow for the efficient organisation and sharing of knowledge;
- offering £3.2 million interest free loans for energy saving equipment to SMEs and expanding the Government's Enhanced Capital Allowance (ECA) scheme for energy saving investment to include more than 7,000 products under 13 technology groups; and
- launching the Local Authority Energy Financing scheme, a £9.3 million pilot scheme to finance a series of 'invest-to-save' energy efficiency funds within selected local authorities.

Looking forward, our objectives in this area are to continue to maximise carbon saved per pound invested by focusing on the needs of individual end users and networks, reducing overhead costs as a proportion of the total budget, and making best use of our intellectual capital.

We will continue all our awareness raising activities to drive the adoption of energy efficiency practices and technologies across businesses and public sector organisations of all sizes.

Developing low carbon technologies

This area was extremely active in 2003/04. During the year, we committed funds of £16.6 million from a base of zero in 2001/02. With a strong in-house team of technical and investment experts, we have identified a number of high-potential funding and investment opportunities. We have developed a clear and flexible strategy based around our Low Carbon Technology Assessment framework, which enables us to ensure that funding is directed at projects with the greatest potential to deliver commercially viable low carbon technologies.

While these are still relatively early days, we are confident that we will have a material impact on carbon emissions in the medium term.

Highlights in 2003/04 include:

- launching the Marine Energy Challenge which aims to establish a world-class wave and tidal energy industry in the UK;
- launching the Advanced Metering trial to evaluate the potential of advanced metering techniques to reduce carbon emissions;
- launching the small-scale CHP trial to assess the real-world performance of small-scale CHP;
- creating the UK's first low carbon technology incubator/spin-out centres;
- expanding our portfolio of equity investments from three to five by investing a further £1.3 million and leveraging a further £4.9 million; and

- improving our processes to give potential applicants for RD&D funding more regular opportunities to submit projects, which produced over 270 proposals. We also awarded 59 RD&D grant-funding contracts during the year.

For 2004/05, we have identified a number of priorities. These are to establish more detailed assessments of key low carbon technologies identified in our Low Carbon Technology Assessment, to continue our work to attract additional funding from public and private sector organisations, and to implement a comprehensive strategic approach to reducing the carbon footprint associated with new and existing non-domestic buildings.

Helping to understand the impact of climate change

Underpinning all our activity has been the development of analysis and insight into the range of legislative and economic developments that impact on the business opportunities and risks around climate change and carbon emission reduction. This comes from and informs our work in reducing carbon emissions and developing low carbon technologies and led us to invest in increasing business awareness of these issues. With work ranging from an analysis of the scientific evidence around climate change through to the development of marketing campaigns that have significantly raised the profile of the importance of reducing carbon emissions, we are shaping the debate and the environment within which we operate.

Environmental report

As an organisation committed to reducing UK carbon emissions, we have identified our own most significant environmental impacts and put a team in place to minimise them. We have made good progress this year, and will continue to implement improvements, and report them in our Annual Report. We encourage all other organisations, both large and small, to do likewise. Our environmental report is on page 17.

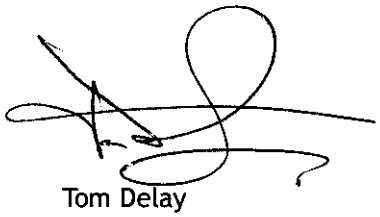
Overall

We have increased the scale of our activity from £36 million in 2002/03 to £61 million in 2003/04.

The Carbon Trust is well placed to accelerate progress towards key Energy White Paper objectives such as doubling the rate of energy efficiency take-up in UK business and the public sector and in accelerating low carbon innovation in a highly cost effective manner.

The achievement of these objectives is dependent on a sustained increase in funding if we are to match our ambitions with tangible outcomes.

In all, 2003/04 can be viewed as the year when the Carbon Trust came of age. We now have some achievements to build on. Our success in the next three to four years will depend on our helping business and the public sector to see the scale of the opportunities and to start to plan for their own low carbon future. A lot may have been done, but there is still much to do.



Tom Delay
Chief Executive

Review of the year

Reducing carbon emissions now

The Carbon Trust delivers highly cost effective support for business and the public sector to reduce carbon emissions through energy efficiency, and is broadening the scope of this through carbon management to demonstrate the wider business benefits this approach can bring.

Underlying all our activity is our commitment to giving an appropriate level of support to all businesses and organisations that approach us – thus ensuring a fair and cost effective approach to abating carbon emissions.

We work directly with organisations through customised services, our carbon management approach and on-site surveys. We also engage indirectly through our helpline, website, publications and events. In addition we offer financial incentives such as interest free loans for SMEs and a Local Authority Energy Financing scheme.

Helpline, website, publications and events

The Carbon Trust helps businesses and public sector organisations save money by saving energy. These services are delivered through Action Energy from the Carbon Trust and are currently free. They include:

- telephone helpline advice on all energy saving issues, from general queries to in-depth technical advice;
- an online information centre providing energy-related information, publications and useful links categorised by sector, interest area and technology; and
- events held across the UK offering general or specific technical advice on a range of issues.

In 2003/04, we estimate that over 70,000 customers obtained information and advice from our website and over 30,000 enquiries were recorded by our telephone helpline.

Over the same period, a review was undertaken to identify areas not addressed by current publications and to prioritise future ones.

We also designed and began implemention of a knowledge framework to allow the efficient organisation and sharing of knowledge.

"By working in partnership with the Carbon Trust, we have greatly increased our understanding of a new set of business opportunities available to the bank. We have been able to invest in energy efficiency measures to deliver significant cost savings to the organisation and we have also started to explore ways in which we could take the same message to our business customers."

Halifax Bank of Scotland

Summary of events, helpline and website statistics

	2002/03	2003/04
UK events	**159**	**397**
Action Energy helpline		
Telephone enquiries	16,323*	25,494
Other enquiries (e.g. email, letter, fax)	6,931	4,821
Total	**23,254**	**30,315**
Website activity		
Total hits for year	4,797,053**	16,455,653
Average hits per day	15,884	44,961
Total visitors for year	**25,238**	**71,243**

* 2002/03 figure restated to exclude 14,379 admin enquiries to helpline

** From AE website launch 10 June 2002 – 31 March 2003

Multi-client activities

Multi-client activities were provided by Action Energy from the Carbon Trust to sector and technology trade associations, professional bodies (such as CIBSE and RIBA), and public sector networks to raise awareness of our services and promote the adoption of best practice. In total about 15 technologies and over 30 sectors received direct support.

Multi-client activities were diverse, reflecting the needs and priorities of different organisations. We supported hundreds of key sector events, such as efficiency in refrigeration with the British Refrigeration Association and the Local Government Association Conference.

We continue to run workshops and seminars, often in conjunction with the launch of new publications.

Benchmarking and other technical investigations were undertaken in a range of sectors including studies for animal feeds manufacturing, rubber and plastics, flour milling, and airports.

Example sectors	Example technologies/ techniques
Hospitality	CHP
Chemicals	Motors & Drives
Food & Drink	Process Control
Health	Compressed Air
Engineering	Energy Management

"We were very impressed with the Energy Survey and the measures it recommended. Above all else, it focused our attention on key areas which will enable us to lessen our carbon output and make significant cost savings."

Bonds Foundry

On-site surveys

On-site energy surveys form a core part of our service delivered by Action Energy from the Carbon Trust.

During 2003/04 we launched improved survey products to make the reports identifying energy saving opportunities easier for clients to use and more likely to stimulate action. Each survey now focuses upon specific client priorities to identify up to ten energy saving projects for which energy savings, costs and payback periods are estimated. For each project, the client is advised on how to realise the opportunities. Wherever possible, the analysis compares current energy use against similar operations.

Client managers have been introduced to build continuing relationships and to track and improve the outcome of surveys. The objective is for implementation rates to increase through advice and follow-up support to assist sites to implement identified energy saving opportunities. Briefings for senior managers highlighted the current levels of energy being wasted and financial benefits of taking action.

In total, 3,766 surveys were commissioned. This represents a significant increase in activity from 2,810 in 2002/03.

Improved quality was a key focus of activity and success in 2003/04 with an 85% customer satisfaction rating for services provided.

Design advice for buildings

Action Energy from the Carbon Trust offers a day of free initial design consultancy on building projects. Further consultancy may also be available on a partially-funded basis. The scope of our recommendations covers energy efficiency, environmental improvements and the potential commercial benefits of 'green design'. A total of 361 design advice studies were commissioned in the UK.

A strategy to improve the Design Advice service commenced in 2003/04 and new products will be developed, piloted and launched during 2004/05.

Customised services

In 2003/04, we developed a customised service to help organisations save energy, particularly suitable for larger energy users that are sufficiently complex to warrant a tailored approach and that demonstrated a commitment to increasing their energy efficiency. The programme has engaged with over 150 organisations, including 25 of the FTSE100, who have identified 890,000 tonnes of CO_2 savings.

Banking on reductions

The Carbon Trust and Citigroup worked in partnership during 2003/04 on a project to quantify how Citigroup could reduce their carbon emissions in their UK office buildings which house their 7,000 UK-based staff.

Following a series of co-ordinated site energy surveys at key UK offices, a project plan was developed to map out how the various recommendations could be implemented. Citigroup is currently implementing these measures. The measures include changes to lighting systems as well as improvements to the design and control of heating and cooling systems.

Kerry Duffy, Vice President, Critical Systems Engineering Manager, for Citigroup commented:

"Working in partnership with the Carbon Trust provided us with both the expertise and support to address the issue of CO_2 emissions associated with our UK offices and resulted in a practical list of ways in which we could reduce our energy consumption and hence our carbon emissions."

Review of the year continued

Carbon Management Pilot Scheme

The Carbon Management Pilot Scheme is an innovative project through which we help leading companies and public sector organisations in the UK to assess the potential effect of climate change mitigation strategies on their activities, to generate a business case for significant reductions in carbon emissions, and to develop a plan to implement those reductions.

Fifty organisations have undergone an in-depth carbon management review, using a systematic five-step process.

Participants were drawn from a wide range of sectors and included household names such as Marks & Spencer, Unilever and Nationwide Building Society.

This pilot scheme was successful in engaging senior management on the risks and opportunities presented by climate change mitigation policies.

We will integrate the lessons learned from this pilot into our customised service and demonstrate the compelling business case that a wider approach to carbon emission reduction brings.

We also launched a related pilot scheme in partnership with 16 local authorities. Most of the pilot authorities have now developed and adopted emission reduction targets of 6-30%, backed by action plans which detail significant opportunities for cutting carbon emissions.

A second pilot phase has now been launched with 30 further local authorities.

Keeping the lid on emissions

The threat to Heinz from climate change is from increasing manufacturing costs and from damage to the image of its brands. The value at stake approach proved an effective methodology for quantifying these impacts and most importantly communicating it to the senior managers and directors. It is clear that the Carbon Management approach we adopted has increased awareness of the issues around climate change at a senior level within Heinz at Kitt Green, Lancashire, and at European Group level.

The Carbon Management pilot scheme has revealed a potential cost increase to the company over the next three years well in excess of £1 million per year. Cost effective measures have been identified to reduce this liability and implementation of this strategy over the next two to three years will deliver CO_2 saving of 18,500 tonnes.

An excellent list of abatement opportunities has been identified and work on their implementation has already begun. Of particular interest, and one that is a medium term priority for the company, is the treatment of organic waste from the site in an anaerobic digester.

In addition to providing an effective disposal method for the site's organic waste, the technology will produce significant quantities of methane that could be utilised by the site and generate a new revenue stream of tradable carbon.

Heinz are committed to continuing carbon management as begun in the pilot scheme. In the short term this will be the implementation of the plan and possibly a roll out of a slightly simplified approach to other sites within the UK and Europe.

Ian McMurdo and Stuart Pycroft of Heinz commented:

"To date, the biggest single impact of the Carbon Trust work at Kitt Green has been the Senior Management workshop. This meeting succeeded in bringing the issue of utility management to the forefront and has given the Kitt Green implementation team the necessary platform to take the programme forward. Some aspects of the Carbon Management process are already under consideration for other UK and continental manufacturing sites. The concept of carbon management, as opposed to energy management, is seeping into the consciousness of those involved enabling more rounded discussion of complex issues and will hopefully result in better decision making."

Financial incentives

Financial incentives are available to organisations to invest in equipment that reduces carbon emissions in a cost effective way. We run an interest free loan pilot scheme for SMEs, have developed a Local Authority Energy Financing pilot scheme, and promote the Government's Enhanced Capital Allowance scheme for energy saving investment.

Action Energy interest free loans to business

This pilot scheme provides SMEs with access to interest free loans for qualifying energy efficiency projects. Loans range from £5,000 to £50,000 (increased to £100,000 in 2004/05) and are repayable over four years. Repayments are then recycled into the loan fund. This provides SMEs with a degree of financial assistance to help them acquire and install energy saving equipment, typically where they are subject to cash-flow constraints. By 31 March 2004, £3.2 million of the initial £10 million loan fund running to 31 March 2005 had been committed.

Financing energy efficiency in the public sector

The Local Authority Energy Financing scheme is a £9.3 million pilot scheme over three years to establish 18 'invest-to-save' energy saving funds across local authorities in England and Wales. This pilot, which was set up in 2003/04 to be delivered from 2004/05 onwards, will fund energy saving projects across the local authorities' non-domestic estates and schools. Up to £4 million will be funded indirectly by the Carbon Trust with £5.3 million from the 18 participating local authorities.

The scheme is run by an independent company limited by guarantee, which was set up by the Carbon Trust. We provided £682,000 of initial grant funding to this company in 2003/04.

The scheme directly addresses financial barriers to energy saving capital procurement in local authorities. It encourages local authorities to take the lead within their communities by adopting energy saving and carbon reducing measures through their procurement of goods, services and facilities. This helps to improve environmental and efficiency standards while at the same time stimulating more widespread adoption of energy saving and carbon reduction measures.

Each participating local authority receives a grant of up to £500,000, representing no more than half of the total project fund, with the balance of the fund coming from the authority's own resources. Typically, the total fund will be around 10% of the authority's energy bill. Any financial savings made by the measures introduced are reinvested in the fund, helping to finance further energy saving projects within the local authority.

Government's Enhanced Capital Allowances scheme for energy saving investment

The Carbon Trust promotes the Government's Enhanced Capital Allowance scheme for energy saving investment and administers the associated Energy Technology List. The scheme helps organisations to invest in qualifying energy saving equipment in a cost efficient way, by allowing them to write off 100% of the cost of this equipment (and qualifying installation costs) against their taxable profits within the first year of investment.

Items qualifying for the allowance appear on the Energy Technology List, which includes more than 7,000 products under 13 technology groups. This represents an increase of 2,967 products and one technology group from the previous year.

Clearly saving costs

Toughglass is one of the leading independent manufacturers of toughened safety glass in the UK. It employs 180 staff and produces up to 4,000 square metres of glass each week. In 2003, it commissioned an energy survey of its manufacturing processes which showed that energy bills were its third largest cost after raw materials and wages, averaging £500,000 a year.

Our on-site survey report recommended a number of energy saving measures, including the introduction of variable speed drives in the fans used to cool the glass on leaving the furnaces. The existing drives installed could only operate at full speed, which was not always required. Being able to vary the fan speed was estimated to reduce energy costs by up to £45,000 a year.

Toughglass applied for an Action Energy interest free loan of £28,359 to fund the cost of installing the new drives. In this case, Toughglass saved over three times as much money each month as the cost of the loan repayments.

Impressed by the rapid contribution of these savings to its bottom line, Toughglass is now exploring the potential for taking further carbon saving measures, starting with its compressed air system.

Review of the year continued

Developing low carbon technologies

In 2003/04, the Carbon Trust invested £7.5 million in, and committed a further £9.6 million to, the discovery and development of low carbon technologies and the creation of businesses that will get those technologies into the market place.

We work with a range of partners including academia, early-stage and pre-commercial companies, corporate researchers and investors to identify innovative technologies, test concepts, prove viability and define future markets that create real wealth.

We do this along a development chain from blue sky research through to early-stage ventures. We have split the activity into four main areas: research development & demonstration (RD&D), technology acceleration projects, venture capital investments, and Incubators. There is often an overlap and our great strength is the ability to learn from one activity to develop another.

The focus of our technology interests is informed by the Low Carbon Technology Assessment. In this we laid out our thinking in terms of the potential of various low carbon technologies and the materiality that our level of funding could have. This has enabled us to find innovative ways to invest in and develop low carbon technologies. Our development activity is focused in those areas where our growing expertise will make a significant difference – examples of this are our increased activity and influence in the areas of wave and tidal energy through the Marine Energy Challenge, and our significant investments in fuel cells.

Research, development and demonstration

Supporting RD&D is one of the Carbon Trust's largest areas of financial commitment. In 2003/04 we spent £3.8 million in support of low carbon research and made commitments for a further £4.9 million to support research in universities, companies and the public sector.

Carbon Vision

Carbon Vision is a £14 million joint venture designed to support research into low carbon technologies in UK universities. It is jointly funded by the Carbon Trust and the Engineering and Physical Sciences Research Council, together with support from the Economic and Social and the Natural Environment Research Councils. It brings together expertise in many disciplines to explore innovative new low carbon solutions aiming for a step change in achieving long term carbon emission reductions.

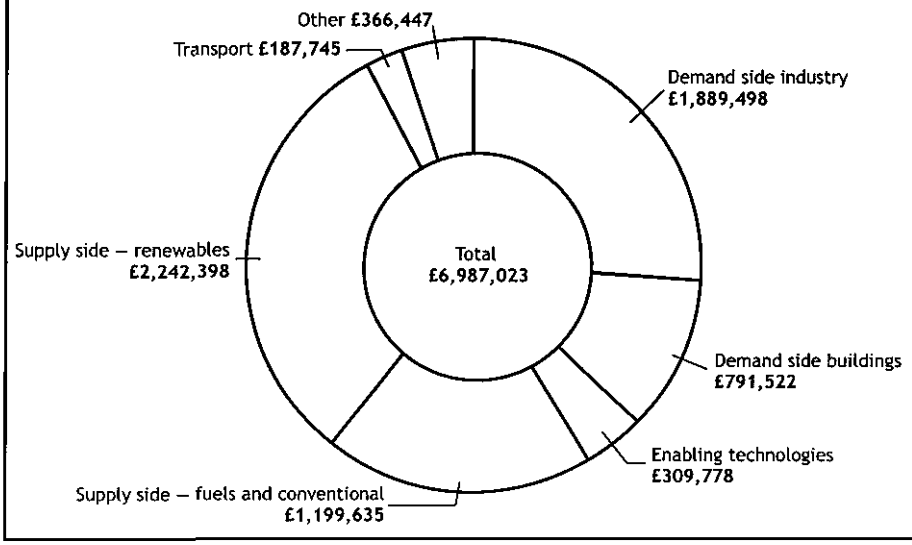
Projects developed in 2003/04 include:

- **The Future Building** – a project which sets out to achieve a 50% carbon reduction in buildings by 2030 involving three integrated projects with a total value of £5 million.
- **Future industrial processes** – a project which sets out to provide significant carbon reductions in the content and manufacturing process of basic products which are likely still to be in use in 2030.
- **Supergen extension** – Supergen is a £23 million multidisciplinary initiative launched by the Engineering and Physical Sciences Research Council focusing on a range of future energy supply technologies. Carbon Vision has agreed to commit £4-6 million to extend the scope of Supergen in research areas of particular interest. To date this involvement has resulted in significant additional research work being sought in the areas of advanced (third generation) photovoltaics and (biological) fuel cells.

Research, development and demonstration open calls

This activity targets and supports ground-breaking research development and demonstration projects with the potential to reduce greenhouse gas emissions. UK businesses, universities, public sector or voluntary organisations can apply for funding, which is usually up to £250,000, towards the cost of projects that demonstrate genuine innovation, a clear need for the outputs of the project and benefits for the UK.

RD&D open call commitments by technical category



In 2003/04, we published four open calls for proposals and received over 270 applications for support. Over the same period, 59 contracts were awarded with the Carbon Trust contributing £7.0 million towards projects with a total value of £18.2 million over three years.

The selection process is rigorous and competitive and we have significantly more project applications than our funding will allow us to support. In order to succeed, applicants must demonstrate that their proposals have a real prospect of making carbon emission savings over time and that there is a clear path to replication and deployment.

Technology Acceleration projects

Technology Acceleration projects help to develop specific sectors or technologies through targeted trials or demonstration projects run over months or a few years. Project selection is informed by the Low Carbon Technology Assessment together with experience from the RD&D Open Call and a shortlist of recommended projects is produced after careful study. The final choices are approved by the Carbon Trust's Investment Committee.

Projects in 2003/04:

Small CHP (combined heat and power) trial – this is a major field trial of new designs of small-scale CHP devices covering the full range of technology options. We have designed the trial to assess the real world performance of some 150 installations over at least one year.

Advanced metering – advanced metering techniques often lead to significant energy savings and associated carbon emission reductions. This trial will evaluate how well such techniques work, what barriers exist preventing their use and what we can do to help overcome these barriers. Progress is well underway with seven main contracts let for meter provision and data analysis. Potentially some 700 sites will be monitored and energy savings sought. Data is to be collected over a continuous period of at least 18 months, with results expected in late 2004. However, early findings are already suggesting great potential for this technology as a very cost effective technique to reduce carbon emissions.

Turning up the heat on greenhouse emissions

Applying flameless firing to primary glass melters should lead to both a reduced formation of NOx and enhanced furnace energy efficiency. Flameless firing involves a radical change to the way that existing primary glass melters are operated. The fuel-air mixing process is modified to achieve more uniform conditions within the furnace, enhancing heat transfer and reducing peak temperatures – the main cause of NOx formation.

The Carbon Trust contributed funds of over £60,000 to a 12 month project at the University of Glamorgan to test whether the results of the University's mathematical model could be replicated on an industrial scale. In this project a full-scale (1MW) glass bulk melter simulator, with capability of continuous non-reversing firing at air preheat exceeding 1100°C, is being used to validate an existing mathematical model and to explore flameless firing configurations for operational melters. The flameless combustion approach eliminates localised very high peak flame temperatures which contribute little to heat transfer but are a major source of NOx created by the 'thermal NOx' mechanism.

The early results indicate that this technology, if adopted in all UK primary glass melting processes, would deliver fuel savings of up to 12%. A further 5% to 8% of the fuel used for melting is used to clean-up nitrous oxide emissions which would also be eliminated or significantly reduced. Assuming that 50% of the fuel used by the UK primary glass melting sector is heavy fuel oil, this would lead to carbon savings of around 36,000 tonnes a year.

Review of the year continued

The Marine Energy Challenge – this aims to answer the key question of whether marine energy can become cost competitive against conventional power generation and other forms of renewable energy, whilst at the same time accelerating the development of wave and tidal energy devices in the UK through the provision of high quality engineering support. We are now working with eight developers on wave and tidal devices giving us an excellent insight into the potential for these technologies.

European Marine Energy Centre – we partly fund the wave energy testing and demonstration facility situated off Orkney. The development of the facility is now complete after being constructed on-time and under budget.

Investments

Venture capital investments

We co-invest in early stage businesses developing low carbon technologies. We specialise in identifying and investing in innovative early stage companies with strong intellectual property and credible management teams. The venture capital

Riding the crest of new technologies

The Marine Energy Challenge will show whether there is potential for cost effective wave and tidal power generation. It is a £2.5 million programme due to be completed in early 2005 involving developers from USA, Netherlands, Denmark and the UK.

In total, eight developers have been selected to participate in the challenge, each with a different device for extracting energy from the waves.

In order to assess the potential for marine energy to become cost competitive, we have engaged engineering design companies to produce detailed engineering reports and drawings to identify the potential for cost savings, large-scale production, product evolution and technology transfer from other established industries.

Through the Marine Energy Challenge, we hope to develop a clearer picture of the relative cost and performance of each device and understand the potential barriers to commercialisation. We will also be able to assess whether marine energy could become cost competitive against other renewable energy sources or fossil fuelled power and so further promote the UK as a global leader in this industry.

Wave Dragon – Wave Dragon is a floating, slack-moored energy converter of the overtopping type that can be deployed in a single unit (4 to 10 MW) or in arrays of Wave Dragon units in groups of 2-200 resulting in a power plant with a capacity comparable to traditional fossil based power plants.

OPD – Ocean Power Delivery Ltd has developed a novel offshore wave energy converter called Pelamis. The Pelamis is a semi-submerged, articulated structure composed of cylindrical sections linked by hinged joints. Power generated from all the joints is fed down a single umbilical cable to a junction on the sea bed.

AquaEnergy – An AquaEnergy power plant consists of a number of offshore wave energy converters, called AquaBuOYs. AquaBuOYs are moored-buoy devices that transform the vertical component of kinetic energy from the oncoming ocean waves into electrical energy utilising 'hose-pump' technology.

Steel-works

Ceres Power was founded in 2001 as a spin-out from Imperial College London. It is developing commercial applications for revolutionary fuel cell technology invented by the company's founders over the preceding ten years at Imperial College. The fuel cell does not store energy, but uses the chemical properties of hydrogen and oxygen to create electricity, heat and water vapour.

The cell is made from stainless steel components with thin ceramic coatings, making them not only robust but also relatively low-cost. This makes them ideally suited for consumer applications such as the domestic boiler market in the UK. Other potential markets include auxiliary power units for transportation applications and generators for secure power supply.

Having proved that the fuel cells work, Ceres Power successfully secured £5.6 million in a second round of private equity investment. The Carbon Trust has invested £1 million in return for shares in the company. Other investors in this round include funds managed by Fleming Family and Partners, Nikko Principal Investments and Imperial College. The investment will help to advance the much broader emerging hydrogen industry in the UK, which is part of our drive to promote a low carbon economy.

team is supported by in-house technical and strategy groups as well as a wide network of specialists. All investments are made on fully commercial terms. Our ability to assess risk as an informed industry expert has helped to make us a co-investor of choice in the low carbon technology field.

Typically, we invest between £250,000 and £1.5 million per deal as a minority shareholder on the same terms as co-investors such as other venture capital firms. This provides the twin benefits of directing investment where it is most needed and giving the potential for a return which can be recycled into other investments.

In 2003/04, we grew our portfolio of equity investments to a year end position of five investments by investing a further £1.3 million in two companies and leveraging a further £4.9 million.

During the year the equity portfolio was written down in value by £1.112 million. The downward revaluation of these holdings reflects the high risk nature of investing in early stage technology where losses in a portfolio of investments are likely to be incurred before any gains. We remain of the view that investing in early stage technology development is a central part of the company's remit.

Incubators

Our support for Incubators was developed to assist early stage low carbon technologies to make the jump from technology research and demonstration to actual commercial exploitation. It is rare for technological promise to be matched with a compelling business proposition, and hence many technologies may need to go through an incubation and commercialisation phase before private investment can be raised. This activity supports the creation of spin out businesses and, where appropriate, corporate venturing and licensing.

The start-up phase of the activity is progressing well. Contracted spend will be around £2.6 million over a three year period with each incubator receiving up to a maximum of £300,000 per year depending on the achievement of a series of targeted milestones.

Three incubator contracts were signed in 2003/04. These include two geographically-focused incubators: Imperial College Innovations in London, and the LIFE – IC incubator in Sheffield (jointly funded by South Yorkshire Objective 1 Fund), as well as Angle Technology which will provide UK wide services. These incubators can provide up to £60,000 of support services for any start-up or spin-out company that meets the set entrance criteria.

Support services include strategic and business development consultancy, financial and company formation advice, mentoring and non executive management support, energy specific market research, guidance on technical and intellectual property rights support, and access to an established network of energy technology investors, researchers and end users.

Review of the year continued

Helping to understand the impact of climate change

Our work in this area enables us to inform the debate around climate change, the appropriate regulatory environment and the required response from business. It covers a broad spectrum of activity including Carbon Trust publications, awareness raising, informing government policy and investor engagement.

Carbon Trust publications

In 2003/04 we initiated a number of studies building on the Low Carbon Technology Assessment work from 2002/03, with the aim of both improving our understanding of the potential for, and impact of, specific low carbon technologies and practices, and also stimulating debate as to how we can accelerate progress towards a low carbon economy.

The key reports published in 2003/04 included:

- **'Fuel Cells – the next stage'** (May 2003) a joint study with the DTI that analysed the potential for fuel cell technology and the status of the fuel cell industry in the UK;
- **'Building Options for UK Renewables'** (October 2003) highlighted the investment opportunity for UK plc across a number of renewable technologies including on-shore wind, off-shore wind, wave, tidal stream and photovoltaics;
- **'Investor Perspectives on Renewables Financing'** (December 2003) which reviewed investor willingness to provide finance at the scale required to meet the UK's 2010 renewables target; and
- **'The Climate Change Challenge'** (March 2004) which summarised the scientific evidence and implications of climate change.

Informing government policy

Over the past 12 months we worked closely with government through our roles on the Sustainable Energy Policy Network (SEPN) and the Renewables Advisory Board (RAB). The SEPN's primary objective is to deliver the goals and commitments of the UK's Energy White Paper. The network includes policy units from across government, the Devolved Administrations, Ofgem, the Environment Agency, the Energy Saving Trust and the Carbon Trust. The RAB is a cross-government and industry group that advises government on issues related to renewables development and deployment in the UK.

As well as sharing insights with government from what we are learning through working with business and public sector day-to-day, we have carried out two specific pieces of work over the past year to inform the policy debate more broadly.

We undertook a detailed piece of research into how to accelerate energy efficiency take-up in the UK in business and the public sector. The output from this exercise was shared with government and other stakeholders as part of the process of developing the UK's Energy Efficiency Implementation Plan.

Following on from our work on 'Building Options for UK Renewables', we also jointly carried out a study with the DTI looking both at how to accelerate progress on delivery of the Government's renewables targets and at UK low carbon innovation more generally.

In addition, we worked with a number of other organisations focused on achieving a low carbon economy. These included the Government's Chief Scientific Adviser's High Level Group on energy RD&D, the Low Carbon Vehicles Partnership, the Trade Union Sustainable Development Advisory Committee, and the Parliamentary Renewable and Sustainable Energy Group. We work closely with the Energy Saving Trust on Community Energy and other areas of mutual interest. We have continued to build relationships with other national and international organisations whose remit includes reducing carbon emissions, including the Environment Agency, WRAP, Envirowise, other non-governmental organisations, the US Clean Energy Group and the Climate Group.

Awareness raising, marketing and communications

Through our broader marketing and business development activities, we aim to raise awareness of the risks and opportunities associated with a transition to a low carbon economy and also to raise the profile of the Carbon Trust's activities in the sector so that organisations contact us for help and support.

The Lifeblood campaign

The aim of this campaign was to raise awareness of energy efficiency as a key source of cost saving for business, and to encourage them to contact Action Energy from the Carbon Trust for help and advice. A particular target for this campaign was small businesses whose awareness of energy efficiency and propensity to take action was low. The creative premise was that energy was the lifeblood of business and that 30% was going to waste – save energy and save money by contacting us for help. The campaign used a mix of hard-hitting TV and press adverts that depicted energy as blood, supported by extensive public relations. The initial phase of the campaign ran from November

2003 to February 2004 and resulted in over 20,000 additional organisations contacting us for help and advice. Helpline calls and website hits reached an all time high and have since consistently been around twice the usual levels and resulted in unprecedented awareness of energy efficiency among SMEs.

Carbon Rationing – engaging with the institutional investment community

The Carbon Trust has a mandate to help investors understand the continuing ramifications of carbon reduction through regulatory and other forms of intervention at a governmental and inter-governmental level. In February 2004, as part of our investor engagement work, we launched the 'Carbon Rationing' campaign which demonstrated that, with the onset of carbon trading and other legislative and regulatory developments, climate change and business reaction to the need to cut carbon emissions was an issue with the potential to create or destroy shareholder value. Through the use of powerful imagery and highly targeted activity in the key investment centres of London and Edinburgh, we managed to boost the awareness levels of this issue and our role amongst the institutional investment community.

Smart Companies – engaging with larger companies and organisations.

Building on the interest from business leaders to the Carbon Rationing campaign and the issues surrounding it, in March 2004, the Secretary of State, the Rt Hon Margaret Beckett MP, launched 'Smart Companies', a major advertising campaign highlighting the commitment of leading UK companies including ASDA, GlaxoSmithKline, Sainsbury's, Scottish and Newcastle, Somerfield, and Walkers Snacks Foods to cutting carbon emissions. This demonstrated that smart companies saw the business opportunities in effective carbon management, as well as the need to manage the risks associated with climate change and the need to reduce carbon emissions.

Carbon Trust events

Over the year the Carbon Trust supported and funded significant events of relevance to its core purpose. Examples include:

- In April 2003, the Carbon Trust welcomed Adair Turner, Vice-President of Merrill Lynch, as he gave the inaugural Carbon Trust Lecture. This was the first of a series of high-profile events attended by hundreds of senior decision-makers across business, government and wider communities that highlighted the business challenges and opportunities of climate change.
- The first Carbon Trust Innovation Awards were held in November 2003 in association with The Sunday Telegraph. The Awards aimed to identify individuals and organisations whose innovative approach is making a significant contribution to reducing the UK's carbon emissions. The independent judging panel included Lord Sainsbury, Minister for Science and Innovation. The awards were hugely successful with hundreds of entries that demonstrated the increasing breadth and depth of innovation in the low carbon area. The winners were:
  - in the individuals and small businesses category: Ceres Power Limited (also the overall winner). Ceres has developed a unique fuel cell which produces power in a highly efficient way using hydrogen or hydrocarbon fuels;
  - in the academic institutions and R&D facilities category: University of Oxford (Chemistry Department). The University has developed an innovative hydrogen fuel cell based on enzyme catalysts; and
  - in the larger companies and public sector organisations category: Joint winners: Leeds City Council and Torotrak. The Council has significantly reduced energy consumption over the last decade through a series of initiatives including an innovative whole life costing approach in new buildings. Torotrak has developed an 'Infinite Variable Transmission' that enables a vehicle's engine to run at optimum conditions for fuel economy and performance.

Investor engagement

In addition to our 'Carbon Rationing' campaign, we have undertaken a number of activities to engage effectively with the investment community.

During the summer of 2003, the Carbon Trust commissioned a study to look at where it could best serve the needs of the mainstream investment community. It identified the need for greater engagement, and availability of accurate, quantitative research.

In November 2003, the Carbon Trust co-sponsored the Institutional Investors Group on Climate Change conference on the financial impacts of climate change. This event was designed to engage mainstream investors in thinking about the risk and opportunities for their investment portfolio associated with climate change.

In March 2004, the Carbon Trust agreed to fund a significant part of the next stage of the Carbon Disclosure Project, a shareholder initiative designed to influence the disclosure of carbon risk of the 500 largest companies globally. The Carbon Disclosure Project represents a group of 87 institutional investors with assets of over US$10 trillion under management.

Review of the year continued

The Devolved Administrations and English regions

The activities described in the earlier sections are carried out throughout the UK. To help us deliver effectively we have offices in each of the Devolved Administrations and regional managers based in five of the nine English regions.

The Devolved Administrations – Scotland, Wales and Northern Ireland

Our local work is mainly focused around helping organisations to reduce their present carbon emissions. Our teams in Scotland, Wales and Northern Ireland have all delivered excellent results, some highlights of which follow.

The Carbon Trust in Scotland

450 on-site survey reports were delivered to clients, including 85 Design Advice reports. We also delivered a customised service to 20 larger energy users in Scotland. In total, around 220,000 tonnes of CO_2 savings were identified.

In addition, 25 training events were completed that were attended by 750 delegates and an Action Energy from the Carbon Trust newsletter promoting all aspects of the service was launched that is now circulated to over 2,200 recipients.

Our Scottish team also supported the establishment of the ground breaking European Marine Energy Centre on Orkney.

The team continues to work closely with our colleagues at the Scottish Energy Efficiency Office, part of the Scottish Executive, to deliver services in Scotland.

During the year the team relocated from Scottish Executive premises to their own offices in East Kilbride.

John Stocks
Manager of the Carbon Trust in Scotland

The Carbon Trust in Wales

The team made over 600 client manager visits to private and public sector organisations. 261 applications for on-site surveys were approved with nearly 200 final reports completed. Customised services were delivered to 37 larger energy users in both the private and public sector to identify and implement energy and carbon emissions savings. In total, around 150,000 tonnes of CO_2 savings were identified through our on-site surveys and customised services (excluding Carbon Management pilot projects).

In addition, we also started strategic work with local authorities and the NHS, which identified further savings of 113,400 tonnes of CO_2. Implementation of the Low Carbon NHS initiative has commenced in partnership with Welsh Health Estates, and all Welsh NHS Trusts attended a number of workshops and training events.

Over 400 delegates attended our 12 events and we supported 37 events organised by third parties. Over £150,000 was paid out in Action Energy interest free loans.

Annie Thompsett
Manager of the Carbon Trust in Wales

The Carbon Trust in Northern Ireland

Over 300 Action Energy on-site survey visits were carried out which identified over 120,000 tonnes of CO_2 savings.

In addition, over 1,000 delegates attended energy efficiency training events and a total of £426,000 was paid out in Action Energy interest free loans.

We published the Northern Ireland Energy Study which provides a summary of energy usage and energy related issues. This helps inform our work with Invest Northern Ireland and helps us to assess the options available for Northern Ireland to make progress towards achieving the deep carbon cuts necessary.

Significant progress was also made on the 'Low Carbon Design Initiative' which seeks to effect a market transformation towards low carbon, high performing buildings by providing a comprehensive range of support mechanisms to clients and construction professionals. The initiative gained the endorsement of local industry professional organisations. Further development of this work will continue into 2004/05.

Geoff Smyth
Manager of the Carbon Trust in Northern Ireland

The English regions

The Carbon Trust has regional managers in: the North-East; the North-West; the East Midlands; the West Midlands and the South-East. The Regional Managers are seconded to us from the Regional Development Agencies to facilitate the promotion and delivery of Carbon Trust activities in the regions.

Environmental report

The Carbon Trust recognises the importance of good environmental management, the value of sound environmental reporting practices and the need to minimise the environmental impact of its activities.

Our environmental policy provides guidelines on how we operate as an organisation and how we can reduce our environmental impact – which is largely via the use of energy to provide heat, light, ventilation and power for office equipment in addition to staff and business transport. We also recognise some impact as a result of our purchasing decisions and use of consumables such as paper, IT equipment, and office furniture.

The Carbon Trust aims to minimise waste, print all documents and marketing materials on recycled paper, and make use of recycled stationery where appropriate. We also expect our suppliers and contractors to have clear policies and actions in respect of the environmental impacts of their own organisation.

Through the last year we have been driving improvements, particularly focusing on reducing energy use, led by our internal environmental team which comprises employees at all levels and meets monthly to identify improvement areas and initiate actions.

Further actions throughout the Carbon Trust have included:

- a survey of employee knowledge and behaviour – setting a benchmark against which to measure improvements;
- internal staff awareness campaigns to reduce paper use and switch off electrical equipment;
- reducing lighting levels by half by removing fluorescent tubes (leading to overall electricity savings of around 10%);
- installing timer switches on equipment; and
- providing advice to employees on environmental savings in the home.

Future actions will include the installation of automatic lighting controls and implementing recycling facilities for plastics, glass and cans in the office.

The Carbon Trust recognises the importance of measuring its environmental impact where possible. CO_2 emissions have increased during the year as a consequence of a growth in staff numbers and office space in both London and Scotland.

However, CO_2 emissions per employee have reduced by 4% as a result of the actions described above.

Estimated Carbon Trust CO_2 emissions (excluding transport) in 2003/04 were 165 tonnes (2.8 tonnes per employee) in comparison with 133 tonnes (2.9 tonnes per employee) in 2002/03.

This year, we have also calculated CO_2 emissions including the impact of business travel. Estimated CO_2 emissions including transport in 2003/04 were 227 tonnes or 3.9 tonnes per employee.

Directors' report

Directors

Ian McAllister CBE continued as Chairman throughout 2003/04, and Ian Stephenson continued as Deputy Chairman.

Tom Delay continued as Chief Executive and Rosemary Boot as Finance Director through the year.

The Board member representing Invest Northern Ireland changed during the year due to the retirement of the previous incumbent. All other Non Executive Directors were in place throughout the year. The details of all Board members and changes through the year are listed on page 20.

Recruitment of management and staff

Throughout the year, the Chief Executive and Finance Director completed the recruitment drive started in 2001/02. Staff were recruited across all departments. Employee numbers (including Executive Directors but excluding Non Executive Directors) increased from 45 at 31 March 2003 to 72 at 31 March 2004. There were also 7 staff members on secondment from other organisations, making a total staff complement of 79 as at 31 March 2004.

The Directors present their annual report on the affairs of the group together with the accounts and auditors' report for the period 1 April 2003 to 31 March 2004.

Principal activity

The group's principal activity is to promote the development and deployment of low carbon technologies, including energy efficiency technologies and low carbon processes and energy supplies.

Business review and organisational structure

See the review of 2003/04 on pages 6 to 16 for a description of our activities in the year. Organisationally these activities are delivered through three separate programmes:

- Action Energy from the Carbon Trust, which is focused on practical help to deliver carbon savings in the short term, largely through energy efficiency (and the deployment of existing technologies);
- promotion of the Government's Enhanced Capital Allowances scheme for energy saving investment and management of the associated Energy Technology List; and
- the Innovation Programme (previously called the Low Carbon Innovation Programme) which is a very broad-ranging programme, largely focused on carbon savings in the medium and long term (through the development and deployment of new technologies), but also undertaking activities to address barriers to shorter term savings.

The financial and performance information set out in the rest of this document focuses on our activities as organised by programme, and the table below shows how our various activities are managed by programme:

Reducing Carbon Emissions Now	**Developing** Low Carbon Technologies	**Helping** to understand the Impact of Climate Change
Direct engagement	**RD&D**	**Carbon Trust publications**
Customised services	Carbon Vision	
Carbon Management pilot schemes for business and Local Authorities	Open call RD&D	**Awareness raising campaigns**
On-site surveys	**Technology acceleration**	'Lifeblood'
Design advice	Marine Energy Challenge	'Carbon Rationing'
	European Marine Energy Centre (Orkney)	'Smart Companies'
Indirect engagement	Small CHP trials	**Carbon Trust events**
Helpline, website, publications & events	Advanced metering trials	
Sector, technology and professional bodies	**Investments**	**Investor engagement**
	Venture capital	
Financial incentives	Incubators	
Interest free SME loan pilot scheme		
Local Authority Energy Financing pilot scheme		
Government's ECA scheme for energy saving investment		

Key: Action Energy programme, Innovation programme, ECA scheme support

Supplier payment policy

The company's policy is to pay supplier invoices within 30 days from the date of invoice.

Results and dividends

The audited financial statements for the period ended 31 March 2004 are set out on pages 30 to 32.

The profit for the period after taxation was £1,871,000. The only taxable income is a small amount of interest income. The company is not allowed to pay a dividend.

For a more detailed review of the results for the year, and a more detailed explanation of the accounting profit, please see the Financial review section on pages 23 to 25.

Charitable and political contributions

During the year the company made no charitable or political contributions (2003 – £nil).

Equal opportunities

The Carbon Trust is committed to equal opportunities for all present and potential employees and does not discriminate on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation. Applications for employment by all persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the company that the training, career development and promotion of all employees should, as far as possible, be identical.

The policy of the company is that in the event of members of staff becoming disabled, every effort should be made to ensure that their employment with the company continues and that appropriate training should be arranged.

Employee consultation

The company places considerable value on the involvement of its employees, and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings.

Directors' responsibilities

United Kingdom company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period.

After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

Auditors

Deloitte & Touche LLP have expressed a willingness to continue in office. A resolution to reappoint them will be proposed at the next annual general meeting.

By order of the Board,

Tony Stockwell
Company Secretary
4 August 2004

8th floor, 3 Clement's Inn
London WC2A 2AZ

Board of Directors

Directors

The Directors of the company during the year were:

Name	Position	Primary positions held elsewhere as at 31 March 2004	Date of appointment or resignation
Ian McAllister CBE	*Chairman*	Chairman, Network Rail	Appointed 29 March 2001
Ian Stephenson	*Deputy Chairman*	Director IT, HR and EHS, Johnson Matthey	Appointed 29 March 2001
Tom Delay	*Chief Executive*	None	Appointed 13 July 2001
Rosemary Boot	*Finance Director*	None	Appointed 13 July 2001
Henry Derwent	*Non Executive*	Director of Climate, Energy and Environmental Risk, Defra	Appointed 4 March 2003
Dr Alistair Keddie	*Non Executive*	Innovation Adviser to the DTI	Appointed 29 May 2001
Robin Naysmith	*Non Executive*	Head of Energy & Telecommunications, Scottish Executive	Appointed 26 June 2002
Jim Sayers*	*Non Executive*	Director Knowledge Management, Invest Northern Ireland	Appointed 26 June 2002 Resigned 29 March 2004
Dr Alan Neville**	*Non Executive*	Director Knowledge Management, Invest Northern Ireland	Appointed 29 March 2004
David Pritchard	*Non Executive*	Director Economic Development, National Assembly for Wales	Appointed 13 July 2001
Prof Sir Richard Brook	*Non Executive*	Director, The Leverhulme Trust	Appointed 13 July 2001
John Edmonds	*Non Executive*	Senior Research Fellow at King's College, London University	Appointed 13 July 2001
Dr Paul Jefferiss	*Non Executive*	Head of Environmental Policy, RSPB	Appointed 16 May 2001
Peter Lehmann	*Non Executive*	Chairman, Energy Saving Trust	Appointed 13 July 2001
Chris Mottershead	*Non Executive*	Distinguished Advisor, BP	Appointed 1 July 2001
Michael Roberts	*Non Executive*	Director, Business Environment, CBI	Appointed 13 July 2001
John Speirs CBE	*Non Executive*	Member, Royal Commission on Environmental Pollution	Appointed 29 May 2001
Gordon Waters	*Non Executive*	Executive Director, United Utilities	Appointed 1 September 2001

Directors as at 31 March 2004 are named in bold.

* This Director retired from Invest Northern Ireland and resigned from the Board

** This Director replaced the Director marked *

Corporate governance statement

Statement of compliance with the Combined Code on Corporate Governance

The company is not a listed company and is not required to comply with the requirements of the Combined Code on Corporate Governance. However, the company wishes to adopt best practice and to report on corporate governance issues.

The company has reviewed the provisions of the Code of Best Practice set out in section 1 of the Combined Code, applicable to the accounting period 2003/04, and considered with which of those provisions it is, in its opinion, appropriate for a company of the size and nature of the Carbon Trust to comply. The following paragraphs of this Corporate Governance Statement reflect the company's compliance with those provisions considered to be appropriate.

Identification of members of the Audit Committee

John Speirs (Chair), Henry Derwent, Peter Lehmann, David Pritchard and Gordon Waters were the Audit Committee members through the whole year.

Statement about applying the Principles of Good Governance

The company applies the relevant Principles of Good Governance in section 1 of the Combined Code as set out below and, in connection with Directors' remuneration, in the remuneration report.

- Division of responsibilities between Chairman and Chief Executive – there is a clear division of responsibilities between the Chairman and the Chief Executive.
- Board balance – there is a good balance between the seventeen board members. Two are Executive Directors, four are Non Executive Directors representing Government departments which fund the company, and eleven are independent Non Executive Directors contributing a wide range of experience from industry, trade union and non-governmental organisations.

Maintenance of a sound system of internal control

The Board is responsible for the company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee assists the Board in discharging its review responsibilities in relation to:

- the appointment, remuneration and removal/resignation of external auditors;
- receiving the results of the annual statutory audit;
- the ongoing review of internal controls, including risk management; and
- reviewing periodically the need for an internal audit function.

With the assistance of the Audit Committee the Board intends to carry out a formal review of the company's internal controls during the financial year 2004/05. The Board is also considering whether any changes are appropriate to the company's corporate governance procedures in the light of the revision of the Combined Code on Corporate Governance resulting from the recommendations in the Higgs report on the role and effectiveness of non executive directors and the Smith report on an enhanced role for audit committees, which applies for reporting years beginning on or after 1 November 2003.

Remuneration report

As well as complying with the provisions of the Combined Code as disclosed in the company's Corporate Governance Statement, the Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

Procedures for developing policy and determining remuneration

The Remuneration Committee deals explicitly with the compensation arrangements of the Board. The Committee comprises independent Non Executive Directors exclusively. The Chairman of the Committee and its members are appointed by the Board and the overall terms of reference of the Committee are agreed by the Board.

The current members of the Remuneration Committee are Ian Stephenson (Chair), Dr Alistair Keddie, Chris Mottershead and Michael Roberts.

The Remuneration Committee has access to all the information it may reasonably require to assess the general policy on executive remuneration.

Statement of remuneration policy

The company's remuneration policy is to:

- provide a compensation package to attract, motivate, and retain high quality employees; and
- assess company remuneration relative to other appropriate private and public sector organisations, taking account of relative performance of equivalent positions.

The remuneration of the Executive Directors is comprised of base salary, an incentive bonus of up to 30% of base salary and certain other benefits. The recommendation of the bonuses to be paid to the two Executive Directors was made by the Remuneration Committee by assessing performance against key objectives aligned with the contribution made to the success of the company in this stage of development. These payments were then ratified by the Chairman in line with his powers of authority.

The fees of the independent Non Executive Directors, including the Chairman and Deputy Chairman, were determined by the Board as a whole in 2001, and were based on outside advice and review of current practices in other companies. These will be reviewed during 2004/05.

The representatives of Government departments (identified above with *) did not receive a payment from the company, as they are public servants carrying out duties as part of their normal responsibilities.

Peter Lehmann of the Energy Saving Trust did not receive a payment from the company due to a reciprocal arrangement between the Carbon Trust and the Energy Saving Trust.

Other independent Non Executive Directors were paid a salary as their work on behalf of the company was in addition to their normal responsibilities with their own organisations.

The remuneration for each Director during the year ended 31 March 2004 was:

Executive Directors

Name	2004 Salary £	2004 Bonus £	2004 Other benefits £	2004 Total £	2003 Total £
Tom Delay	132,312	35,370	9,909	177,591	168,031
Rosemary Boot	91,962	24,584	6,186	122,732	113,950

In addition, during the year the company made pension contributions of £11,885 (2003 – £9,947) and £9,196 (2003 – £8,842) into the personal pension plans of Tom Delay and Rosemary Boot respectively.

Non Executive Directors

Name	2004 Fees £	2004 Fees paid to third parties £	2004 Total £	2003 Total £
Ian McAllister	35,000	Nil	35,000	35,000
Ian Stephenson	24,000	Nil	24,000	24,000
Henry Derwent*	Nil	Nil	Nil	Nil
Dr Alistair Keddie*	Nil	Nil	Nil	Nil
Robin Naysmith*	Nil	Nil	Nil	Nil
Jim Sayers*	Nil	Nil	Nil	Nil
Dr Alan Neville*	Nil	Nil	Nil	Nil
David Pritchard*	Nil	Nil	Nil	Nil
Prof Sir Richard Brook	14,000	Nil	14,000	14,000
John Edmonds	10,500	3,500	14,000	14,000
Paul Jefferiss	14,000	Nil	14,000	14,000
Peter Lehmann	Nil	Nil	Nil	Nil
Chris Mottershead	14,000	Nil	14,000	14,000
Michael Roberts	14,000	Nil	14,000	14,000
John Speirs	14,000	Nil	14,000	14,000
Gordon Waters	14,000	Nil	14,000	14,000
Totals	**153,500**	**3,500**	**157,000**	157,000

Financial review

Spend in 2003/04 was £61.1 million. We use the term "spend" to mean cash paid out in relation to 2003/04 activity, accruals and creditors at the 31 March 2004 year end and amounts irrevocably committed at the year end under the Action Energy interest free loan scheme.

Action Energy increased its activity level compared with 2002/03 with significantly more site visits, the introduction of a new customised service and a large awareness raising campaign. Our activities supporting the Government's ECA scheme for energy saving investment (promoting the scheme and managing the Energy Technology List), were run at a similar funding level to 2002/03. Action Energy interest free loan offers of £3.2 million were made to SMEs, and the Innovation Programme significantly increased its funded activities from £5.8 million to £18.5 million with future commitments of a further £11.0 million.

In 2003/04 £60.9 million was made available to the company by Defra and the Devolved Administrations to fund programmes and costs. This included unspent funds of £8.0 million from previous years. There was also a small amount of bank interest and rental income, taking the total available to spend of £61.2m. However, £1.55 million of these funds were set aside for an investment in a company called Ocean Power Delivery Limited which actually took place in June 2004. This left £59.6 million of funds available.

There was therefore a £1.43 million excess of spend over 2003/04 funds, largely a result of some Action Energy and corporate activity falling into 2003/04 rather than 2004/05, leading to a higher level of accruals. This overspend would have been funded out of pledged 2004/05 grant funding in accordance with our accounting policies; however, in May 2004 Defra agreed to provide an additional £1.4 million as its contribution to the overspend. Scotland-funded activities resulted in a small underspend and for each of Wales and Northern Ireland there was a small overspend which will be funded out of 2004/05 grants.

Summary

	£'000
2003/04 funds from Defra and the Devolved Administrations	60,939
Bank interest (before tax) and rental income	261
	61,200
Funds for Ocean Power Delivery investment	(1,550)
Available funds	**59,650**
2003/04 spend	**(61,081)**
Net overspend before release of prior year accruals	**(1,431)**

Net overspend shown above includes some items as spend, such as loan commitments and prepayments, which are not included in the statutory profit and loss account.

This table shows the spend incurred in 2003/04 on activities now managed by the Carbon Trust by comparison with previous years:

	Total 2003/04 £'000	Total 2002/03* £'000	Total 2002/03** £'000	Total 2001/02** £'000
Action Energy	29,185	20,117	23,602	21,112
Carbon Trust promotion and management support for Government's ECA scheme for energy saving investment	1,480	1,617	1,800	317
Innovation Programme (including £3.221 million of Action Energy interest free loan offers in 2003/04)	21,767	5,568	5,830	1,280
Total programme expenditure pre VAT	**52,432**	**27,302**	**31,232**	**22,709**
Direct costs	1,038	522	522	162
Core costs	512	415	415	216
VAT	7,099	4,169	4,169	168
Total	**61,081**	**32,408**	**36,338**	**23,255**

* Based on Action Energy costs paid by the Carbon Trust after management of the programme had been transferred from Defra

** Including programme and other costs paid by Defra

Each programme incurs its own management and administration costs directly and each programme is allocated a proportion of the Carbon Trust's central costs. For 2003/04, 88% of central costs were allocated on an activity basis to programmes and are included in the expenditure for the relevant programme shown in the table above. The remaining 12% of central costs are described as core costs which cannot be allocated to programmes.

Direct costs are the costs of running the offices in Scotland, Wales, and Northern Ireland, and of the secondees in the English regions.

The VAT we incur is irrecoverable because we do not currently provide any services directly on which VAT is chargeable. We have been informed by HM Treasury that we do not qualify for the exemption that applies to Government.

Financial review continued

The spend set out above includes items such as fixed assets and investments which are capital expenditure, and Action Energy interest free loans which are not chargeable as expenditure for the purposes of the statutory accounts.

The spend above can be reconciled to the statutory profit and loss account expenditure as follows:

	2003/04 £'000	2002/03 £'000
Spend as above	61,081	32,408
Add depreciation less fixed asset additions	1	19
Less corporation tax	(57)	(1)
Less release of prior year's accruals	(354)	(32)
Less movement on prepayments and sundry debtors	(57)	(112)
Less loans made and committed net of discount and bad debt provision	(2,799)	–
Less investments after impairment provision	(188)	(1,050)
Expenditure in the profit and loss account	**57,627**	31,232

Expenditure on the Action Energy interest free loan scheme is further reconciled to the statutory accounts as follows:

	2003/04 £'000
Total of Action Energy interest free loan spend as noted above	**3,221**
Loan commitments (the funding for which is treated as deferred income at year end)	(862)
Loan repayments received during the year	(164)
Effect of discounting interest free loans (see section below on interpretation of our statutory profit and loss account)	(384)
Unwinding of discount during year (see section below on interpretation of our statutory profit and loss account)	47
Specific bad debts provided	(37)
Present value of loans receivable	**1,821**

Our funding is approved annually in advance, and is drawn down monthly in advance on the basis of requests made to Defra and the Devolved Administrations based on forecasts of spend over the rest of the year.

Short-term excess cash balances are held in high interest accounts.

There was £151,000 (2003 – £102,000) of capital expenditure in the year which was primarily on information technology and the expansion of the London office.

At 31 March 2004 cash held was £7.5 million (2003 – £10.5 million) and trade and accrued creditors were £6.0 million (2003 – £9.2 million). The cash held over and above the value of trade and accrued creditors related to loan commitments and the investment in Ocean Power Delivery Limited made in June 2004.

The company has a wholly-owned subsidiary, Carbon Trust Investments Limited ('CTIL'), which was acquired as a shell company in March 2003 by the company to make and hold investments. On 4 April 2003 the company transferred the three equity investments it then held, (including Exus Energy Limited (formerly B9 Energy Biomass Limited) and Natural Building Technologies Limited) to CTIL for their original purchase cost plus the costs incurred in making and monitoring the investments and an appropriate allocation of the Innovation Programme's costs. Two further equity investments were made during the year by CTIL (CMR Fuel Cells Limited and Ceres Power Limited) and heads of terms were signed in relation to a third (Ocean Power Delivery Limited) which took place in June 2004. The Board of CTIL comprises ten directors who are also Directors of the company. Because the company has an active subsidiary we have prepared consolidated group accounts for the first time in 2003/04.

During the year the equity portfolio was written down in value by £1.112 million. The downward revaluation of these holdings reflects the high risk nature of investing in early stage technology where losses in a portfolio of investments are likely to be incurred before any gains. The Directors remain of the view that investing in early stage technology development is a central part of the company's remit.

In March 2004, Salix Finance Limited ('Salix Finance') was set up as a company limited by guarantee and independent of the company, with responsibility for the Local Authority Energy Financing pilot scheme in England and Wales. John Edmonds, a Non Executive Director of the company, is a member and director of Salix Finance nominated by the company. The company has conditionally agreed to grant fund Salix Finance up to £4.0 million as co-funding with investments from the local authorities, plus annual administration costs over three years, of which £682,000 was provided in March 2004. In addition, £11,000 is being provided in kind in the first half of 2004/05 through the provision of administrative services, while Salix Finance establishes its own operational arrangements.

Interpretation of our statutory profit and loss account

Our income is made up of: grant claimed from Defra and each of the Devolved Administrations; separate funding for the Action Energy interest free loan scheme in Northern Ireland; some interest income; and a small amount of income from the Energy Saving Trust in relation to costs incurred by us and recharged to them in respect of our shared Welsh office.

Under our accounting policies, our grant income is recognised in the profit and loss account to match against our expenditure. Four areas of activity (capital expenditure, investments, prepayments and making loans) are not chargeable as expenditure for statutory profit and loss purposes.

This means that when we use our grant funding to purchase tangible fixed assets (capital expenditure), the grant income is categorised as deferred income and it is released to the profit and loss account to match the depreciation of those assets over their expected useful life.

However, when we make equity investments there is no expected useful life and so the grant income is recognised, but there is no corresponding expenditure. This leads to a profit (which is actually an excess of income over expenditure for accounting purposes) equal to the value of the investments held in the balance sheet. In the event that a provision is made against the value of these investments, the profit is reduced.

In addition, when we make interest free loans, the balances due become debtors in the balance sheet and the grant income used to fund them is recognised in the profit and loss account, as generally we have no obligation to repay these grants. The exception to this treatment occurs when grant funding is given to us to make interest free loans that may at a future point be repayable to the funder. This grant income is categorised as deferred income.

The value of the loan debtors shown in the balance sheet is reduced by a discount representing the interest foregone. The discount is treated as expenditure in the profit and loss account and therefore reduces the profit for the year. The discount is re-credited to the profit and loss account annually over the term of each loan as notional interest income, which increases the retained profit to the full value of the loans over the full period (assuming no bad debts).

Therefore the profit shown in the consolidated profit and loss account may be broken down as follows:

	Group 2004 £'000	Group 2003 £'000
Purchase of investments (see note 10)	1,300	1,550
Impairment of investments (see note 10)	(1,112)	(500)
Non-repayable grant income received in relation to Action Energy interest free loan scheme in England and Wales (see note 1(a))	2,007	–
Related effect of discounting interest free loans	(384)	–
Unwinding of discount during year (see note 2)	47	–
Net effect of discount on Action Energy interest free loans in Northern Ireland (where grant funding is repayable)	50	–
Specific bad debts provided	(37)	–
Profit for the financial year	**1,871**	1,050

Performance measurement

The Carbon Trust defines success as helping UK business and the public sector to reduce their carbon emissions cost effectively and helping to create a UK low carbon industry. Our programmes are designed to have a material impact in terms of carbon emission reductions in the short, medium and long term. By measuring our impact we learn how to improve our services. Our target is to improve the cost effectiveness of our programmes year on year, balancing carbon emission reductions today and tomorrow.

We monitor and report annually on the:

- overall impact in terms of implemented annual carbon emission reductions or potential reductions of our programmes; and
- cost effectiveness of our programmes.

Four measures are used to define cost effectiveness to recognise both the carbon savings made over the lifetime of the initiatives taken and the additional financial costs and benefits for our clients. *In all cases programme costs include* an appropriate allocation of Carbon Trust overhead costs:

1. Annual cost effectiveness: based on programme costs and carbon savings made in year
2. Lifetime cost effectiveness: based on programme costs and carbon savings made over lifetime of initiatives taken
3. Cost benefit: in addition to programme costs, the net present value of clients' capital investment and energy cost savings are used to measure the full cost benefit of the lifetime carbon savings
4. Leverage of our funds in the Innovation Programme

Although the cost effectiveness numbers reported here are not directly comparable with the carbon price in the forthcoming *EU Emissions Trading Scheme, the most meaningful comparison* from a company's perspective would be with the full cost benefit of carbon emission reductions, taking into account companies' energy cost savings and investment in addition to the programme costs.

2002/03 was the first full year in which the Carbon Trust ran its programmes, and is the baseline year against which we measure the effectiveness of the programmes. The methodologies used to measure the effectiveness of Action Energy and the Innovation Programme are necessarily different. A direct comparison between the numbers is not appropriate: Action Energy is focused on short term carbon emission savings; while the Innovation Programme is funding projects that should deliver medium to long term carbon emission savings as well as helping to create a UK low carbon industry. This year we present the first assessment of the awareness of the Government's Enhanced Capital Allowances Scheme for energy saving investment, where we promote the scheme and manage the associated Energy Technology List on behalf of Government. The Action Energy interest free loan pilot scheme started in 2003/04 and we present the first assessment of this scheme's impact. Headline impact assessment of the Carbon Management pilot scheme is also provided.

Action Energy: measures actual savings that have occurred as a result of its advice and support to its direct customers. The methods of evaluation are different for our three main services, namely:

- **Customised service (mainly large organisations/sites)** Assessment based on client relationship records detailing all recommendations identified, their current implementation status, required investment cost and the actual and potential future energy and carbon savings.
- **Site surveys (mainly medium-sized organisations/sites)** Assessment based on site survey reports which provide details of all recommendations made for each of the visits made during the year. *Implementation rates of identified opportunities* have been established by following up with clients.
- **Other customers (mainly SMEs)** Impact evaluated using a survey based approach, consisting of in depth interviews with a representative sample of approximately 3,000 of our customers and non-customers from business and the public sector. The outcome of the survey enables Action Energy to understand and measure the actual carbon emissions saved by our other customers.

The tables on the following page show a range of savings which depend on how the carbon savings made by our customers are attributed to Action Energy's influence – the higher number is based on energy efficiency actions taken by those organisations where Action Energy had a direct influence; and the lower figure includes the savings where Action Energy was considered to be a highly effective programme in terms of helping reduce emissions.

Action Energy interest free loans: records of loans made and the associated carbon emission reduction generated by the financed equipment have been used to establish the impact of the scheme.

Government's ECA scheme for energy saving investment: a survey of end users has been used to establish awareness of this scheme. As the Carbon Trust's role is to promote this scheme on behalf of the Government and administer the associated Energy Technology List, its key influence is in increasing awareness of the scheme.

Innovation Programme: is designed to deliver carbon emission savings over the medium to long term. We evaluate our project portfolio using a model based approach to estimate and report on the potential savings that may occur from Innovation Programme funded projects in 2010, 2020 and 2050. The model considers the potential impact of each project and is based on two underlying drivers:

- the technical potential of each low carbon technology in which we invest. The numbers used in the model are based on the Low Carbon Technology Assessment which defines the carbon emission reduction potential of around 50 technologies in 2010, 2020 and 2050; and
- the Innovation Programme's materiality in realising these savings. These numbers are derived from benchmarks of likely impact and success rates.

The results on the following page are based on all the projects that the Innovation Programme has agreed to fund since it was set up in 2002. The results therefore reflect the predicted cumulative impact of all activity from the start of the programme to the end of the financial years 2002/03 and 2003/04.

Carbon Management pilot scheme: total carbon emission abatement opportunity identified by 50 companies in the scheme has been collated. Also shown is the proportion of identified savings that is cost effective from the companies' perspective.

Action Energy

	Actual CO_2 saved $mtCO_2$ (in year)	Annual cost effectiveness* £/tCO_2	Lifetime cost effectiveness* £/tCO_2	Average cost benefit* £/tCO_2
2003/04	0.9–1.8**	14–27	3–6	-36
2002/03	0.6–2.9	8–39	2–12	-29

Action Energy impact for 2003/04 is in line with last year's performance. The range of savings attributed to the programme has narrowed as the measuring methodology has been improved.

* Excluding £3.6 million marketing campaign promoting understanding of climate change

** Restating this year's results using the 2002/03 methodology affects only the upper band of the attributed savings, which would rise from 1.8 $mtCO_2$ to 3.0 $mtCO_2$ – with a corresponding annual cost effectiveness of £8/tCO_2 and lifetime cost effectiveness of £2/tCO_2.

Definitions:
Annual cost effectiveness = programme cost divided by annual CO_2 savings of all implemented initiatives
Lifetime cost effectiveness = programme cost divided by lifetime CO_2 savings of all implemented initiatives
Cost benefit = Net present value of programme cost, clients' capital investment and energy cost savings divided by lifetime CO_2 savings of all implemented initiatives

Action Energy interest free loans

	Actual CO_2 saved $KtCO_2$ (in year)	Annual cost effectiveness £/tCO_2	Lifetime cost effectiveness £/tCO_2	Average cost benefit £/tCO_2
2003/04	17	43	5	-9

Numbers presented exclude £0.7 million one-off marketing and set-up costs in first year of operation – including these costs 2003/04 annual cost effectiveness would be £81/tCO_2 and lifetime cost effectiveness would be £10/tCO_2. Cost effectiveness and CO_2 savings are expected to increase this year as targeted loans offered increase from £3.2 million in 2003/04.

Government's Enhanced Capital Allowances Scheme for energy saving investment

	% of all large organisations (250+ employees)	% of all medium-sized organisations (50-249+ employees)
Awareness of Government's Enhanced Capital Allowances Scheme for energy saving investment	43	34

Results are presented for the first time on the impact of the Carbon Trust's activity in raising awareness of the Government's Enhanced Capital Allowances Scheme for energy saving investment amongst large and medium-sized private sector organisations, two key target markets.

Performance measurement continued

Innovation Programme

Unlike Action Energy which measures actions already taken, the Innovation Programme invests in projects that will deliver future emissions reductions. The numbers below are consequently forecasts and are more uncertain than the figures presented for other programmes.

2010

	2002/03 Annual review	2002/03 CM removed*	2003/04 & 2002/03 CM removed*
Potential CO_2 saving ($mtCO_2$)	0.3–0.9	0.1–0.3	0.2–0.8
Annual cost effectiveness (£/tCO_2)	15–47	40–129	30–114

2020

	2002/03 Annual review	2002/03 CM removed*	2003/04 & 2002/03 CM removed*
Potential CO_2 saving ($mtCO_2$)	0.7–1.9	0.4–0.9	0.7–2.1
Annual cost effectiveness (£/tCO_2)	7–19	11–29	11–34

2050

	2002/03 Annual review	2002/03 CM removed*	2003/04 & 2002/03 CM removed*
Potential CO_2 saving ($mtCO_2$)	1.8–5.2	1.8–4.3	2.5–8.1
Annual cost effectiveness (£/tCO_2)	3–7	2–6	3–9

* Performance restated to exclude Carbon Management (CM) which is reported separately below

LEVERAGE OF FUNDS IN THE INNOVATION PROGRAMME

2002/03	2003/04
3:1	2:1

The Carbon Management Pilot Scheme is expected to deliver significant emissions reductions in the near term, as reported separately below. This is reflected in the drop in near term carbon savings and cost effectiveness on restating Innovation Programme performance with the Carbon Management Pilot Scheme excluded.

The restated potential carbon savings predicted across all three timescales have increased in line with an additional year's activity. Cost effectiveness in 2010 increased due to a higher proportion of buildings related projects in the portfolio – of the 50 technologies covered by the Low Carbon Technology Assessment used to predict the potential of the projects invested in, buildings related technologies form a major part of the overall carbon emission reduction potential in 2010. The programme's cost effectiveness is conversely predicted to be marginally lower in the long term 2050 time horizon. This difference is within the margin of error associated with the modelling approach used.

The leverage of funds has decreased from 3:1 in 2002/03 to 2:1 in 2003/04. The key driver behind this trend is the increased level of activity in acceleration projects which have been designed to be primarily funded by the Carbon Trust.

Carbon Management Pilot Scheme

	Total CO_2 saving identified $mtCO_2$ pa	Total cost effective CO_2 savings identified* $mtCO_2$ pa
Pilot scheme results	5.5	3.6

Notes * NPV positive from companies' perspective

As part of the Carbon Management Pilot Scheme, companies mapped their full marginal abatement cost curves and developed carbon emissions reduction implementation plans. The results above summarise the overall findings to date across all 50 companies in the scheme. This service is to be rolled into our large customer offering within Action Energy and we expect to see these identified savings realised as implemented savings in the coming years.

Independent Auditors' report

To the members of the Carbon Trust:

We have audited the consolidated financial statements of the Carbon Trust and its subsidiary for the year ended 31 March 2004 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes numbered 1 to 20. These accounts have been prepared under the accounting policies set out herein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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

As described in the statement of Directors' responsibilities, the company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the Review of the year, Directors' report, Corporate governance statement, Remuneration report and Financial review, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

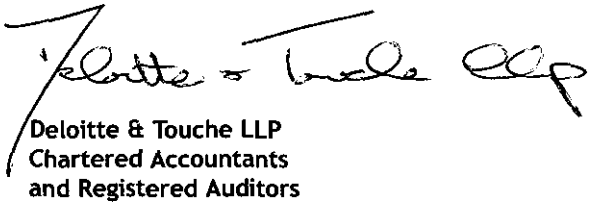
Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31 March 2004 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants
and Registered Auditors

London
4 August 2004

Consolidated profit and loss account

For the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Income			
Grant income	1a	**59,246**	32,158
Other income	1b	**24**	24
Interest receivable and similar income	2	**285**	124
Total income		**59,555**	32,306
Expenditure			
Programme expenditure	3	**(48,478)**	(24,946)
Management and administration expenditure charged to programmes	4	**(5,938)**	(5,323)
Other management and administration expenditure	5	**(1,715)**	(463)
Effect of discounting interest free loans	1h	**(384)**	–
Impairment of investments	10	**(1,112)**	(500)
Total expenditure		**(57,627)**	(31,232)
Profit on ordinary activities before taxation		**1,928**	1,074
Tax on profit on ordinary activities	7	**(57)**	(24)
Retained profit for the financial year	15	**1,871**	1,050

There were no other recognised gains or losses in either period other than the profit for the year.

All operations of the company were continuing throughout both years.

For a more detailed explanation of the accounting profit, please see the section headed 'Interpretation of our statutory profit and loss account' on page 25.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

As at 31 March 2004

	Notes	2004 Group £'000	2004 Company £'000	2003 Group and company £'000
Fixed assets				
Tangible assets	9	**347**	**347**	348
Investments	10	**1,238**	**–**	1,050
		1,585	**347**	1,398
Current assets				
Debtors	11	**2,407**	**2,407**	2,674
Cash at bank and in hand		**7,499**	**7,499**	10,510
		9,906	**9,906**	13,184
Creditors: Amounts falling due within one year	12	**(8,223)**	**(8,223)**	(13,184)
Net current assets		**1,683**	**1,683**	–
Total assets less current liabilities		**3,268**	**2,030**	1,398
Deferred income	13	**(347)**	**(347)**	(348)
Net assets		**2,921**	**1,683**	1,050
Members' fund	14	**–**	**–**	–
Profit and loss account	15	**2,921**	**1,683**	1,050
		2,921	**1,683**	1,050

Signed on behalf of the Board

Ian McAllister CBE
Chairman

Tom Delay
Chief Executive

4 August 2004

The accompanying notes are an integral part of this balance sheet.

Cash flow statement

For the year ended 31 March 2004

	Group 2004 £'000	Group 2003 £'000
Net cash (outflow)/inflow from activities	**(1,774)**	11,635
Returns on investments and servicing of finance –		
interest received	**238**	124
UK Corporation tax paid	**(24)**	(1)
Capital expenditure and financial investment –		
purchase of tangible fixed assets	**(151)**	(102)
purchase of investments	**(1,300)**	(1,550)
Cash (outflow)/inflow before management of liquid resources	**(3,011)**	10,107
Financing	**–**	–
(Decrease)/increase in cash in the year	**(3,011)**	10,107

Reconciliation of profit to cash flow from activities		
Profit on ordinary activities	**1,928**	1,074
Depreciation charge	**152**	121
Impairment of investment	**1,112**	500
Interest received	**(238)**	(124)
Increase in debtors	**(1,884)**	(2,160)
(Decrease)/increase in creditors	**(3,291)**	8,646
Increase in deferred income	**448**	3,597
Decrease in deferred income relating to fixed assets	**(1)**	(19)
Net cash (outflow)/inflow from activities	**(1,774)**	11,635

Analysis and reconciliation of net funds

	1 April 2003 £'000	Cash flow £'000	31 March 2004 £'000
Cash in hand and at bank	10,510	(3,011)	**7,499**
Net funds	10,510	(3,011)	**7,499**

The decrease in cash in the year of £3 million represents the movement in net funds in the year.

Notes to the accounts

For the year ended 31 March 2004

1 Accounting policies

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The company has availed itself of paragraph 3(3) of Schedule 4 of the Companies Act 1985 and adapted the Companies Act 1985 format to reflect the special nature of the company and the group's activities.

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking drawn up to 31 March.

Significant accounting policies, all of which have been applied consistently throughout the year and the previous period, are as follows:

a) Grant income

Grant income represents funding from the Department for Environment, Food and Rural Affairs, the Scottish Executive, the National Assembly for Wales, and Invest Northern Ireland. This funding is provided for expenditure on pre-approved programmes, including making investments under the Innovation Programme, programme development costs and central costs.

Grant income is recognised in the profit and loss account to match with the expenditure which it is intended to fund. Accordingly, grants utilised for the purchase of tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Where grant income is received in advance of the related expenditure being incurred, it is treated as deferred income and held in the balance sheet. The deferred income is recognised in the profit and loss account when the related expenditure is incurred. Where grant income is pledged, but has not yet been received in cash when the related expenditure is incurred, the grant is recognised on the balance sheet as accrued income.

Grant income utilised for the purchase of investments is recorded as income in the period in which the investment is made. Grant income received for the purpose of making Action Energy interest free loans is recognised as income in the period in which the loan is made, provided that there is no possible future obligation to repay these grant funds. Where there is a possible future obligation to repay the grant funds, that proportion of the income received that is subject to such conditions is included in deferred income and held on the balance sheet.

b) Other income

Other income is accounted for in the period in which it is receivable and represents a recharge of rent and ancillary costs to the Energy Saving Trust, which shares the Carbon Trust office accommodation in Wales.

c) Fixed assets

Tangible fixed assets are shown at cost less depreciation and any provision for impairment.

Depreciation is provided on a straight line basis over the estimated useful lives as follows:

Fixtures and fittings	5 years
Office equipment and computers	3 years

d) Investments

Investments are shown at cost less provision for impairment.

Notes to the accounts for the year ended 31 March 2004 continued

e) Corporation tax

The company believes that its activities do not constitute a trade for tax purposes. Certain of the group and the company's sources of income will, however, be taxed under normal principles: including bank interest; profits from investments; and any activities which are in fact treated as a trade.

f) Pension costs

The Carbon Trust makes contributions directly to the providers of employees' personal pension plans, which are money purchase schemes. Contributions are charged to the profit and loss account when payable. Differences between contributions payable in the period and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

g) Operating leases

Amounts payable in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

h) Interest free loans

Loans made under the Action Energy interest free loan scheme are shown in the balance sheet at the present value of the amounts receivable. The present value represents the value of each loan discounted over the repayment period using a rate appropriate to the risk associated with such loans. The discount is unwound over the repayment period of the loan.

The charge and credit arising from the discounting of the receivables and the unwinding of the discount are shown on the face of the profit and loss account and in note 2.

Provision is made for bad or doubtful debts as appropriate.

2 Interest receivable and similar income

Interest receivable comprises:

	2004 £'000	2003 £'000
Bank interest receivable	**238**	124
Unwinding of discount on interest free loans	**47**	–
	285	124

3 Programme expenditure

Programme expenditure consists of all costs incurred in delivering programmes.

4 Management and administration expenditure charged to programmes

Management and administration expenditure charged to programmes consists of costs incurred that have been allocated to programme activities.

5 Other management and administration expenditure

Other management and administration expenditure consists of those costs incurred by the company that have not been allocated to the programme activities.

The management and administration expenditure in notes 4 and 5 includes:

	2004 £'000	2003 £'000
Depreciation on tangible fixed assets	**152**	121
Operating lease rentals – other	**359**	331
Auditors' remuneration:		
– audit work	**27**	18
– other assurance work	**39**	27
– accounting, advisory and taxation	**5**	62

6 Staff costs and Directors' remuneration

The aggregate remuneration of staff and Executive Directors was:

	2004 £'000	2003 £'000
Wages and salaries	**2,872**	1,950
Social security costs	**331**	204
Pension costs	**174**	101
	3,377	2,255

The average monthly number of employees over the year (including Executive Directors) was 61 (2003 – 37). The number of employees as at 31 March 2004 was 72 (2003 – 45).

The above staff costs include the following in respect of the highest paid Director:

	2004 £'000	2003 £'000
Emoluments	**178**	168
Company contributions to money purchase pension schemes	**12**	10
	190	178

The remuneration of the Executive Directors was as follows:

	2004 £'000	2003 £'000
Emoluments	**300**	282
Company contributions to money purchase pension schemes	**21**	19
	321	301

Notes to the accounts for the year ended 31 March 2004 continued

The remuneration of the Non Executive Directors was as follows:

	2004 £'000	2003 £'000
Emoluments	**154**	143
Fees paid to third parties in respect of Directors' services	**4**	14

	2004 £'000	2003 £'000
Total Directors' remuneration	**479**	458

	2004 No.	2003 No.
Number of Directors in money purchase pension scheme	**2**	2

7 Tax on profit on ordinary activities

(a) Analysis of corporation tax charge for the year:

	2004 £'000	2003 £'000
Current tax:		
UK corporation tax on profits for the year	**57**	23
Adjustments in respect of previous years	**—**	1
Total current tax	**57**	24

(b) Factors affecting corporation tax charge for the year

The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	**1,928**	1,074
Profit on ordinary activities multiplied by the 2004 UK corporation tax company rate of 30% (2003: small companies rate of 19%)	**578**	204
Effects of:		
Non taxable income	**(507)**	(181)
Adjustments to tax charge in respect of previous periods	**—**	1
Marginal tax relief	**(14)**	—
Current tax charge for period	**57**	24

There is no deferred tax in respect of timing differences on the basis that the company is not carrying on a trade, and therefore will not be able to claim any capital allowances and there are no other timing differences for tax purposes.

8 *Profit attributable to the company*

The profit for the financial year dealt with in the financial statements of the parent company was £633,000 (2003 – £1,050,000). As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

The profit arising in the parent company comprises the following elements:

	2004 £'000	2003 £'000
Purchase of investments (see note 10)	–	1,550
Impairment of investments (see note 10)	–	(500)
Transfer of investments to subsidiary (see note 10)	**(1,050)**	–
Non-repayable grant income received in relation to Action Energy interest free loan scheme (see note 1(a))	**2,007**	–
Effect of discounting interest free loans	**(384)**	–
Unwinding of discount during year (see note 2)	**47**	–
Net effect of discount on NI loans (where funding is potentially repayable)	**50**	–
Specific bad debts provided	**(37)**	–
Profit for the financial year	**633**	1,050

9 Tangible fixed assets

The movement on these accounts during the year was:

Group and company	Fixtures and fittings £'000	Office equipment and computers £'000	Total £'000
Cost			
At 1 April 2003	221	282	**503**
Additions	51	100	**151**
At 31 March 2004	272	382	**654**
Depreciation			
At 1 April 2003	(55)	(100)	**(155)**
Charge for the year	(48)	(104)	**(152)**
At 31 March 2004	(103)	(204)	**(307)**
Net book value			
At 31 March 2004	169	178	**347**
At 31 March 2003	166	182	**348**

Notes to the accounts for the year ended 31 March 2004 continued

10 Investments

Group	Total £'000
Cost	
At 1 April 2003	1,550
Additions	1,300
At 31 March 2004	2,850
Provision for impairment	
At 1 April 2003	(500)
Provided during the year	(1,112)
At 31 March 2004	(1,612)
Net book value	
At 31 March 2004	1,238
At 31 March 2003	1,050

Company	Total £'000
Cost	
At 1 April 2003	1,550
Transferred to subsidiary	(1,550)
At 31 March 2004	–
Provision for impairment	
At 1 April 2003	(500)
Written back on transfer	500
At 31 March 2004	–
Net book value	
At 31 March 2004	–
At 1 April 2003	1,050

Investments related to equity investments in unlisted companies. On 4 April 2003 the Carbon Trust transferred all its equity investments to its subsidiary, Carbon Trust Investments Limited. The transfer was made at purchase cost and thus the corresponding impairment provision was written back.

In addition, the Carbon Trust owns an investment of £1 in its subsidiary, Carbon Trust Investments Limited. This represents 100% of the ordinary issued share capital of that company. Carbon Trust Investments Limited acquires and holds investments.

11 Debtors

	2004 Group £'000	2004 Company £'000	Group and company 2003 £'000
Trade debtors	6	6	–
Sundry debtors	17	17	16
Loans receivable	1,821	1,821	–
Accrued income	403	403	2,554
Prepayments	160	160	104
	2,407	2,407	2,674

Loans receivable comprise balances due under the company's Action Energy interest free loan scheme, which have been discounted to their present value at the balance sheet date, as explained in note 1(h).

Accrued income consists of grant income due from funding providers as follows:

	2004 Group £'000	2004 Company £'000	Group and company 2003 £'000
Defra	378	378	2,396
Scottish Executive	–	–	–
National Assembly for Wales	–	–	159
Invest Northern Ireland	25	25	–
	403	403	2,554

12 Creditors: Amounts falling due within one year

	Group 2004 £'000	Company 2004 £'000	Group and company 2003 £'000
Trade creditors	2,198	2,198	–
Corporation tax	57	57	23
Other taxes and social security	–	–	71
Deferred income	2,209	2,209	3,912
Accruals	3,759	3,759	9,178
	8,223	8,223	13,184

£2.2 million has been shown in trade creditors this year relating to supplier invoices received before 31 March 2004 but not paid until after that date. £3.8 million of supplier liabilities have been accrued where no invoice had been received at 31 March 2004, but work had been performed prior to that date. At 31 March 2003, supplier invoices relating to work done during the financial year had not been received at the year end date and therefore all outstanding supplier liabilities were accrued.

Notes to the accounts for the year ended 31 March 2004 continued

Deferred income relates to grant receipts in advance of the related costs being incurred and potentially repayable grant income for Action Energy interest free loans in Northern Ireland. It is made up as follows:

	2004 Group £'000	2004 Company £'000	2003 Group and company £'000
Defra	–	–	2,927
Scottish Executive	1,727	1,727	339
National Assembly for Wales	102	102	–
Invest Northern Ireland	380	380	646
	2,209	2,209	3,912

13 Deferred income

Deferred income of £347,000 at 31 March 2004 (2003 – £348,000) represents deferred income relating to tangible fixed assets, which will be released to grant income over the expected useful lives of the assets concerned.

14 Members' fund

The fifteen members of the company are the Secretary of State for Environment Food and Rural Affairs; the Secretary of State for Trade and Industry; the First Minister of the Scottish Parliament; the Minister for Economic Development for the National Assembly for Wales; the Minister for Enterprise, Trade and Investment for the Northern Ireland Executive; and the ten Non Executive Directors who are not representatives of Government departments or bodies.

The members' fund at 31 March 2004 was £nil (2003 – £nil). Each member is required to pay an amount not exceeding £1, only if the Carbon Trust is wound up whilst he or she is a member, or within one year after ceasing to be a member, for the payment of the Carbon Trust's debts and liabilities contracted before he or she ceased to be a member, and of the costs, charges and expenses of winding up, and for the adjustment of the rights of the contributors among themselves.

15 Reserves

Group	Profit and loss account £'000
At 1 April 2003	1,050
Retained profit for the year	1,871
At 31 March 2004	2,921

Company	Profit and loss account £'000
At 1 April 2003	1,050
Retained profit for the year	633
At 31 March 2004	1,683

For a more detailed explanation of the accounting profit, please see the section headed 'Interpretation of our statutory profit and loss account' on page 25.

16 Funding

On the basis of the company's financial arrangements with Defra, the Scottish Executive, the National Assembly for Wales and Invest Northern Ireland, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and these accounts have accordingly been prepared on the going concern basis.

17 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2004 Property leases £'000	2004 Other £'000	2003 Property leases £'000	2003 Other £'000
Expiry date				
Within one year	–	–	–	7
Between two and five years	**361**	**6**	381	–
	361	**6**	381	7

The property leases relate to 3 Clement's Inn in London and Albion House in Nantgarw, Cardiff. Each lease provides for the lessee to pay all insurance, maintenance and repair costs, and, in the case of Albion House, is subject to a rent review in 2006.

At 31 March 2004 there were commitments to pay £5.6 million in relation to 66 Innovation Programme research and development projects (2003 – £1.2 million) and £2.4 million in relation to three Incubator service contracts.

In addition, £862,000 of offers made to applicants under the Action Energy interest free loan scheme remained outstanding at 31 March 2004.

18 Subsequent events

In June 2004 Carbon Trust Investments Limited made an equity investment in Ocean Power Delivery Limited of £1.55 million.

19 Capital commitments

Neither the group nor the company had any capital commitments at 31 March 2004.

At 31 March 2003 there was a commitment to pay a further £150,000 in relation to one of the Innovation Programme equity investments.

20 Related party transactions

During the year, the group provided £682,000 to grant fund Salix Finance Limited, an independent company limited by guarantee. John Edmonds, a Non Executive Director of the Carbon Trust, is a member and director of Salix Finance Limited nominated by the Carbon Trust. There were no balances outstanding with Salix Finance Limited at 31 March 2004.

Glossary

Action Energy from the Carbon Trust	The Carbon Trust's programme focused on carbon emission reductions through the deployment of existing technologies in business and the public sector, primarily through energy efficiency.
Advanced metering trial	A technology acceleration project to evaluate the performance of advanced metering techniques and the barriers to their use.
BIFM	British Institute of Facilities Management
Carbon footprint	The impact of a person's or entity's activities expressed in terms of carbon emissions.
Carbon Vision	A joint venture between the Carbon Trust and the Engineering and Physical Sciences Research Council – see details on page 10.
CHP generation	Combined heat and power generation.
CIBSE	The Chartered Institution of Building Services Engineers
Community Energy	A programme to provide grant funding for community heating schemes jointly managed by the Energy Saving Trust and the Carbon Trust.
CTIL	Carbon Trust Investments Limited, a wholly-owned subsidiary company of the Carbon Trust.
Defra	Department for Environment, Food and Rural Affairs
Devolved Administrations	Invest Northern Ireland, the National Assembly for Wales and the Scottish Executive.
ECAs or ECA scheme	The Government's Enhanced Capital Allowances for energy saving investment – see the description on page 9.
Energy White Paper	The Government's White Paper 'Our energy future – creating a low carbon economy' published in February 2003 (Cm 5761).
ETL	The Energy Technology List, which is managed by the company in connection with the Government's ECA scheme.
Fuel cells	Devices that transform energy stored in a fuel (usually hydrogen) into electricity and heat.
Incubator	An economic development tool to provide business support resources and services to accelerate the growth of entrepreneurial companies at a very early stage of development.
Low Carbon Technology Assessment	A report published by the Carbon Trust in December 2002 of an assessment of 49 low carbon technologies commissioned to help the company make best use of its investment resources.
Marine Energy Challenge	A technology acceleration project involving detailed engineering design and performance analysis to identify if, and how, tangible reductions in generation costs of existing wave and tidal power technologies are achievable.
Ofgem	Office of Gas and Electricity Markets
Open call	A process whereby applications on a competitive basis are invited through the Carbon Trust's website for RD&D grants from the company.
Photovoltaics	The technology for converting solar light into energy.
RAB	Renewables Advisory Board
RD&D	Research, development and demonstration.
RIBA	The Royal Institute of British Architects
RICS	The Royal Institution of Chartered Surveyors
SEPN	The Sustainable Energy Policy Network
SMEs	Small and medium-sized companies, as defined in EU state aid legislation i.e. organisations having no more than 250 employees, an annual turnover of no more than €40 million, or an annual balance sheet not exceeding €27 million, and not more than 25% of the capital or voting rights owned by an enterprise which is not itself an SME.
Technology acceleration projects	A series of projects set up and funded by the Carbon Trust involving field trials and engineering support for selected low carbon technologies.

Notice of Annual General Meeting

THE CARBON TRUST
(the "Company")

(Registered in England No: 4190230)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the 8th Floor, 3 Clement's Inn, London WC2A 2AZ on Thursday 16th September 2004 at 1.30pm for the following purposes:

1) To receive the report of the Directors and the accounts for the financial period ended 31 March 2004.

2) To re-elect the following non executive Directors, who are retiring in accordance with the Company's Articles of Association:

   (i) John Edmonds

   (ii) Michael Roberts

   (iii) Gordon Waters.

3) To re-appoint Deloitte & Touche LLP as auditors and to authorise the Directors to fix their remuneration.

By order of the Board

Tony Stockwell
Company Secretary

Registered office:
8th Floor
3 Clement's Inn
London WC2A 2AZ

Notes:

(A) A member entitled to attend and vote is entitled to appoint a proxy to attend and to vote instead of him or her. A proxy should be a registered member of the Company.

(B) A form of proxy is enclosed for the use of members. To be effective it must be completed and delivered to the registered office of the Company at least 48 hours before the time of the meeting.

(C) There will be available for inspection at the registered office of the Company during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until the date of the meeting and at the place of the meeting from 9am until the conclusion of the meeting:

   i) the register of Directors' interests; and

   ii) copies of Directors' service contracts of more than one year's duration.

The Carbon Trust's management team

From left to right:

Professor Michael Grubb
Associated Director of Policy

Peter Shortt
Director of Innovation Programme

Michael Rea
Director of Strategy

Peter Hambly
Head of Marketing

Rosemary Boot
Finance Director

Dr David Vincent
Director of Technology

Dr Garry Felgate
Director of Action Energy

Tom Delay
Chief Executive

Dr Peter Mallaburn (not pictured)
Head of Government and International Relations

The Management team of the Carbon Trust is drawn from senior professionals from both the private and public sectors. The team is proud of the Carbon Trust's success in 2003/04 but realises that in a rapidly changing business context the flexible and cost effective approach it takes to delivering carbon emission reductions will need to be applied rigorously going forward. The team also sees the talent that exists across the Carbon Trust as essential to this ongoing success and that the core values it promotes in its work practices are key factors in developing and utilising that talent. These values include:

- encouraging pragmatic and decisive behaviour;
- supporting collaboration above competition between individuals;
- challenging and experimenting; and
- demonstrating openness and integrity.

These values also extend to the partnerships we are building with the many companies and organisations we are working with both now and in the future, and will ensure that the essential values of the Carbon Trust help us to further success in the years ahead.

Printed on Revive uncoated paper manufactured from 80% de-inked post consumer waste.

Printed in the UK: August 2004

The Carbon Trust is a company limited by guarantee

Registered in England and Wales number 4190230. Registered at 8th Floor, 3 Clement's Inn, London WC2A 2AZ

CT/2004/05