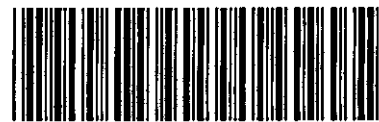


**Wavegen Limited**  
**Company number 124670**  
**Report and Financial Statements**  
**For the year ended 30 September 2008**

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**Company information**

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**Directors**  
S Etter  
E Kraetschmer (resigned 31/12/2008)  
J Weilepp  
S Schroeder (appointed 01/01/2009)

**Company secretary** Ledingham Chalmers LLP

**Company number** 124670

**Registered office**  
Ledingham Chalmers LLP  
Kintail House  
Beechwood Business Park  
Inverness  
IV2 3BW

**Auditors**  
Ernst & Young LLP  
Barony House  
Stoneyfield Business Park  
Stoneyfield  
Inverness  
IV2 7PA

**Bankers**  
Bank of Scotland  
2 - 6 Eastgate  
Inverness  
IV2 3NA

**Solicitors**  
Ledingham Chalmers LLP  
Kintail House  
Beechwood Business Park  
Inverness  
IV2 3BW

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## **Directors' Report**

### **For the year ended 30 September 2008**

The directors present their report and the financial statements for the year ended 30 September 2008.

#### **Principal activities and review of the business**

The principal activity of the company during the year was the commercialisation of the technology for the generation of electricity from ocean waves while continuing the further research and development of the technology. The company name was changed from Applied Research & Technology Limited to Wavegen Limited on 1 July 2008.

The subsidiary undertaking, Wavegen Ireland, owns and operates a demonstration wave power plant, located on the Scottish island of Islay. The power generated by this demonstration plant is sold under a 15 year power purchase contract awarded under the "Scottish Renewables Obligation".

During the year work continued on the commercial contract awarded in May 2007 for the supply of 16 wave power units for installation in Spain. Commissioning of the plant is scheduled for 2009.

#### **Directors**

The directors who served during the year were:

S Etter  
E Kraetschmer (resigned 31/12/2008)  
J Weilepp  
S Schroeder (appointed 01/01/2009)

#### **Provision of information to auditors**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

#### **Auditors**

The auditors, Ernst & Young LLP, are deemed to be reappointed in accordance with section 386 of the Companies Act 1985 by virtue of an elective resolution passed by the members on 12 October 2005.

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on 21 April 2009 and signed on its behalf.

For LEDINGHAM CHALMERS LLP  
  
Secretary PARTNER

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**Statement of directors' responsibilities  
for the year ended 30 September 2008**

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The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements 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.

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## **Independent Auditors' report to the members of Wavegen Limited**

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We have audited the company's financial statements for the year ended 30 September 2008 which comprise the Profit and loss account, the Balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities.

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**

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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## Independent Auditors' report to the members of Wavegen Limited

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### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 30 September 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

*Ernst & Young LLP*

**Ernst & Young LLP**  
Registered auditor  
Inverness

Date: 30/4/2009

**Profit and loss account  
for the year ended 30 September 2008**

		<i>Year to 30 September 2008</i>	<i>Period to 30 September 2007</i>
	<i>Note</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>	2	1,850,637	956,747
Cost of sales		(1,346,916)	(368,057)
<b>Gross profit</b>		503,721	588,690
Administrative expenses		(509,005)	(402,256)
Research and development expenditure		(151,560)	(163,560)
Total administrative expenses		(660,565)	(565,816)
Other operating income	3	259,218	-
Contribution to operating costs of subsidiaries		(21,488)	(22,142)
<b>Operating profit</b>	4	80,886	732
Interest receivable		24,823	13,358
<b>Profit on ordinary activities before taxation</b>		105,709	14,090
Tax on profit on ordinary activities		-	-
<b>Profit on ordinary activities after taxation</b>	11	105,709	14,090

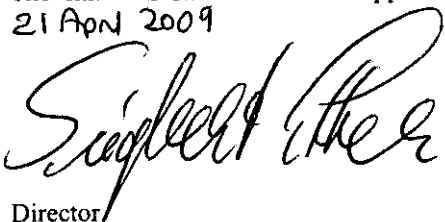
The notes on pages 7 to 12 form part of these financial statements.

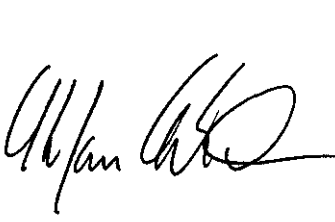
**Balance sheet  
as at 30 September 2008**

	Note	£	2008 £	£	2007 £
<b>Fixed assets</b>					
Tangible fixed assets	5		27,111		24,397
Fixed asset investments	6		602		602
			<u>27,713</u>		<u>24,999</u>
<b>Current assets</b>					
Debtors	7	506,706		187,170	
Cash at bank and in hand		469,611		293,950	
		<u>976,317</u>		<u>481,120</u>	
<b>Creditors: amounts falling due within one year</b>	8	(597,614)		(205,412)	
<b>Net current assets</b>			<u>378,703</u>		<u>275,708</u>
<b>Total assets less current liabilities</b>			<u>406,416</u>		<u>300,707</u>
<b>Provisions for liabilities</b>					
Other provisions	9		(250,000)		(250,000)
<b>Net assets</b>			<u>156,416</u>		<u>50,707</u>
<b>Capital and Reserves</b>					
Called up share capital	10		1,349,496		1,349,496
Share premium account	11		9,962,318		9,962,318
Profit and loss account	11		(11,155,398)		(11,261,107)
<b>Shareholders' funds</b>			<u>156,416</u>		<u>50,707</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on  
21 April 2009

  
Director



The notes on pages 7 to 12 form part of these financial statements.



## **Notes to the financial statements**

### **For the year ended 30 September 2008**

#### **1. Accounting policies**

##### **1.1 Fundamental accounting concept**

The company is dependent on continuing finance being made available by its ultimate parent undertaking, Voith Hydro Holding GmbH & Co. KG (formerly Voith Siemens Hydro Power Generation GmbH & Co. KG), to enable it to continue operating and meet its liabilities as they fall due. The parent undertaking has agreed to provide sufficient funds to the company for those purposes. The directors believe it is therefore appropriate to prepare the financial statements on a going concern basis.

In the event that the parent undertaking is unable to continue its support of the company the going concern basis may be invalid and adjustments would have to be made to reduce the value of the assets to their recoverable amounts, to provide any further liabilities which might arise, and to reclassify fixed assets and long term liabilities as current assets and current liabilities.

##### **1.2 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

##### **1.3 Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant & machinery	- over 4 to 5 years
Office equipment	- over 4 to 5 years

##### **1.4 Research and development**

Research and development expenditure is written off in the year in which it is incurred.

Tangible fixed assets used for research and development are depreciated in accordance with the company's policy.

##### **1.5 Government grants**

Government grants relating to 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. Other grants are credited to the Profit and loss account as the related expenditure is incurred.

## Notes to the financial statements

### For the year ended 30 September 2008

#### 1. Accounting policies (continued)

##### 1.6 Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

##### 1.7 Pensions

The company contributes to defined pension schemes for certain employees. Contributions are charged to the profit and loss account as they become payable.

##### 1.8 Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

#### 2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to one continuing activity, the research and development of wave powered electrical generation plant with a view to commercialising the technology.

An analysis of turnover by geographical market is given below:

	2008 £	2007 £
Spain	467,675	7,734
Germany	1,372,000	910,000
United Kingdom	270,180	39,013
Total	<u>2,109,855</u>	<u>956,747</u>

#### 3. Other operating income

	Year to 30 September 2008 £	Period to 30 September 2007 £
Government grants	<u>259,218</u>	<u>-</u>

## Notes to the financial statements

### For the year ended 30 September 2008

#### 4. Operating profit

The operating profit is stated after charging:

	<i>Year to 30 September 2008 £</i>	<i>Period to 30 September 2007 £</i>
Depreciation of tangible fixed assets:		
- owned by the company	11,143	13,576
Auditors' remuneration	7,850	6,850
Pension costs	51,469	37,911
Research and development expenditure	151,560	163,560
	<u>          </u>	<u>          </u>

During the year, no director received any emoluments (2007 - £NIL).

#### 5. Tangible fixed assets

	<i>Plant &amp; machinery £</i>	<i>Furniture, fittings and equipment £</i>	<i>Total £</i>
<b>Cost</b>			
At 1 October 2007	234,640	259,297	493,937
Additions	-	13,857	13,857
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 September 2008	234,640	273,154	507,794
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Depreciation</b>			
At 1 October 2007	234,601	234,939	469,540
Charge for the year	39	11,104	11,143
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 September 2008	234,640	246,043	480,683
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net book value</b>			
At 30 September 2008	-	27,111	27,111
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 September 2007	39	24,358	24,397
	<u>          </u>	<u>          </u>	<u>          </u>

## Notes to the financial statements

### For the year ended 30 September 2008

#### 6. Fixed asset investments

	<i>Shares in group companies £</i>
<b>Cost or valuation</b>	
At 1 October 2007 and 30 September 2008	1,602
<b>Impairment</b>	
At 1 October 2007 and 30 September 2008	1,000
<b>Net book value</b>	
At 30 September 2008	602
At 30 September 2007	602

#### **Subsidiary undertakings**

The following were subsidiary undertakings of the company:

<i>Name</i>	<i>Holding</i>
Wavegen Projects Limited	
Wavegen Ireland Limited, Republic of Ireland	
Wavegen US Inc, United States of America	
The aggregate of the share capital and reserves as at 30 September 2008 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:	

<i>Name</i>	<i>Aggregate of share capital and reserves £</i>	<i>Profit/(loss) £</i>
Wavegen Projects Limited	2	-
Wavegen Ireland Limited, Republic of Ireland	(253,760)	1,421
Wavegen US Inc, United States of America	600	-
	<u>          </u>	<u>          </u>

The accounts of Wavegen Ireland Limited also include the provision of £250,000 in respect of the decommissioning of the Islay demonstration wave power plant.

#### 7. Debtors

	<i>2008 £</i>	<i>2007 £</i>
Trade debtors	98,000	8,680
Amounts owed by group undertakings	356,988	158,418
Other debtors	51,718	20,072
	<u>506,706</u>	<u>187,170</u>

## Notes to the financial statements

### For the year ended 30 September 2008

#### 8. Creditors: Amounts falling due within one year

	2008 £	2007 £
Trade creditors	97,808	33,731
Amounts owed to group undertakings	602	602
Social security and other taxes	20,025	13,392
Deferred income	45,000	110,000
Other creditors	434,179	47,687
	<u>597,614</u>	<u>205,412</u>

#### 9. Provisions for liabilities and charges

	<i>Decommissioning provision</i> £
At 1 October 2007 and 30 September 2008	<u>250,000</u>

#### **Decommissioning provision**

The company's subsidiary, Wavegen Ireland Limited has an obligation to decommission its demonstration wave power plant at the end of its useful life or at the end of the lease. The cost of this work is likely to be met by the company as guarantor to the lease agreement. The directors' best estimate of the undiscounted cost of decommissioning is £250,000.

#### 10. Share capital

	2008 £	2007 £
<b>Authorised</b>		
2,000,000 Ordinary shares shares of £1 each	<u>2,000,000</u>	<u>2,000,000</u>
<b>Allotted, called up and fully paid</b>		
1,349,496 Ordinary shares shares of £1 each	<u>1,349,496</u>	<u>1,349,496</u>

## Notes to the financial statements

### For the year ended 30 September 2008

#### 11. Reserves

	<i>Share premium account £</i>	<i>Profit and loss account £</i>
At 1 October 2007	9,962,318	(11,261,107)
Profit for the year	-	105,709
At 30 September 2008	<u>9,962,318</u>	<u>(11,155,398)</u>

#### 12. Pension commitments

The company contributes to defined contribution pension schemes for certain employees. The assets of the scheme are held separately from those of the company in independently administered funds. The unpaid contributions outstanding at the balance sheet date amounted to £12,549 (2007 - £15,512).

#### 13. Related party transactions

During the year, the company made cash advances and incurred expenses on behalf of Wavegen Ireland Limited, a subsidiary, amounting to £21,488 (2007 - £22,142). During the year the company wrote off £21,488 (2007 - £22,142) of the loan due from Wavegen Ireland Limited, leaving an amount due from Wavegen Ireland Limited of £nil (2007 - £nil) at the balance sheet date.

During the year, the company made sales to Voith Hydro Holding GmbH & Co KG (formerly Voiths Siemens Hydro Power Generation GmnH & Co. KG), the company's ultimate parent undertaking, amounting to £1,372,000 (2007 - £910,000). At the year end the amount due from Voiths Hydro Holding GmbH & Co KG was £152,000 (2007 - £100,000).

During the year, the company made sales to Voith Hydro S.L. (formerly Voith Siemens Hydro Power Generation S.L.) a fellow subsidiary of VH Auslandsbeteiligungen GmbH, amounting to £400,289 (2007 - £117,734). At the year end the amount due from Voith Hydro S.L. was £204,987 (2007 - £58,418).

#### 14. Ultimate parent undertaking and controlling party

The company's parent undertaking is VH Auslandsbeteiligungen GmbH, a company registered in Germany.

The ultimate parent undertaking and controlling party is Voiths Hydro Holding GmbH & Co. KG (formerly Voiths Siemens Hydro Power Generation GmbH & Co. KG).