

**Reg no SC 182368**

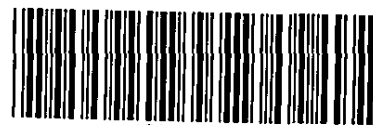
**Pelamis Wave Power Limited**

Directors' Report and Financial Statements

For the Year Ended

31 December 2012

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**Pelamis Wave Power Limited**

**Directors' report and financial statements for the year ended 31 December 2012**

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## **Pelamis Wave Power Limited**

### **Company information**

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#### **Directors**

Gina Domanig  
Richard Yemm  
Stuart Deed  
Charles Vaslet

Non-Executive Chairman  
Chief Executive Officer  
Non-Executive Director  
Non-Executive Director

#### **Registered office**

31 Bath Road, Leith, Edinburgh, EH6 7AH

#### **Company number**

SC 182368

#### **Independent Auditors**

PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, 141 Bothwell Street, Glasgow, G2 7EQ.

#### **Legal Advisers**

Harper Macleod LLP, 45 Gordon Street, Glasgow, G1 3PE

#### **Bankers**

The Royal Bank of Scotland plc, 36 St Andrew Square, Edinburgh, EH2 2YB

## **Pelamis Wave Power Limited**

### **Report of the directors for the year ended 31 December 2012**

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The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2012.

#### **Registered number**

The registered number of the company is SC182368.

#### **Principal activities, business review and future developments**

The principal activities of the Company are the development and construction of wave energy converter systems and associated engineering projects. During the year the Company successfully progressed the testing of two P2 machines located at the European Marine Energy Centre (EMEC) in Orkney. These machines were previously supplied to E.ON and ScottishPower Renewables. Using some 9000 hours of operational data from these machines the Company also made progress on further enhancements to markedly reduce the cost of energy of the system. It is planned to build an enhanced P2 machine, the P2e, commencing in 2014, ready for testing in early 2015. If successful this will form the basis for initial commercial deployment of the technology.

The Company continued development of a wave farm site in Shetland through the joint venture with Vattenfall, Aegir Limited. The Company also continued to progress its licence to develop wave farms at Farr Point off the North coast of Scotland and in the Outer Hebrides near the Island of Bernera. Pelamis technology is also cited on offshore licences in Orkney and the Pentland Firth by both E.ON and ScottishPower Renewables. If the next stages of the technology development programme deliver as expected these projects would provide the company with a solid business plan for the coming years.

The directors expect that the Company will have the same principal activities for the foreseeable future.

#### **Going Concern**

The company's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the business review above and key risk section on page 4. The financial position of the company and its cash flows for the year ended 31 December 2012 are set out in the Balance Sheet and Cashflow Statement on pages 10 and 12 of the financial statements.

Since 31 December 2012, the company has received additional shareholder loan funding of £2.6m. During the year to date, the company has also made good progress towards securing new investment and other revenues as reported below. However, at this date the company has insufficient secured funding to continue as a going concern for the next twelve months. Current cash projections including agreed loans indicate that without further inflows cash will run out around mid-December 2013.

The directors have concluded that the current lack of secured funding may mean that the company is unable to continue to realise its assets and discharge its liabilities in the normal course of business and accordingly this fact represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern.

Nevertheless, after making enquiries and, in particular, considering the matters described below, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future, and for this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

While there is a short term need for additional funding, the Directors consider the outlook for the company to be positive as:

## **Pelamis Wave Power Limited**

### **Report of the directors for the year ended 31 December 2012 (continued)**

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#### **Going Concern (continued)**

- Major progress has been made over the past 12 months on proving out the technology. The P2 machines have completed ~9000 hours of grid connected testing and the trial programmes are progressing well. No significant issues have been identified during this process and the results from the testing to date are positive;
- A joint operation and maintenance contract is in place with ScottishPower Renewables;
- There is significant confidence in the company and its technology, as evidenced by the £2.6m additional shareholder loan funding received post year end;
- A significant grant award from the Scottish Government Marine Renewables Commercialisation Fund is currently being contracted for which will support on-going P2 testing, development of the Farr Point site and further development and build of the P2e machine next year.
- There is strong Government support for the development of wave energy technologies. A £103m Renewable Energy Investment Fund (REIF) was announced in October 2012 and the Company is exploring how it could access funds from this source; and
- Discussions are on-going with the Energy Technologies Institute to provide additional funding for further development activities from next year.

The Company has retained current advisors since late 2012 to secure a strategic industrial investor. Although this process has not yet delivered a new funding package for the Company, discussions with potential investors are at an advanced stage. The Company also continues to progress other funding avenues from public and private sources to underpin on-going operations and technology development.

#### **Key performance indicators**

The Company has identified a number of key performance indicators which are relevant to development of its business during the year.

In 2012 the Group had turnover of £1.5m (2011: £4.1m) which was substantially derived from its contracts to operate P2 machines at EMEC in Orkney, develop the technology and develop sites. The operating loss was higher than last year at £3.2m (2011: £2.1m).

There was an operating cash outflow of £2.9m (2011: £3.1m outflow) and an investment in development expenditure of £0.1m (2011: £1.5m). The Group had a net outflow of cash for the year of £0.2m (2011: £1.4m outflow). At the end of the year the Group had net borrowings (including £10.6m in respect of 'B' and 'A1' shares) of £14.2m (2011: £8.1m including £7.5m in respect of 'B' and 'A1' shares). The 'B' shares are treated as debt due to the right to redemption at £6 per share. If the 'B' shares were treated as shareholder funds the adjusted net liabilities would amount to net assets of £0.2m (2011: £3.1m).

The directors do not recommend payment of a dividend (2011: £nil).

## **Pelamis Wave Power Limited**

### **Report of the directors for the year ended 31 December 2012 (continued)**

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#### **Key risks / uncertainties**

The directors have identified a number of key risks / uncertainties and mitigating factors for the Company's business:

<b>Risk type</b>	<b>Risk</b>	<b>Mitigating factor</b>
Technology	Company's technology may not work as envisaged or Company will fail to develop equipment at an acceptable cost.	<ul style="list-style-type: none"><li>➤ Successful testing of P2 machines to date.</li><li>➤ Numerous third party verifications of technology and corroboration of forecast cost of energy.</li></ul>
Political	Governments in the jurisdictions where the Company aims to sell its machinery will fail to establish adequate support mechanisms or planning regimes to enable the Company to increase its sales volumes as planned by management.	<ul style="list-style-type: none"><li>➤ Pelamis Wave Power is at the forefront of political lobbying in the marine sector.</li><li>➤ Current indications are positive in initial target markets.</li></ul>
Financial	The Company may not be able to secure adequate finance to fund its successful commercial development.	<ul style="list-style-type: none"><li>➤ Refer to comments under going concern above.</li></ul>
Personnel	The Company may lose key personnel to competitors or other industries which would slow down research and development programmes.	<ul style="list-style-type: none"><li>➤ Share-based incentive schemes in operation to help retain staff.</li><li>➤ Succession planning a key consideration.</li></ul>

#### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Gina Domanig	(Chairman)	
Per Pedersen	(Chief Executive Officer)	(resigned 31 May 2013)
Richard Yemm	(Chief Executive Officer)	
Charles Vaslet	(Non-executive)	
Stuart Deed	(Non-executive)	

#### **Statement of directors' responsibilities**

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 prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they

## **Pelamis Wave Power Limited**

### **Report of the directors for the year ended 31 December 2012 (continued)**

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#### **Statement of directors' responsibilities (continued)**

give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Disclosure of information to auditors**

In accordance with Section 418 of the Companies Act 2006 all current directors confirm that;

As far as each of the directors, at the time the report is approved, are aware

- there is no relevant information of which the company's auditors are unaware
- the directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

#### **Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, were appointed on 16 April 2008 in accordance with Section 385 of the Companies Act 1985.

In accordance with section 366A(1) of the Companies Act 2006, an elective resolution has been passed by shareholders in order to dispense with the need to hold Annual General Meetings and to appoint independent auditors annually.

On behalf of the Board



**Richard Yemm**  
**Chief Executive Officer**  
9 October 2013

## **Pelamis Wave Power Limited**

### **Independent auditors' report to the members of Pelamis Wave Power Limited**

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#### **Independent auditors' report to the members of Pelamis Wave Power Limited**

We have audited the group and parent company financial statements (the "financial statements") of Pelamis Wave Power Limited for the year ended 31 December 2012 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### *Respective responsibilities of directors and auditors*

As explained more fully in the Statement of directors' responsibilities set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### *Scope of the audit of the financial statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### *Opinion on financial statements*

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### *Emphasis of Matter – Going Concern*

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Directors' Report and note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £6,209,000 during the year ended 31 December 2012 and, at that date, the company's current liabilities exceeded its total assets by £10,465,000.



**Pelamis Wave Power Limited**

**Independent auditors' report to the members of Pelamis Wave Power Limited (continued)**

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*Emphasis of Matter – Going Concern (continued)*

Total assets include £8,353,000 of capitalised development expenditure which is to be amortised against future sales. The Company is seeking to progress a number of funding avenues from public and private sources to support on-going operations. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

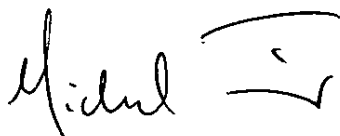
*Opinion on other matter prescribed by the Companies Act 2006*

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

*Matters on which we are required to report by exception*

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Michael Timar (Senior Statutory Auditor)  
For and behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow**

9 October 2013

**Pelamis Wave Power Limited**

**Consolidated profit and loss account for the year ended 31 December 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Group Turnover</b>	<b>2</b>	<b>1,538</b>	4,079
Cost of sales		<b>(4,076)</b>	(5,710)
<b>Gross (loss)</b>		<b>(2,538)</b>	(1,631)
Administrative expenses		<b>(1,523)</b>	(1,187)
Other operating income	<b>3</b>	<b>909</b>	697
<b>Group operating loss</b>	<b>6</b>	<b>(3,152)</b>	(2,121)
Share of operating loss in associates		<b>(50)</b>	(97)
<b>Loss on ordinary activities before finance charges and taxation</b>		<b>(3,202)</b>	(2,218)
Other interest receivable and similar income	<b>7</b>	<b>1</b>	5
Interest payable and similar charges			
Group	<b>7</b>	<b>(3,050)</b>	(5,249)
Associate	<b>7</b>	<b>(10)</b>	(8)
<b>Loss on ordinary activities before taxation</b>		<b>(6,261)</b>	(7,470)
Taxation on loss from ordinary activities	<b>8</b>	<b>(1)</b>	(1)
<b>Loss for the financial year</b>	<b>17</b>	<b>(6,262)</b>	(7,471)

All amounts relate to continuing activities.

There is no material difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents

**Pelamis Wave Power Limited**

**Consolidated profit and loss account for the year ended 31 December 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Group Turnover</b>	<b>2</b>	<b>1,538</b>	4,079
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All amounts relate to continuing activities.

There is no material difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents

**Pelamis Wave Power Limited**

**Consolidated statement of total recognised gains and losses relating to the year ended 31 December 2012**

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	<b>2012 £000</b>	<b>2011 £000</b>
Loss for the financial year	<b>(6,262)</b>	(7,471)
Exchange differences on consolidation	<b>1</b>	1
<hr/>		
Total recognised gains and losses relating to the year	<b>(6,261)</b>	(7,470)

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**Pelamis Wave Power Limited**

**Consolidated balance sheet as at 31 December 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Fixed assets</b>			
Intangible assets	<b>10</b>	<b>8,730</b>	8,626
Tangible assets	<b>11</b>	<b>243</b>	420
Investments	<b>12</b>	<b>125</b>	186
		<b>9,098</b>	9,232
<b>Current assets</b>			
Stocks	<b>13</b>	-	158
Debtors	<b>14</b>	<b>368</b>	439
Cash at bank and in hand		<b>294</b>	482
		<b>662</b>	1,079
<b>Creditors: amounts falling due within one year</b>	<b>15</b>	<b>(20,170)</b>	(14,653)
<b>Net current liabilities</b>		<b>(19,508)</b>	(13,574)
<b>Total assets less current liabilities</b>		<b>(10,410)</b>	(4,342)
<b>Net liabilities</b>		<b>(10,410)</b>	(4,342)
<b>Capital and reserves</b>			
Called up share capital	<b>16</b>	<b>1,204</b>	1,204
Share premium account	<b>17</b>	<b>50,644</b>	50,644
Profit and loss account	<b>17</b>	<b>(62,959)</b>	(56,890)
Foreign exchange reserve	<b>17</b>	<b>701</b>	700
<b>Total shareholders' deficit</b>		<b>(10,410)</b>	(4,342)

The financial statements on pages 8 to 31 were approved by the Board of Directors on 9 October 2013 and were signed on its behalf by:



**Richard Yemm, Chief Executive Officer**

**Pelamis Wave Power Limited****Company balance sheet as at 31 December 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Fixed assets</b>			
Intangible assets	<b>10</b>	<b>8,730</b>	8,626
Tangible assets	<b>11</b>	<b>243</b>	420
Investments	<b>12</b>	<b>74</b>	75
		<b>9,047</b>	9,121
<b>Current assets</b>			
Stocks	<b>13</b>	-	158
Debtors	<b>14</b>	<b>362</b>	434
Cash at bank and in hand		<b>291</b>	482
		<b>653</b>	1,074
<b>Creditors: amounts falling due within one year</b>	<b>15</b>	<b>(20,165)</b>	(14,644)
<b>Net current liabilities</b>		<b>(19,512)</b>	(13,570)
<b>Total assets less current liabilities</b>		<b>(10,465)</b>	(4,449)
<b>Net liabilities</b>		<b>(10,465)</b>	(4,449)
<b>Capital and reserves</b>			
Called up share capital	<b>16</b>	<b>1,204</b>	1,204
Share premium account	<b>17</b>	<b>50,644</b>	50,644
Profit and loss account	<b>17</b>	<b>(62,313)</b>	(56,297)
<b>Total shareholders' deficit</b>		<b>(10,465)</b>	(4,449)

The financial statements on pages 8 to 31 were approved by the Board of Directors on 9 October 2013 and were signed on its behalf by:



**Richard Yemm, Chief Executive Officer**

**Pelamis Wave Power Limited**

**Consolidated cash flow statement for the year ended 31 December 2012**

	<b>Note</b>	<b>2012 £000</b>	<b>2012 £000</b>	<b>2011 £000</b>	<b>2011 £000</b>
<b>Net cash outflow from operating activities</b>	<b>22</b>		<b>(2,915)</b>		<b>(3,056)</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>2</b>		<b>5</b>	
Interest paid		<u>-</u>		<u>(25)</u>	
<b>Net cash inflow / (outflow) from returns on investments and servicing of finance</b>			<b>2</b>		<b>(20)</b>
<b>Taxation</b>			<b>(1)</b>		<b>(1)</b>
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		<b>(27)</b>		<b>(139)</b>	
Investment in intangible fixed assets		<b>(128)</b>		<b>(1,546)</b>	
Disposal of tangible fixed assets		<b>12</b>		<b>7</b>	
<b>Net cash outflow from capital expenditure and financial investment</b>			<b>(143)</b>		<b>(1,678)</b>
<b>Cash outflow before financing</b>			<b>(3,057)</b>		<b>(4,755)</b>
<b>Cash inflow from financing</b>					
Issue of 'B' and 'A1' shares		<b>1,031</b>		<b>2,342</b>	
Loans		<u><b>1,836</b></u>		<u><b>1,017</b></u>	
<b>Cash inflow from financing</b>			<b>2,867</b>		<b>3,359</b>
<b>Decrease in cash</b>	<b>23</b>		<b>(190)</b>		<b>(1,396)</b>

## **1 Accounting policies**

### ***Basis of accounting***

The financial statements have been prepared under the historical cost convention and are in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The following principal accounting policies have been applied consistently:

### ***Basis of consolidation***

The consolidated financial statements include those of the Company and its subsidiary undertakings for the year ended 31 December 2012. No profit and loss account is presented for Pelamis Wave Power Limited as permitted by section 408 of the Companies Act 2006.

Entities, other than subsidiary undertakings, in which the group has a participating interest and over whose operating financial policies the group exercises a significant influence are treated as associates. In the group financial statements, associates are accounted for using the equity method.

All inter-company balances and transactions are eliminated and sales and profits or losses relate to external transactions only.

### ***Going concern***

The financial statements are prepared on a going concern basis.

At this point in time, the company has insufficient secured funding to continue as a going concern for the next twelve months. The Directors consider it appropriate, however, to prepare the financial statements on a going concern basis as discussed within the Directors' Report on page 2 and noted below.

The directors have concluded that the current lack of secured funding may mean that the company is unable to continue to realise its assets and discharge its liabilities in the normal course of business and accordingly this fact represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern.

Nevertheless, after making enquiries and, in particular, considering the matters described below, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future, and for this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

While there is a short term need for additional funding, the Directors consider the outlook for the company to be positive as:

- Major progress has been made over the past 12 months on proving out the technology. The P2 machines have completed ~9000 hours of grid connected testing and the trial programmes are progressing well. No significant issues have been identified during this process and the results from the testing to date are positive;
- A joint operation and maintenance contract is in place with ScottishPower Renewables;
- There is significant confidence in the company and its technology, as evidenced by the £2.6m additional shareholder loan funding received post year end;



**1 Accounting policies (continued)**

***Going concern (continued)***

- A significant grant award from the Scottish Government Marine Renewables Commercialisation Fund is currently being contracted for which will support on-going P2 testing, development of the Farr Point site and further development and build of the P2e machine next year.
- There is strong Government support for the development of wave energy technologies. A £103m Renewable Energy Investment Fund (REIF) was announced in October 2012 and the Company is exploring how it could access funds from this source; and
- Discussions are on-going with the Energy Technologies Institute to provide additional funding for further development activities from next year.

The Company has retained current advisors since late 2012 to secure a strategic industrial investor. Although this process has not yet delivered a new funding package for the Company, discussions with potential investors are at an advanced stage. The Company also continues to progress other funding avenues from public and private sources to underpin on-going operations and technology development.

***Turnover***

Turnover comprises the value of goods and services supplied by the Company, exclusive of Value Added Tax and other sales taxes. It also includes income earned under long term contracts, recognised as significant milestones are achieved and accepted by the customer

***Foreign currency translation***

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities held at the balance sheet date are retranslated at the exchange rates ruling at that date. Any resulting exchange profit or loss is dealt with in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise on the retranslation of the opening net assets are taken directly to reserves.

***Intangible fixed assets and depreciation***

Patents and licences are stated at cost and are amortised on a straight line basis over their expected useful economic life of 20 years.

***Research and development***

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are capitalised within intangible assets only where they can be identified as relating to a specific project anticipated with reasonable certainty to be completed and produce measurable future benefits, and are amortised over the anticipated life of the benefits arising from the completed product or project.

Deferred development costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the balance of any related costs are written off to the profit and loss account in that year.

**1 Accounting policies (continued)**

***Tangible fixed assets and depreciation***

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost less the residual value of each asset on a straight line basis over its expected useful life as follows:

Plant and machinery	- 4 years
Fixtures, fittings and office equipment	- 3-4 years
Motor vehicles	- 4 years

***Investments***

Fixed asset investments are stated at cost plus direct acquisition costs less provisions for any impairment. The carrying value of investments are regularly assessed for permanent impairment and provisions made if appropriate. Fixed asset investments include loans made to associate undertakings with no fixed repayment date which form part of the long term capital of the associate undertaking.

***Leases***

Rentals payable under operating leases are charged to the profit & loss account on a straight line basis over the lease term.

***Long term contract work in progress***

Profit on long term contracts is taken as the work is carried out only if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the milestones achieved and milestones in progress. Turnover is recognised as significant milestones are achieved and accepted by the customer. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses in the year in which they are first foreseen.

***Deferred taxation***

Deferred tax is provided in full in respect of timing differences that have originated but not reversed by the balance sheet date. The recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

***Pension costs***

Contributions to the Company's group pension plan, a defined contribution pension scheme, are charged to the profit and loss account in the year in which they become payable.

***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. Government grants relating to capitalised development expenditure are credited to the profit and loss account against the release of the associated expenditure. Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

## Pelamis Wave Power Limited

### Notes forming part of the financial statements for the year ended 31 December 2012 (continued)

#### 1 Accounting policies (continued)

##### *Share based payments*

The Company grants share options to certain employees. The fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No adjustment is made for changes in market related vesting conditions. Fair value is measured by use of the Black-Scholes pricing model.

#### 2 Turnover

Group	2012 £000	2011 £000
Class of business:		
Sale of Pelamis wave energy converters	148	2,303
Sale and installation of offshore moorings infrastructure	90	672
Operation and maintenance of wave energy converters	604	653
Feasibility study income	696	381
Marine and miscellaneous services income	-	70
	<b>1,538</b>	<b>4,079</b>
All turnover originates in the UK.		
Geographical analysis of customers:		
United Kingdom	1,313	3,937
Rest of Europe	225	142
	<b>1,538</b>	<b>4,079</b>

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****3 Other operating income**

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
Grant income	<b>903</b>	694
Other sundry income	<b>6</b>	3
	<b>909</b>	697

**4 Employees**

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
Staff costs (including directors) consist of:		
Wages and salaries	<b>2,105</b>	2,499
Social security costs	<b>195</b>	251
Other pension costs	<b>50</b>	56
Share based payments	<b>193</b>	(8)
	<b>2,543</b>	2,798

Other pension costs refer to the Company's group pension plan, a defined contribution pension scheme. This is only scheme operated by the Company. Other creditors includes £9,000 in respect of unpaid December 2012 contributions, settled in January 2013.

The monthly average number of employees, including executive directors, employed during the year was:

<b>Group</b>	<b>2012 number</b>	<b>2011 number</b>
Engineering and operations	<b>36</b>	46
Selling and administration	<b>9</b>	10
	<b>45</b>	56

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****5 Directors' emoluments**

Directors' remuneration consists of:	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
Aggregate emoluments	<b>361</b>	208
Pension	<b>3</b>	3
	<b>364</b>	211

Emoluments of the highest paid director were £234,000 (2011: £98,048).

One (2011:one) director participated in the group personal pension plan.

No directors received shares during the year in respect of qualifying services (2011: nil) and no directors exercised share options during the year (2011: nil).

**6 Operating loss**

<b>Group</b>	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
<b>Operating loss is stated after charging/(crediting):</b>		
Depreciation of tangible fixed assets	<b>213</b>	215
Amortisation of intangible fixed assets	<b>24</b>	21
Operating leases - land & buildings	<b>129</b>	275
Auditors' remuneration	<b>25</b>	25
Gain on disposal of fixed assets	<b>(12)</b>	(5)

**7 Finance and similar charges (net)**

<b>Group</b>	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
Interest payable	<b>958</b>	117
Less: interest receivable	<b>(1)</b>	(5)
Provision for 'B' share redemption	<b>2,092</b>	5,132
Finance and similar charges - Group	<b>3,049</b>	5,244
Share of associate's interest charge	<b>10</b>	8
	<b>3,059</b>	5,252

**Pelamis Wave Power Limited**

**Notes forming part of the financial statements for the year ended 31 December 2012 (continued)**

**8 Tax on loss on ordinary activities**

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Current Tax Credit</b>		
UK corporation tax at 24.5% (2011: 26.5%)	-	-
Tax credit in respect of prior years	-	-
	-	-
Foreign tax	1	1
Share of associate's current tax	-	-
<b>Total current tax</b>	<b>1</b>	<b>1</b>

The tax assessed for the year differs from the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Factors affecting current tax charge for the year</b>		
Loss on ordinary activities before taxation	(6,261)	(7,470)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 24.5% (2011 : 26.5%)	(1,534)	(1,980)
Effects of:		
Non deductible expenditure	88	41
Difference between depreciation and capital allowances	34	11
Tax losses available for carry forward	1,413	1,929
Difference in overseas tax rate	-	-
<b>Current tax charge for year</b>	<b>1</b>	<b>1</b>

**Factors that may affect future tax charges**

The Group has estimated tax losses, subject to the agreement of HMRC, arising in the UK of £52,783,000 (2011: £46,633,000) that are available indefinitely for offset against future taxable profits of Pelamis Wave Power Limited. In addition, the Group has estimated tax losses arising in Portugal of £70,000 (2011: £98,000) that are available for a period of between 3 and 6 years, for offset against future taxable profits in Pelamis Portugal SA.

**Pelamis Wave Power Limited**

**Notes forming part of the financial statements for the year ended 31 December 2012 (continued)**

**8 Taxation on loss from ordinary activities (continued)**

Deferred tax assets have not been recognised in respect of any of these losses which will become recoverable when the Group makes sufficient future taxable profits. All timing differences at the balance sheet date have been measured at 23% (2011: 25%). The unrecognised deferred tax asset is estimated as £12,142,000 (2011: £11,622,000).

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Provision for deferred tax comprises:</b>		
Tax losses available for carry forward	<b>12,165</b>	11,683
Capital allowances	<b>(21)</b>	(59)
Other timing differences	<b>(2)</b>	(2)
<b>Total deferred tax asset not recognised</b>	<b>12,142</b>	11,622

**9 Loss for the financial year**

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements.

The consolidated loss for the financial year of £6,262,000 (2011: £7,471,000) includes a £6,209,000 loss (2011: £7,404,000 loss) in respect of the parent company.

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****10 Intangible fixed assets**

<b>Intangible fixed assets</b>			
<b>Group and Company</b>	<b>Development expenses £000</b>	<b>Patents and licences £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 January 2012	8,293	439	8,732
Additions	60	68	128
At 31 December 2012	8,353	507	8,860
<b>Accumulated Amortisation</b>			
At 1 January 2012	-	106	106
Charge for year	-	24	24
At 31 December 2012	-	130	130
<b>Net book value</b>			
At 31 December 2012	8,353	377	8,730
At 31 December 2011	8,293	333	8,626

Development costs relate to the design and build of the P2 machines including related tooling and infrastructure. The P2 machines build on the experience gained by the Company in the deployment of previous prototypes. The amount stated is net of costs which have been funded by customers. The Company anticipates that the current development phase will continue for at least the next two years. It is anticipated that the first large scale projects will commence in 2016.



**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****11 Tangible fixed assets**

<b>Group and Company</b>	<b>Plant and machinery £000</b>	<b>Fixtures, fittings and office equipment £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
<b>Cost</b>				
At 1 January 2012	1,323	210	12	1,545
Additions	27	8	1	36
Disposals	(18)	(3)	(2)	(23)
At 31 December 2012	1,332	215	11	1,558
<b>Accumulated depreciation</b>				
At 1 January 2012	925	192	8	1,125
Charge for year	197	13	3	213
Disposals	(18)	(3)	(2)	(23)
At 31 December 2012	1,104	202	9	1,315
<b>Net book value</b>				
At 31 December 2012	228	13	2	243
At 31 December 2011	398	18	4	420

No fixed assets were held under finance leases.

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****12 Fixed asset investments**

<b>Share of net tangible assets of associates</b>	<b>£000</b>
At 1 January 2012	186
Share of loss retained by associates	(59)
Translation adjustments	(2)
At 31 December 2012	125

<b>Company</b>	<b>Loans to Associates £000</b>
At 1 January 2012	75
Provisions for impairment	(1)
At 31 December 2012	74

The directors believe that the carrying value of investments is supported by their underlying net assets.

At the end of the year the Company carried out a further review of the value of its investment in Companhia da Energia Oceânica SA. Due to uncertainty over the form of future operations and therefore future cash flows, the investment has been written down to the net book value of its assets.

The following were directly owned as at the balance sheet date:

<b>Subsidiary undertakings</b>	<b>Description and proportion of share capital owned</b>	<b>Country of Incorporation</b>	<b>Nature of business</b>
Pelamis Portugal SA	Ordinary 100%	Portugal	Wave power
<b>Associate undertakings</b>			
Companhia da Energia Oceânica SA	Ordinary 22.9%	Portugal	Wave power
Aegir Wave Power Limited	B shares 33.9%	Scotland	Project Development

For all undertakings listed, the country of operation is the same as the country of incorporation.

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****13 Stocks**

	<b>Group 2012 £000</b>	<b>Group 2011 £000</b>	<b>Company 2012 £000</b>	<b>Company 2011 £000</b>
Long term contract balances	-	158	-	158
	-	158	-	158

There is no material difference between the balance sheet value of stocks and their replacement value.

**14 Debtors**

	<b>Group 2012 £000</b>	<b>Group 2011 £000</b>	<b>Company 2012 £000</b>	<b>Company 2011 £000</b>
Due within one year:				
Trade debtors	<b>275</b>	304	<b>275</b>	304
Other debtors	<b>18</b>	41	<b>12</b>	36
Prepayments and accrued income	<b>75</b>	94	<b>75</b>	94
	<b>368</b>	439	<b>362</b>	434

**Pelamis Wave Power Limited**

**Notes forming part of the financial statements for the year ended 31 December 2012 (continued)**

**15 Creditors**

	<b>Group 2012 £000</b>	<b>Group 2011 £000</b>	<b>Company 2012 £000</b>	<b>Company 2011 £000</b>
<b>Amounts falling due within one year:</b>				
'B' and 'A1' shares	<b>10,598</b>	7,475	<b>10,598</b>	7,475
Loan	<b>3,903</b>	1,109	<b>3,903</b>	1,109
Trade creditors	<b>348</b>	632	<b>343</b>	627
Payments received on account on long-term contracts	<b>57</b>	293	<b>57</b>	293
Other taxation and social security payable	<b>64</b>	63	<b>64</b>	63
Other creditors	<b>74</b>	9	<b>74</b>	9
Accruals and deferred income	<b>5,126</b>	5,072	<b>5,126</b>	5,068
	<b>20,170</b>	14,653	<b>20,165</b>	14,644

The Company's 'B' and 'A1' shares are included in the balance sheet as a liability owing to the holders' rights to require their redemption at £6 per share at the balance sheet date.

During the year the Company issued 523,333 'B' convertible redeemable preference shares of £0.25p each at a price of £2.00 per share and 71,009 'A1' convertible preference shares of £0.01 each at a price of £0.01 per share, raising £1,030,580 net of expenses of £16,074. 'B' series shares have a right of redemption at £6 per share.

The loan is repayable on the earlier of an exit by shareholders, substantial investment in the Company or three years. The loan attracts interest at 6% over the Bank of England base rate and carries a floating charge over the assets of the Company. The loan may be converted into 'B' shares of the company in event of an exit at £6 per share and carries a 30% redemption premium.

**Pelamis Wave Power Limited**

**Notes forming part of the financial statements for the year ended 31 December 2012 (continued)**

**16 Share capital**

**Group and Company**

	<b>2012 £000</b>	<b>2011 £000</b>
<b>Allotted, called up and fully paid</b>		
Included in share capital:		
493,000 ordinary shares of 25p each (2011 – 493,000 ordinary shares of 25p each)	<b>123</b>	123
4,324,729 'A' shares of 25p each (2011 – 4,324,729 'A' shares of 25p each)	<b>1,081</b>	1,081
Included in creditors falling due within one year:		
1,806,390 'B' shares of 25p each (2011 - 1,283,057)	<b>452</b>	321
1,963,852 'A1' shares of 1p each (2011 - 1,892,843)	<b>20</b>	19
23 'C' series shares of 25p each (2011 - nil)	-	-
	<b>1,676</b>	1,544

The Company's 'B' and 'A1' shares are included in the balance sheet as a liability owing to the holders' rights to require their redemption at £6 per share at the balance sheet date.

Between 27 February 2012 and 30 March 2012 the Company issued 523,333 'B' convertible redeemable preference shares of £0.25p each at a price of £2.00 per share and 71,009 'A1' convertible preference shares of £0.01 each at a price of £0.01 per share.

On the 29 October 2012 the Company issued 23 'C' shares of 25p each at a price of £0.25 per share. 'C' shares are entitled to 10% of net proceeds of a sale or transfer of more than 50% of the equity shares.

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****17 Reserves**

<b>Group</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Foreign exchange reserve £000</b>
At 1 January 2012	50,644	(56,890)	700
Loss for the financial year (note 19)	-	(6,262)	-
Translation differences on consolidation	-	-	1
Share based payments	-	193	-
<b>At 31 December 2012</b>	<b>50,644</b>	<b>(62,959)</b>	<b>701</b>
<b>Company</b>			
At 1 January 2012	50,644	(56,297)	-
Loss for the year (note 19)	-	(6,209)	-
Share based payments	-	193	-
<b>At 31 December 2012</b>	<b>50,644</b>	<b>(62,313)</b>	<b>-</b>

**18 Share-based payments**

The Company has operated different share based payment schemes for directors, employees and advisors.

*Unapproved Share Options*

Certain directors, employees, shareholders and advisors to the Company have been granted unapproved share options or warrants. Option deeds are drafted on a case by case basis and in some cases include performance conditions. Lenders to the Company have also been granted options as one of the conditions of the loans provided.

*Enterprise Management Incentive (EMI)*

Directors and employees have been granted options under the EMI scheme where they satisfied the eligibility conditions of the scheme. Subject to the rules, options may normally be exercised after the first anniversary of the date of grant and before the tenth anniversary of the date of grant. Performance conditions may be required to be met at the discretion of the Board.

In accordance with FRS20 'Share-based payments', a charge to the profit and loss account in respect of any options granted under the above schemes is recognised and spread over the vesting period of the options based on the fair value of the options at the date of grant. This charge has no cash impact.

**Pelamis Wave Power Limited**

**Notes forming part of the financial statements for the year ended 31 December 2012 (continued)**

**18 Share-based payments (continued)**

<b>Group and Company</b>	<b>2012 £000</b>	<b>2011 £000</b>
Total share-based remuneration	<b>193</b>	51

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	<b>No.</b>	<b>WAEP</b>
Outstanding at 1 January 2012	255,355	£5.63
Granted during the year	1,997	£0.25
Forfeited during the year	(375)	£10.00
Exercised during the year	(23)	£0.25
Outstanding at 31 December 2012	256,954	£5.58
Exercisable at 31 December 2012	256,954	£5.58

Included in the opening and closing balances are options over 76,200 shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7<sup>th</sup> November 2002.

The weighted average fair value of 'C' share options granted during the year was £194.53. 23 'C' share options were exercised during the year with a weighted average fair value of £194.53. There are no cash settlement alternatives for any share options.

The options outstanding at 31 December 2012 had an expected weighted average remaining life of 1 year. The exercise prices for options outstanding at the year end ranged between £0.25 and £10.00. The number of options exercisable were in the following ranges:

<b>Range of exercise prices</b>	<b>No.</b>
£0.25	1,974
£2	136,000
Between £9 and £10	118,980

The fair value of the equity-settled options granted is estimated at the date of grant using a Black-Scholes option pricing model. The following table lists the inputs to the model for years ended 31 December 2012 and 31 December 2011.

<b>Valuation Information</b>	<b>2012</b>	<b>2011</b>
Weighted average share price at grant date	<b>£195.00</b>	£2.00
Weighted average exercise price	<b>£0.25</b>	£2.00
Expected life of option (years)	<b>2</b>	1
Expected volatility	<b>50%</b>	50%
Expected dividend growth	<b>n/a</b>	n/a
Risk-free interest rate	<b>5%</b>	5%

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****19 Reconciliation of movements in shareholders' deficit**

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
Shareholders' funds/(deficit)	<b>(4,342)</b>	3,077
Loss for the year	<b>(6,262)</b>	(7,471)
Translation differences on consolidation	<b>1</b>	1
Share based payments	<b>193</b>	51
Shareholders' deficit at 31 December 2012	<b>(10,410)</b>	(4,342)

<b>Company</b>		
Shareholders' funds/(deficit)	<b>(4,449)</b>	2,904
Loss for the year	<b>(6,209)</b>	(7,404)
Share based payments	<b>193</b>	51
Shareholders' deficit at 31 December 2012	<b>(10,465)</b>	(4,449)

**20 Commitments under operating leases**

The Group and Company had annual commitments under non-cancellable operating leases as set out below:

	<b>Land and Buildings 2012 £000</b>	<b>Land and Buildings 2011 £000</b>
Operating leases which expire: Within one year	<b>154</b>	4
	<b>154</b>	4



**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****21 Related party transactions**

The Group has taken advantage of the exemption in FRS8 whereby related party transactions do not need disclosed where they are in relation to subsidiaries, specifically Pelamis Portugal SA, which is consolidated into these financial statements.

During the year the Group transacted with related parties in the normal course of business and on an arm's length basis. Details of these transactions are shown below:

<b>Related Party</b>	<b>Group Share holding</b>	<b>Sales to related party £000</b>	
Aegir Wave Power Limited	33.9%	88	

		<b>2012</b>	<b>2011</b>
		<b>£000</b>	<b>£000</b>
Operating loss		<b>(3,152)</b>	(2,121)
Depreciation of tangible fixed assets		<b>213</b>	215
Amortisation of intangible assets		<b>24</b>	21
Share based payments		<b>193</b>	51
Gain on disposal of tangible fixed assets		<b>(12)</b>	(5)
Decrease/(increase) in stocks		<b>158</b>	(127)
Decrease in debtors		<b>71</b>	696
Decrease in creditors		<b>(410)</b>	(1,786)
<b>Net cash outflow</b>		<b>(2,915)</b>	(3,056)

**23 Reconciliation of net cash flow to movement in net debt**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Decrease in cash	<b>(190)</b>	(1,396)
Cash inflow from issue of 'B' and 'A1' shares net of expenses	<b>(1,031)</b>	(2,342)
Cash inflow from loans	<b>(1,836)</b>	(1,017)
Change in net debt resulting from cash flows	<b>(3,057)</b>	(4,755)
Premium charged on 'B' share redemption	<b>(2,092)</b>	(5,133)
Interest accrued on loan	<b>(137)</b>	(12)
Premium charged on loan redemption	<b>(821)</b>	(80)
Translation differences	<b>2</b>	3
Net debt at beginning of year	<b>(8,102)</b>	1,875
<b>Net debt at end of year</b>	<b>(14,207)</b>	(8,102)

**Pelamis Wave Power Limited****Notes forming part of the financial statements for the year ended 31 December 2012 (continued)****24 Analysis of movements in net debt**

	<b>31 December 2011 £000</b>	<b>Cash Flow £000</b>	<b>Non-Cash Changes £000</b>	<b>Translation Adjustments £000</b>	<b>31 December 2012 £000</b>
Cash and deposits	482	(190)	-	2	294
'B' and 'A1' Shares	(7,475)	(1,031)	(2,092)	-	(10,598)
Loans repayable within one year	(1,109)	(1,836)	(958)	-	(3,903)
<b>Net debt</b>	<b>(8,102)</b>	<b>(3,057)</b>	<b>(3,050)</b>	<b>2</b>	<b>(14,207)</b>

Non-cash changes relate to the accrual of the premium on redemption of 'B' shares and accrued loan interest and loan redemption premium.

**25 Capital commitments**

Amounts contracted for but not provided in the financial statements amounted to £nil for the group and the Company (2011: £10,000 group and Company).

**26 Post balance sheet events**

Between January 2013 and September 2013 the Company increased its shareholder loan by £2.6m on the same terms as its existing loan. The terms of the loan are detailed in note 15 on page 25.