

Reg no SC 182368

Pelamis Wave Power Limited

Directors' Report and Financial Statements

For the Year Ended

31 December 2008

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Pelamis Wave Power Limited

Annual report and financial statements for the year ended 31 December 2008

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Pelamis Wave Power Limited

Company information

Directors

Lord Colin Moynihan	Non-Executive Chairman
Philip Metcalf	Chief Executive Officer
Diana Dyer Bartlett	Chief Financial Officer
Richard Yemm	Chief Technical Officer
Max Carcas	Business Development Director
Gina Domanig	Non-Executive Director
Marco Fabbri	Non-Executive Director
Arne Frøiland	Non-Executive Director
David Lindley	Non-Executive Director

Company secretary and registered office

Diana Dyer Bartlett, 31 Bath Road, Leith, Edinburgh, EH6 7AH

Company number

SC 182368

Independent Auditors

PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, Kintyre House, 209 West George Street, Glasgow, G2 2LW

Legal Advisers

DLA Piper Rudnick Gray Cary Scotland LLP, Collins House, Rutland Square, Edinburgh, EH1 2AA

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 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

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 made substantial progress with the development of the world's first wave farm in Portugal for its joint venture with a subsidiary of Babcock & Brown Limited (Companhia da Energia Oceanica, in which the Company has a 23% interest). The wave farm comprises three Pelamis wave energy converters with a rating of 2.25MW.

During 2008 all three machines were deployed at the same time off the coast of Portugal and generated electricity into the Portuguese grid. At the date of this report some work is being undertaken to resolve an issue relating to the location of the machines' bearings in their housings. This solution has now been tested and is ready for implementation. While these repairs were being initiated, Babcock & Brown Limited announced that it would be selling its assets, including its shares in Companhia da Energia Oceanica. It is expected that the machines will be ready for deployment in the same time frame as a new partner enters into the project.

In October 2008 the Company entered into a contract with E.on for the manufacture of the first of its new generation of wave energy converters – the P2. This machine will be tested at the European Marine Energy Centre at Orkney.

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

Going concern

As part of the planning process, the directors produce detailed plans and forecasts for the following twelve months as well as longer planning horizons. In light of current adverse funding market conditions, the directors have adopted a plan which, they believe, enables the Company to continue to meet its operational requirements for the foreseeable future, without further recourse to the financial markets. Accordingly the financial statements have been prepared under the going concern presumption.

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 2008 the Group had turnover of £0.5m (2007: £0.7m) which was substantially derived from its contract to install the world's first wave farm in Portugal. The operating loss which arose from this contract as well as further research and development on wave energy converters amounted to £8.9m (2007: £9.3m).

The operating loss translated to an operating cash outflow of £6.9m (2007: £8.5m). Cash resources were partially replenished by a capital injection of £5.0m by the Company's shareholders in October 2008 such that the Group had a net outflow of cash for the year of £1.4m (2007: £5.4m inflow). At the end of the year the Group had net borrowings (including £49.2m in respect of 'A' shares) of £42.7m (2007 £35.4m). The 'A' shares are treated as debt although a cash redemption is not currently technically permissible under the Companies Act 1985 other than out of a fresh issue of shares.

Pelamis Wave Power Limited

Report of the directors for the year ended 31 December 2008

Key risks/ uncertainties

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

- Technology risk that the Company's technology may not work as envisaged or that the Company will fail to develop equipment at an acceptable cost.
- Political risk that the governments in the jurisdictions where the Company aims to sell its machinery will fail to establish adequate revenue support mechanisms or planning regimes to enable the Company to increase its sales volumes as planned by management.
- Financial risk that the Company will not be able to secure adequate finance to fund its successful future commercial development.
- Personnel risk that the Company will lose key personnel to competitors or other industries which would slow down progress with the research and development programme.

Directors

The directors who held office during the year are set out below:

Lord Colin Moynihan	(Chairman)	
Philip Metcalf	(Chief Executive Officer)	
Diana Dyer Bartlett	(Chief Financial Officer and Company Secretary)	
Richard Yemm	(Chief Technical Officer)	
Max Carcas	(Business Development Director)	
Gina Domanig	(Non-executive)	(appointed 17 January 2008)
Marco Fabbri	(Non-executive)	
Arne Frøiland	(Non-executive)	(appointed 17 January 2008)
David Lindley	(Non-executive)	
Richard Erskine	(Non-executive)	(resigned 21 January 2008)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pelamis Wave Power Limited

Report of the directors for the year ended 31 December 2008

Auditors and disclosure of information to auditors

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

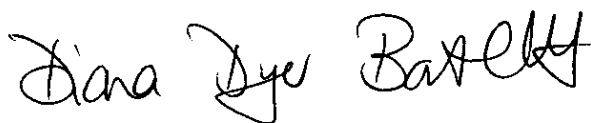
- there is no relevant information of which the Company's auditors are unaware
- the directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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 1985, an elective resolution has been passed by shareholders in order to dispense with the need to hold Annual General Meetings and to appoint auditors annually.

By order of the Board

A handwritten signature in black ink, appearing to read 'Diana Dyer Bartlett', with a stylized flourish at the end.

Diana Dyer Bartlett
Company Secretary

3 April 2009

Pelamis Wave Power Limited

Report of the independent auditors

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 for the year ended 31 December 2008 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. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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 expressed by our consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Pelamis Wave Power Limited

Report of the independent auditors

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's loss and cash flows 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.



PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
and Registered Auditors
Edinburgh

3 April 2009

Pelamis Wave Power Limited

Consolidated profit and loss account for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Group turnover	2	481	673
Cost of sales		(3,419)	(5,555)
Gross loss		(2,938)	(4,882)
Administrative expenses		(6,047)	(4,617)
Other operating income	3	39	240
Group operating loss	6	(8,946)	(9,259)
Share of operating profit / (loss) in associate		11	(13)
Loss on ordinary activities before finance charges and taxation		(8,935)	(9,272)
Other interest receivable and similar income	7	339	200
Interest payable and similar charges:			
Group	7	(996)	(1,500)
Associate	7	(35)	(37)
Loss on ordinary activities before taxation		(9,627)	(10,609)
Taxation on loss from ordinary activities	8	1,364	870
Loss for the year		(8,263)	(9,739)

All amounts relate to continuing activities.

Pelamis Wave Power Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2008

	2008 £000	2007 £000
Loss for the financial year	(8,263)	(9,739)
Exchange differences on consolidation	640	127
Total recognised gains and losses for the year	(7,623)	(9,612)

Pelamis Wave Power Limited

Consolidated balance sheet as at 31 December 2008

	Note	2008 £000	2007 £000
Fixed assets			
Intangible assets	10	217	195
Tangible assets	11	178	232
Investments	12	371	1,643
		766	2,070
Current assets			
Debtors	13	2,583	1,416
Cash at bank and in hand		6,447	7,981
		9,030	9,397
Creditors: amounts falling due within one year	14	(5,010)	(5,266)
Net current assets		4,020	4,131
Total assets less current liabilities		4,786	6,201
Creditors: amounts falling due after more than one year	14	(49,167)	(43,229)
Net liabilities		(44,381)	(37,028)
Capital and reserves			
Called up share capital	15	123	123
Share premium account	16	78	78
Profit and loss account	16	(45,326)	(37,333)
Foreign exchange reserve	16	744	104
Total shareholders' deficit		(44,381)	(37,028)

The financial statements on pages 7 to 31 were approved by the Board of Directors on 3 April 2009 and were signed on its behalf by:


Philip Metcalf, Chief Executive Officer

Pelamis Wave Power Limited

Company balance sheet as at 31 December 2008

	Note	2008 £000	2007 £000
Fixed assets			
Intangible assets	10	217	195
Tangible assets	11	177	169
Investments	12	405	1,659
		799	2,023
Current assets			
Debtors	13	2,378	1,238
Cash at bank and in hand		6,399	7,750
		8,777	8,988
Creditors: amounts falling due within one year	14	(4,756)	(4,848)
Net current assets		4,021	4,140
Total assets less current liabilities		4,820	6,163
Creditors: amounts falling due after more than one year	14	(49,167)	(43,229)
Net liabilities		(44,347)	(37,066)
Capital and reserves			
Called up share capital	15	123	123
Share premium account	16	78	78
Profit and loss account	16	(44,548)	(37,267)
Total shareholders' deficit		(44,347)	(37,066)

The financial statements on pages 7 to 31 were approved by the Board of Directors on 3 April 2009 and were signed on its behalf by:


Philip Metcalf, Chief Executive Officer

Pelamis Wave Power Limited

Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Net cash outflow from operating activities	21		(6,894)		(8,525)
Returns on investments and Servicing of finance					
Interest received		369		124	
Interest paid		(18)		(35)	
Net cash inflow from returns on investments and servicing of finance			351		89
Taxation			797		70
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(151)		(27)	
Purchase of intangible fixed assets		(34)		(29)	
Disposal of tangible fixed assets		288		-	
Investment in associates		(546)		(155)	
Net cash outflow from capital expenditure and financial investment			(443)		(211)
Cash outflow before financing			(6,189)		(8,577)
Financing					
Issue of 'A' shares		5,008		14,173	
Loan repayments		(250)		(200)	
Cash inflow from financing			4,758		13,973
Increase in cash	22		(1,431)		5,396

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008

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 1985 and applicable accounting standards. 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 2008. No profit and loss account is presented for Pelamis Wave Power Limited as permitted by section 230 of the Companies Act 1985.

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 accounts are prepared on a going concern basis.

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.

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

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

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 is written off to the profit and loss account in that year.

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 their residual value of each asset on a straight line 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 is 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 stakeholder pension scheme and group personal pension plan, both defined contribution pension schemes, are charged to the profit and loss account in the year in which they become payable.

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****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.

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	2008 £000	2007 £000
Sale of wave energy converters (all Europe)	456	673
Feasibility study income (all Europe)	25	-
	481	673

3 Other operating income

Group	2008 £000	2007 £000
Grant income	39	240
	39	240

4 Employees

Group	2008 £000	2007 £000
Staff costs (including directors) consist of:		
Wages and salaries	2,751	2,493
Social security costs	308	264
Pension costs	48	42
	3,107	2,799

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****4 Employees (continued)**

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

Group	2008	2007
Engineering and operations	52	57
Selling and administration	15	16
	67	73

5 Directors' emoluments

Directors' remuneration consists of:	2008 £000	2007 £000
Aggregate emoluments	571	363
Pension	5	4
	576	367

Emoluments of the highest paid director were £208,167 (2007 - £79,167).

Three (2007: two) directors participated in either the stakeholder pension scheme or the group personal pension plan.

No directors received shares during the year in respect of qualifying services (2007: nil) and no directors exercised share options during the year (2007: nil).

6 Operating loss

Group	Note	2008 £000	2007 £000
Operating loss is stated after charging:			
Depreciation of tangible fixed assets		101	123
Amortisation of intangible fixed assets		12	12
Operating leases - land & buildings		239	127
Auditors' remuneration		22	20
(Gain)/loss on disposal of fixed assets		(172)	1
Impairment of investment	12	2,446	-

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****7 Finance and similar charges (net)**

Group	2008 £000	2007 £000
Interest payable	16	42
Less: interest receivable	(339)	(200)
Provision for 'A' share redemption premium	980	1,458
Finance and similar charges - Group	657	1,300
Share of associate's interest charge	35	37
	692	1,337

8 Taxation on loss from ordinary activities

Group	2008 £000	2007 £000
Current Tax Credit		
UK corporation tax at 28.5% (2007 - 30%)	-	-
Tax credit in respect of prior years	(1,364)	(870)
	(1,364)	(870)
Foreign tax	-	-
Share of associate's current tax	-	-
Total current tax	(1,364)	(870)

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:

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

8 Taxation on loss from ordinary activities (continued)

Group	2008 £000	2007 £000
Factors affecting current tax charge for the period		
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	(2,744)	(3,183)
Effects of:		
Non deductible expenditure	791	3
Difference between depreciation and capital allowances	(6)	23
Tax losses available for carry forward	1,959	3,170
Difference in overseas tax rate	-	(13)
Prior year losses surrendered for research & development tax credit	(1,364)	(870)
Current tax charge for year	(1,364)	(870)

Factors that may affect future tax charges

The Group has estimated tax losses, subject to the agreement of HMRC, arising in the UK of £36,542,000 (2007: £36,208,000) that are available indefinitely for offset against future taxable profits of Pelamis Wave Power Limited. These losses may be further adjusted to reflect the surrender of the losses relating to qualifying research and development expenditure in accordance with the research and development tax credit scheme. In addition, the Group has estimated tax losses arising in Portugal of £69,000 (2007: £62,000) that are available for a period of between 3 and 6 years, for offset against future taxable profits in Pelamis Portugal SA (formerly Ocean Power Delivery Portugal SA).

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 28% (2007: 28%). The unrecognised deferred tax asset is estimated as £10,196,000 (2007: £10,109,000).

Group	2008 £000	2007 £000
Provision for deferred tax comprises:		
Tax losses available for carry forward	10,249	10,154
Capital allowances	(50)	(44)
Other timing differences	(3)	(1)
Total deferred tax asset not recognised	10,196	10,109

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****9 Loss for the financial year**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements.

The consolidated retained loss for the financial year of £8,263,000 (2007: £9,739,000) includes a £7,551,000 loss (2007: £9,121,000 loss) in respect of the parent company.

10 Intangible fixed assets

Intangible fixed assets	
Group and Company	Patents and licences £000
Cost	
At 1 January 2008	235
Additions	34
At 31 December 2008	269
Amortisation	
At 1 January 2008	40
Charge for year	12
At 31 December 2008	52
Net book value	
At 31 December 2008	217
At 31 December 2007	195

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

11 Tangible fixed assets

Group	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2008	709	234	12	955
Additions	119	34	3	156
Disposals	(221)	-	(3)	(224)
Translation adjustments	8	-	0	8
At 31 December 2008	615	268	12	895
Accumulated depreciation				
At 1 January 2008	523	193	7	723
Charge for year	72	26	3	101
Disposals	(106)	-	(3)	(109)
Translation adjustments	2	-	0	2
At 31 December 2008	491	219	7	717
Net book value				
At 31 December 2008	124	49	5	178
At 31 December 2007	186	41	5	232

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 2008 (continued)

11 Tangible fixed assets (continued)

Company	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2008	613	234	12	859
Additions	91	32	3	126
Disposals	(89)	-	(3)	(92)
At 31 December 2008	615	266	12	893
Accumulated depreciation				
At 1 January 2008	490	193	7	690
Charge for year	57	25	3	85
Disposals	(56)	-	(3)	(59)
At 31 December 2008	491	218	7	716
Net book value				
At 31 December 2008	124	48	5	177
At 31 December 2007	123	41	5	169

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

12 Fixed asset investments

Group

**Share of net tangible assets
of associate**

£000

At 1 January 2008	1,643
Additions	546
Share of loss retained by associate	(24)
Translation adjustments	652

At 31 December 2008	2,817
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Provisions for impairment

At 1 January 2008	-
Written off	2,446

At 31 December 2008	2,446
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Net Book Value

At 31 December 2008	371
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At 31 December 2007	1,643
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Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****12 Fixed asset investments**

Company	Loans to Associates £000	Shares in Associates £000	Shares in Subsidiaries £000	Total £000
Cost				
At 1 January 2008	1,114	511	34	1,659
Additions	203	342	-	545
At 31 December 2008	1,317	853	34	2,204
Provisions for impairment				
At 1 January 2008	-	-	-	-
Written off	946	853	-	1,799
At 31 December 2008	946	853	-	1,799
Net book value				
At 31 December 2008	371	-	34	405
At 31 December 2007	1,114	511	34	1,659

At the end of the year the Company carried out a review of the value of its investment in Companhia da Energia Oceânica SA ("CEO"). The parent company of the Company's partner in CEO, Babcock and Brown Limited, has announced that it is in financial difficulties and that it is selling all its assets, including the shares in CEO. Out of prudence the Board has elected to write down the value of its investment in CEO to the estimated net book value of its assets.

The loans form part of a revolving loan facility and were granted for an indefinite period of time. The loans are unsecured and attract interest corresponding to an aggregate of six month EURIBOR plus a spread of 1.5%.

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****12 Fixed asset investments (continued)**

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

Subsidiary undertakings	Description and proportion of share capital owned	Country of incorporation	Nature of business
Pelamis Portugal SA (formerly Ocean Power Delivery Portugal SA)	Ordinary 100%	Portugal	Wave power

Associate undertakings

Companhia da Energia Oceânica SA	Ordinary 22.9%	Portugal	Wave power
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For all undertakings listed, the country of operation is the same as the country of incorporation.

Additional disclosures are given in respect of Companhia da Energia Oceânica SA:

	2008 £000	2007 £000
Fixed assets	371	1,828
Current assets	-	101
Liabilities due within one year	-	(286)
Share of net assets	371	1,643
Turnover	-	-
Loss before tax	(24)	(50)
Taxation	-	-
Loss after tax	(24)	(50)

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

13 Debtors

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Due within one year:				
Trade debtors	38	68	38	68
Amounts owed by Group undertakings	-	-	571	161
Amounts owed by associates	497	162	-	-
Other debtors	350	208	78	33
Prepayments and accrued income	329	178	327	176
Corporation tax	1,369	800	1,364	800
	2,583	1,416	2,378	1,238

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

14 Creditors

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Amounts falling due within one year:				
Trade creditors	651	1,275	585	999
Payments received on account on long-term contracts	1,402	-	1,402	-
Other taxation and social security payable	114	93	104	95
Other creditors	5	206	5	200
Accruals and deferred income	2,838	3,692	2,660	3,554
	5,010	5,266	4,756	4,848

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Amounts falling due after more than one year:				
'A' shares	49,167	43,179	49,167	43,179
Other creditors	-	50	-	50
	49,167	43,229	49,167	43,229

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

14 Creditors (continued)

The 'A' shares are included as a liability as they may be redeemed, subject to the Companies Act 1985, at the option of a majority of 66% of the holders by 3 months notice. The holders of the 'A' shares have waived their right to redeem their shares before 31 December 2009 and accordingly the liability is included in creditors due after more than one year. The option to redeem does not expire and a premium of 20% is payable upon redemption.

During the year the Company issued a further 503,498 'A' shares of 25p each, raising £5,007,653 net of expenses of £27,327.

A loan from GE Commercial Finance was settled in full on 30 October 2008, four months earlier than permitted within the terms of the loan agreement. Last year £50,000 of the loan was included in creditors falling due after more than one year and the balance of the loan of £200,000 was included within creditors falling due within one year. The full amount of the loan drawn down in 2006 was £500,000, repayable in 30 equal instalments. Interest was payable at a floating rate based on LIBOR plus a margin of 5.45 per cent. The loan was secured by floating charge over the Company's assets.

15 Share capital

Group and Company

	2008 £000	2007 £000
Authorised		
1,112,265 ordinary shares of 25p each (2007 – 1,112,265 ordinary shares of 25p each)	278	278
6,000,000 'A' shares of 25p each (2007 – 4,000,000 'A' shares of 25p each)	1,500	1,000
	1,778	1,278
Allotted, called up and fully paid		
Included in share capital 493,000 ordinary shares of 25p each (2007 – 493,000 ordinary shares of 25p each)	123	123
Included in creditors due after more than one year 4,324,729 'A' shares of 25p each (2007 – 3,821,231 'A' shares of 25p each)	1,081	955
	1,204	1,078

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****15 Share capital (continued)**

The Company's 'A' shares are included in the balance sheet as a liability owing to the holders' rights to require their redemption. At the present time a redemption is not technically permissible under the Companies Act 1985 other than through a fresh issue of shares. The 'A' shareholders have the right to convert their shares to ordinary shares and thereafter rank pari passu with the ordinary shares in terms of voting rights and rights to dividends.

On 15 July 2008 the Company passed a special resolution to increase its authorised share capital by £500,000 by the creation of 2,000,000 'A' shares of 25p each.

On 22 October 2008 the Company issued 503,498 'A' shares of 25p each fully paid at £10 per share.

16 Reserves

Group	Share premium account £000	Profit and loss account £000	Foreign exchange reserve £000
At 1 January 2008	78	(37,333)	104
Loss for the year (note 18)	-	(8,263)	-
Translation differences on consolidation	-	-	640
Share based payments	-	270	-
At 31 December 2008	78	(45,326)	744
Company			
At 1 January 2007	78	(37,267)	-
Loss for the year (note 18)	-	(7,551)	-
Share based payments	-	270	-
At 31 December 2008	78	(44,548)	-

17 Share-based payments`

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

Unapproved Share Options

Certain directors, employees and advisors to the Company have been granted unapproved share options. 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.

Group and Company	2008 £000	2007 £000
Total share-based remuneration	270	-

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

	No.	WAEP
Outstanding at 1 January 2008	187,999	£11.07
Granted during the year	517,893	£10.00
Forfeited during the year	(7,000)	£10.00
Outstanding at 31 December 2008	698,892	£ 9.69
Exercisable at 31 December 2008	177,499	£ 8.77

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 7th November 2002.

The weighted average fair value of options granted during the year was £3.84. No options were exercised during the year. There are no cash settlement alternatives for any share options.

17 Share based payments (continued)

The options outstanding at 31 December 2008 had an expected weighted average remaining life of 4 years. 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:

Range of exercise prices	No.
Under £9.00	15,354
Between £9 and £10	677,036
Greater than £10	6,502

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 2008 and 31 December 2007.

Valuation Information	2008	2007
Weighted average share price at grant date	£10.00	n/a
Weighted average exercise price	£10.00	n/a
Expected life of option (years)	3	n/a
Expected volatility	50%	n/a
Expected dividend growth	n/a	n/a
Risk-free interest rate	5%	n/a

The volatility assumption is not based on historical experience but is based on management's judgement.

18 Reconciliation of movements in shareholders' funds

Group	2008 £000	2007 £000
Shareholders' funds at 1 January 2008	(37,028)	(27,416)
Loss for the year	(8,263)	(9,739)
Translation differences on consolidation	640	127
Share based payments	270	-
Shareholders' funds at 31 December 2008	(44,381)	(37,028)
Company		
Shareholders' funds at 1 January 2008	(37,066)	(27,945)
Loss for the year	(7,551)	(9,121)
Share based payments	270	-
Shareholders' funds at 31 December 2008	(44,347)	(37,066)

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

19 Commitments under operating leases

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

	Land and buildings 2008 £000	Land and buildings 2007 £000
Operating leases which expire:		
Within one year	51	6
In two to five years	73	73
	124	79

20 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 (formerly Ocean Power Delivery Portugal SA), which is consolidated into these accounts.

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:

Related Party	Group shareholding	Sales to related party £000	Amounts owed from related party £000
Companhia da Energia Oceânica SA ("CEO")	22.9%	456	497

Sales relate to the invoicing of a contract for the sale of Pelamis wave energy converters.

The Company also transferred assets to CEO at their initial cost of £287,000, realising a gain on sale of £172,000.

21 Reconciliation of operating loss to net cash outflow from operating activities

	2008	2007
	£000	£000
Operating loss	(8,946)	(9,259)
Depreciation of tangible fixed assets	101	123
Amortisation of intangible assets	12	12
Impairment of fixed asset investment	2,446	-
Share based payments	270	-
(Gain)/ loss on disposal of tangible fixed assets	(172)	1
(Increase)/ decrease in debtors	(466)	41
(Decrease)/ increase in creditors	(139)	557
Net cash outflow	(6,894)	(8,525)

22 Reconciliation of net cash flow to movement in net debt

	2008	2007
	£000	£000
(Decrease)/ increase in cash	(1,431)	5,396
Cash outflow on loan repayments	250	200
Cash inflow from issue of 'A' shares net of expenses	(5,008)	(14,173)
Change in net debt resulting from cash flows	(6,189)	(8,577)
Premium accrued on 'A' share redemption	(980)	(1,458)
Translation differences	(103)	(12)
Net debt at beginning of period	(35,448)	(25,401)
Net debt at end of period	(42,720)	(35,448)

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****23 Analysis of net debt**

	31 December 2007 £000	Cash Flow £000	Non-Cash Changes £000	Translation Adjustments £000	31 December 2008 £000
Cash and deposits	7,981	(1,431)	-	(103)	6,447
Loans repayable within one year	(200)	200	-	-	-
Loans repayable after one year	(50)	50	-	-	-
'A' Shares	(43,179)	(5,008)	(980)	-	(49,167)
Net debt	(35,448)	(6,189)	(980)	(103)	(42,720)

Non-cash changes relate to the accrual of the premium on redemption of 'A' shares.

24 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £115,000 for the Group and the Company (2007 – nil respectively).

25 Post balance sheet events

Since the year end the parent company (Babcock & Brown Limited) of the Company's partner in Companhia da Energia Oceanica ("CEO"), has announced that it is in financial difficulties and that it is in the process of selling all its assets, including its shareholding in CEO. Discussions are continuing with a number of interested parties with a view to continuing the project in Portugal.