

**Turbo Power Systems Limited**

Directors' Report and Financial Statements

Year ended

31 December 2011

Company number 02774899

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# **Turbo Power Systems Limited**

## **Directors' Report and Financial Statements for the year ended 31 December 2011**

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### **Directors**

At the date of approval of the Directors' Report

C B Besant  
R B Braga  
R J Piper  
P Newall

### **Secretary and Registered Office**

C Rendell  
Unit 3 Summit Centre  
Hatch Lane  
West Drayton  
Middlesex  
UB7 0LJ

### **Company number**

02774899

### **Auditors**

KPMG LLP  
58 Clarendon Road  
Watford  
Hertfordshire  
WD17 1DE

## **Turbo Power Systems Limited**

### **Director's Report**

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The Directors present their Directors' Report and Financial Statements for the year ended 31 December 2011

#### **Results and dividends**

The profit and loss account is set out on page 7 and shows the loss for the year (2010 loss)

The Directors do not recommend the payment of a dividend (2010 £nil)

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

The Company is a trading company and the principal activities of the Company in the year under review were the design and manufacture of high speed alternator and motor technology, and the manufacture and supply of power electronics products

The Company recorded a loss after tax for the year ended 31 December 2011 of £4,445,832 (2010 £10,193,359 loss) This included an exceptional foreign exchange gain of £938,662 (2010 £3,954,776 loss) on retranslation of the Canadian Dollar intercompany loan from the parent company, Turbo Power Systems Inc

The Company plans to continue to invest in research and development during 2012, and seek to increase the use of its technology by its key customers The contracts that the Company has taken in 2011 should provide a better margin than the current contracts that it has at low margins The Company is working with its Brazilian parent company to enter into more engineering development contracts to become a centre of excellence for the wider group

On 5 May 2011 Peter Brown was appointed as Chief Executive Officer (CEO) of the Company, replacing Jim Vickerman who stepped down at that time Jim Vickerman resigned from the Board of Directors on 14 June 2011 Subsequent to the year end on 30 June 2012, Peter Brown resigned as CEO and was replaced on 1 July 2012 by Carlos Neves

During 2011 the Company increased the short term loan from TAO Sustainable Power Solutions (UK) Limited ("TAO UK") from £1,900,000 to £8,150,000 as at 31 December 2011 On 25 May 2012, the Company converted £8,150,000 of debt and £396,000 of accrued interest into equity owned by the parent company Turbo Power Systems Inc Subsequent to the year end the Company borrowed a further £2,820,000 from TAO UK, which is repayable on 1 April 2014 As of the date of this report the Company had no short term external debt The Directors believe that this puts the Company in a stronger financial position going forward

During May 2012, the Company increased its funding by placing a further £2,000,000 of A Shares with two current A Shareholders This is to continue to fund the growth of the business

Additional details, including financial and non-financial key performance indicators, are disclosed in the Annual Report of the Company's holding company, Turbo Power Systems Inc, which can be obtained from Turbo Power Systems Inc, c/o Unit 3 Summit Centre, Hatch Lane, West Drayton, Middlesex UB7 0LJ

#### **Research and development activities**

During the year the Company continued to develop its motor and generator systems and the associated power electronics The current year expenditure on research and development was £4,034,412 (2010 £2,933,534)

## **Turbo Power Systems Limited**

### **Director's Report (continued)**

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#### **Political and charitable donations**

The Company made no political or charitable donations during the year (2010 £nil)

#### **Directors**

The Directors of the Company during the year were as follows

C B Besant	J J M Pessoa
J E Vickerman	R B Braga
	R J Piper

J E Vickerman resigned on 14 June 2011

P Brown and P Newall were appointed as directors of the company on 25 May 2012

P Brown resigned on 30 June 2012

J J M Pessoa resigned on 3 July 2012

#### **Financial risk management**

The Board regularly reviews the financial requirements of the Company and the risks associated therewith. The Company has well defined and consistently applied policies for the management of foreign exchange and interest rate exposures. There has been no change since the year-end in the major financial risks faced by the Company. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

The Company's financial instruments comprise parent company borrowings, cash, and trade debtors and creditors arising from the Company's operations. Details of the parent company borrowings are given in the Accounts Note 16 and 17.

Company operations are primarily financed from parent company support. Loan notes carry a fixed rate of interest of 6.0%. Cash on deposit is placed to optimise the interest return whilst maintaining security over the deposit through the use of major institutional banking organisations.

The majority of the Company's operational costs are in Sterling. Exposure to foreign exchange risk on customer contracts is partly mitigated through the use of fixed range exchange rate clauses in supply contracts where possible, and the matching of foreign payments with foreign revenues using currency denominated bank accounts. The long-term parent Company loan, which is denominated in Canadian Dollars, is subject to exchange rate fluctuations.

#### **Holding Company**

The Company is a wholly owned subsidiary of Turbo Power Systems Inc., which is a company incorporated in Canada.

The ultimate parent company is VSE Vale Soluções em Energia S.A., a company incorporated in Brazil.

**Turbo Power Systems Limited**

**Director's Report (*continued*)**

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**Disclosure of information to auditor**

The Directors who held office at the date of approval of this Director's Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office

By order of the board



C B Besant  
**Director**

Date *18* September 2012

## **Turbo Power Systems Limited**

### **Statement of the Directors' responsibilities in respect of the Directors' Report and the Financial Statements**

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#### **Directors' responsibilities**

The Directors are responsible for preparing the Directors' 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 they have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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 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 enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



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58 Clarendon Road  
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Hertfordshire  
WD17 1DE

## **Independent auditor's report to the members of Turbo Power Systems Limited**

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We have audited the financial statements of Turbo Power Systems Limited for the year ended 31 December 2011, set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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 (APB's) Ethical Standards for Auditors.

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

A description of the scope of an audit of Financial Statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **Opinion on financial statements**

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with UK 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 qualified, we have considered the adequacy of the disclosure made in Note 28 to the Financial Statements concerning the Company's ability to continue as a going concern. While forecasts indicate that further funding could be required by the Company, it has received commitments from Turbo Power Systems Inc, its parent company, and TAO UK, the principle shareholder of Turbo Power Systems Inc, that they will not withdraw existing financial support and will make available such additional support as is necessary for a period of not less than 12 months from the date of approval of these Financial Statements. These conditions, along with the other matters explained in Note 28 to the Financial Statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's



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**Independent auditor's report to the members of Turbo Power Systems Limited**

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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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Matthewman

18/9/12

M Matthewman (Senior Statutory Auditor)  
for and on behalf of, KPMG LLP Statutory Auditor  
58 Clarendon Road  
Watford  
Hertfordshire  
WD17 1DE



**Turbo Power Systems Limited****Profit and loss account for the year ended 31 December 2011**

	<b>Note</b>	<b>2011 £</b>	<b>2010 £</b>
<b>Turnover</b>	2	<b>13,311,852</b>	6,912,772
Cost of sales		<u>(11,017,419)</u>	<u>(6,292,553)</u>
<b>Gross profit</b>		<b>2,294,433</b>	620,219
Administrative expenses – including exceptional items		<b>(7,581,812)</b>	(6,528,569)
Exceptional items	3	<b>938,662</b>	(3,954,776)
Total administrative expenses		<u>(6,643,150)</u>	<u>(10,483,345)</u>
<b>Operating loss</b>	4	<b>(4,348,717)</b>	(9,863,126)
Other interest receivable and similar income	8	<b>1,040</b>	1,346
Interest payable and similar charges	9	<u>(329,020)</u>	<u>(331,579)</u>
<b>Loss on ordinary activities before taxation</b>		<b>(4,676,697)</b>	(10,193,359)
Tax on loss on ordinary activities	10	<b>230,865</b>	-
<b>Loss for the financial year</b>		<u><b>(4,445,832)</b></u>	<u>(10,193,359)</u>

All results for the current and preceding years are derived from continuing operations

The Company had no recognised gains or losses other than the loss for the year


The Notes on pages 9 to 26 form part of these Financial Statements

# Turbo Power Systems Limited

## Balance sheet at 31 December 2011

	Note	2011 £	2011 £	2010 £	2010 £
<b>Fixed assets</b>					
Intangible assets	11		255,977		-
Tangible assets	12		871,078		1,066,269
Fixed asset investments	13		645,632		645,632
			<u>1,772,687</u>		<u>1,711,901</u>
<b>Current assets</b>					
Stocks	14	3,200,464		1,656,015	
Debtors	15	3,037,614		1,916,119	
Cash at bank and in hand		981,243		1,537,435	
		<u>7,219,321</u>		<u>5,109,569</u>	
<b>Creditors: amounts falling due within one year</b>	16	(28,631,261)		(19,462,186)	
<b>Net current liabilities</b>			<u>(21,411,940)</u>		<u>(14,352,617)</u>
<b>Total assets less current liabilities</b>			<u>(19,639,253)</u>		<u>(12,640,716)</u>
<b>Creditors: amounts falling due after more than one year</b>					
Loan notes	17	-		(1,916,472)	
Other	17	(51,460,402)		(52,439,579)	
		<u>(51,460,402)</u>		<u>(54,356,051)</u>	
<b>Provision for liabilities and charges</b>	18	(1,560,944)		(1,293,000)	
			<u>(53,021,346)</u>		<u>(55,649,051)</u>
<b>Net liabilities</b>			<u>(72,660,599)</u>		<u>(68,289,767)</u>
<b>Capital and reserves</b>					
Called up share capital	19		12,717,667		12,717,667
Share premium account	20		1,112,520		1,112,520
Share based equity reserve	20		1,751,151		1,676,151
Profit and loss account	20		(88,241,937)		(83,796,105)
<b>Shareholders' deficit</b>	21		<u>(72,660,599)</u>		<u>(68,289,767)</u>

The Financial Statements were approved by the Board of Directors on 16 September 2012 and were signed on its behalf by

C B Besant  
 Director   
 Company registered number 02774899

The Notes on pages 9 to 26 form part of these Financial Statements

**1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements, except as noted below

*Basis of preparation*

The Financial Statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards

*Consolidated financial statements*

The Company is exempt from the requirement to prepare Consolidated Financial Statements by virtue of section 402 of the Companies Act 2006 as the Group it heads qualifies as a medium sized group. These Financial Statements therefore present information about the Company as an individual undertaking and not about its Group.

*Cash flow statement*

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements' not to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own Financial Statements.

*Goodwill*

Goodwill arising on an acquisition of a trade is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over the Directors' estimate of its useful economic life which is 10 years. Impairment tests on the carrying value of goodwill are undertaken

- at the end of the first full financial year following acquisition,
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

*Turnover*

Turnover represents net invoiced sales of goods and services, excluding VAT. Turnover is recognised on delivery of related units. Amounts invoiced or received in advance of order delivery are deferred until delivery of the related unit.

The Company recognises turnover from development programmes, excluding VAT, on a percentage of completion method.

**1 Accounting policies (continued)**

*Depreciation*

Depreciation is provided at the following annual rates in order to write off the cost of each asset over its estimated useful life

Short leasehold land and buildings	- 10% straight line
Plant and machinery	- 14% straight line
Computers	- 25% straight line
Test equipment	- 20% straight line
Fixtures and equipment	- 25% straight line

*Investments*

Investments held as fixed assets are stated at cost less any provision for impairment

*Intangible assets*

The useful lives of intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement. Intangible assets are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

*Stocks*

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long-term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract. Provision is made for any losses as soon as they are foreseen.

*Convertible debt*

On issue of convertible debt instruments the cost of the liability portion is initially calculated using the market interest rate for an equivalent non-convertible instrument. The remainder of the net proceeds is allocated to equity as a conversion option. The liability element is subsequently reported at amortised cost. Amortisation of the debt discount is recognised in the income statement over the duration of the debt instrument. The value of the equity conversion option is not changed in future periods.

*Foreign currency*

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences arising on translation are taken to the profit and loss account.

**1 Accounting policies (continued)**

*Finance costs*

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

*Research and development*

Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred. Product development costs, which comprise direct expenditure including salary expenses and attributed overheads, are also charged to the profit and loss account in the period of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable,
- the project is technically feasible and commercially viable,
- current and future costs are expected to be exceeded by future sales, and
- adequate resources exist for the project to be completed

*Taxation*

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

*Share based payments*

Turbo Power Systems Inc issues equity-settled share-based payments to certain employees of the company. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

*Leased assets*

The annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

*Pension costs*

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

**1 Accounting policies (continued)**

*Government grants*

Capital based government grants included within creditors in the balance sheet are credited to operating profit over the estimated useful economic lives of the assets to which they relate

*Patent costs*

The Company capitalises new patent application costs and amortises these over 15 years. Renewal costs are written off in the year incurred.

*Cost of sales*

Cost of sales represents the direct costs of goods sold together with attributable production overheads. Direct costs include material costs, direct labour and direct expenses.

*Classification of financial instruments issued by the company*

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

**2 Turnover**

	2011 £	2010 £
Analysis by geographical market		
United Kingdom	3,518,182	1,322,794
North America	8,625,086	4,830,212
Rest of the world	1,168,584	759,769
	<hr/>	<hr/>
	13,311,852	6,912,772
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# Turbo Power Systems Limited

## Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

Turnover is wholly attributable to the principal activities of the Company

### 3 Exceptional items

	2011 £	2010 £
Foreign exchange gain/(loss)	<u>938,661</u>	<u>(3,954,776)</u>

The differences on foreign exchange arise due to the year end translation of the intercompany loan with Turbo Power Systems Inc , the parent company The loan is denominated in Canadian Dollars

### 4 Operating loss

	2011 £	2010 £
Operating loss is stated after charging / (crediting)		
Research and development – customer receipts	(1,089,684)	(1,618,353)
Research and development – material & overhead expenditure	1,620,099	1,390,448
Research and development – labour expenditure	2,414,313	1,543,086
Depreciation of tangible fixed assets	592,056	768,197
Amortisation of other intangible fixed assets	4,338	-
Hire of other assets - operating leases	682,870	574,669
Share-based payments	75,000	66,009
Risk premium payable on change of control	-	2,122,192
Exchange differences	(938,662)	3,954,776

<i>Auditors remuneration</i>	2011 £	2010 £
Audit of these Financial Statements	45,000	40,590
Other services	6,850	19,415
Total auditor remuneration	<u>51,850</u>	<u>60,005</u>

The non-audit services of £6,850 (2010 - £19,415) are in respect of corporation tax compliance work and iXBRL tagging of financial statements for taxation filing purposes during the year The parent company also paid £28,000 (2010 - £24,410) audit fee and £44,650 (2010 - £nil) for review of conversion to International Financial Reporting Standards from Canadian GAAP

## **Turbo Power Systems Limited**

### **Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)**

#### **5 Employees**

Staff costs (including directors) consist of

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Wages and salaries	<b>5,982,657</b>	4,004,057
Social security costs	<b>586,543</b>	412,287
Other pension costs	<b>60,956</b>	80,493
	<b><u>6,630,156</u></b>	<b><u>4,496,837</u></b>

#### **5 Employees (continued)**

The average number of employees (including Directors) during the year was 148 (2010 120)

	<b>2011</b>	<b>2010</b>
Engineering	<b>37</b>	39
Manufacturing	<b>70</b>	46
Sales and marketing	<b>5</b>	7
Administration	<b>21</b>	22
Directors and senior management	<b>15</b>	6
	<b><u>148</u></b>	<b><u>120</u></b>

#### **6 Directors' remuneration**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Fees and remuneration for management services	<b>133,500</b>	333,304
Company contributions to money purchase pension schemes	-	23,729
Compensation for loss of office	-	148,000
	<b><u>133,500</u></b>	<b><u>505,033</u></b>

There were no Directors in the Company's defined contribution pension scheme during the year (2010 2)

The total amount payable to the highest paid Director in respect of emoluments was £48,000 (2010 £427,983), and in respect of employer's pension contributions £nil (2010 - £18,397)

No Director exercised any share options during the year (2010 nil)



## Turbo Power Systems Limited

### Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

#### 7 Share based payments

Turbo Power Systems Inc, the parent company has an equity settled share option scheme for certain employees of the Group. Options are exercisable at a price equal to the average quoted market price of the ultimate company's shares on the day preceding the grant. The vesting period is between 1 and 4 years. Options expire if unexercised after periods varying from 7 years to 10 years from date of issue. Options are forfeited if the employee leaves the Group.

Details of the share options outstanding during the year are as follows

	2011	2011	2010	2010
	Number of	£ Weighted	Number of	£ Weighted
	share options	average	share options	average
		exercise		exercise
		price		price
Outstanding at beginning of period	56,399,091	0.06	25,485,700	0.06
Granted in the period	-	0.01	70,000,000	0.01
Cancelled in the period	(25,021,818)	0.04	(39,086,609)	0.04
Outstanding at the end of the period	31,377,273	0.02	56,399,091	0.02
Exercisable at the end of the period	3,890,000	0.12	3,990,000	0.12

The options outstanding at 31 December 2011 had a weighted average exercise price of £0.03 (2010 - £0.02), and a weighted average remaining contractual life of 8 (2010 - 9) years. In 2010 options were granted on 24 June. The aggregate of the estimated fair values of the options granted in the year was £630,000. There were no options granted in 2011.

The inputs into the Black-Scholes option pricing model were as follows

	2010
Weighted average share price	£0.01
Weighted average exercise price	£0.01
Expected volatility	90%
Expected life	5 years
Risk free rate	5%
Vesting period	1-4 years

Expected volatility was determined based on management's best estimate and with regard to the historical volatility of the group's share price over the previous 3 years. The expected life used in the model has been determined based on management's best estimate, and both have been adjusted for management's best estimates for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Company recognised total expenses of £75,000 in 2011 and £66,009 in 2010 relating to equity-settled share-based payment transactions.

# Turbo Power Systems Limited

## Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

### 8 Other interest receivable and similar income

	2011 £	2010 £
Interest on bank deposits	1,040	1,346

### 9 Interest payable and similar charges

	2011 £	2010 £
Interest charges	329,020	331,579

### 10 Taxation on loss on ordinary activities

	2011 £	2010 £
<i>UK Corporation tax</i>		
Current tax credit on loss for the year	-	-
Adjustment in respect of prior years	(230,865)	-
Taxation on loss on ordinary activities	(230,865)	-

The tax assessed for the year is different to the standard rate of corporation tax in the UK. The differences are explained below

	2011 £	2010 £
Loss on ordinary activities before tax	(4,676,697)	(10,193,359)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	(1,239,325)	(2,854,141)
Effect of		
Expenses not deductible for tax purposes	27,465	32,185
Depreciation for period in excess of capital allowances	159,947	215,204
Unutilised tax losses carried forward	885,798	2,529,836
Other short term timing differences	166,115	76,916
Adjustment in respect of prior years	(230,865)	-
Current tax credit for year	(230,865)	-

**10 Taxation on loss on ordinary activities (continued)**

Subject to the agreement of the HM Revenue & Customs, the Company has trading losses of approximately £57.9m (2010 - £55.7m) to carry forward against future profits. No deferred tax asset has been recognised in relation to these losses as currently it is not possible to determine the future trading profits that may arise which would allow utilisation of these losses.

The main rate of UK corporation tax changed from 28% to 26% on 1 April 2011. A further reduction in the main rate of UK corporation tax, to 25% with effect from 1 April 2012, became substantively enacted in July 2011 and therefore the effect of this further rate reduction on the unrecognised deferred tax asset as at 31 December 2011 to £14.5m (2010 - £15.6m).

In March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax to 24% with effect from 1 April 2012. This change became substantively enacted on 26 March 2012 and therefore the effect of the rate change would create an additional reduction in the unrecognised deferred tax asset at 31 December 2011 of approximately £0.6m. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The Chancellor has also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 22% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the reductions from 24% to 22%, if these applied to the unrecognised deferred tax asset at 31 December 2011, would be to further reduce the deferred tax asset by approximately £1.2m.

**11 Intangible fixed assets**

	<b>Research &amp; Development</b>	<b>Patents</b>	<b>Purchased goodwill</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<i>Cost</i>				
At 1 January 2011	-	519,229	2,743,053	3,262,282
Additions	260,315	-	-	260,315
31 December 2011	<b>260,315</b>	<b>519,229</b>	<b>2,743,053</b>	<b>3,522,597</b>
<i>Amortisation</i>				
At 1 January 2011	-	519,229	2,743,053	3,262,282
Charge for year	4,338	-	-	4,338
31 December 2011	<b>4,338</b>	<b>519,229</b>	<b>2,743,053</b>	<b>3,266,620</b>
<i>Net book value</i>				
At 31 December 2011	<b>255,977</b>	-	-	<b>255,977</b>
At 31 December 2010	-	-	-	-

Goodwill resulted from the acquisition of Intelligent Power Systems Limited

# Turbo Power Systems Limited

## Notes forming part of the financial statements for the year ended 31 December 2011 (Continued)

### 12 Tangible fixed assets

	Leasehold improvements £	Plant and machinery and other equipment £	Fixtures and equipment £	Total £
<i>Cost</i>				
At 1 January 2011	4,521,388	4,127,046	425,222	9,073,656
Additions	12,760	372,088	12,017	396,865
At 31 December 2011	<b>4,534,148</b>	<b>4,499,134</b>	<b>437,239</b>	<b>9,470,521</b>
<i>Depreciation</i>				
At 1 January 2011	3,706,186	3,939,700	361,501	8,007,387
Provided for the year	394,611	157,618	39,827	592,056
At 31 December 2011	<b>4,100,797</b>	<b>4,097,318</b>	<b>401,328</b>	<b>8,599,443</b>
<i>Net book value</i>				
At 31 December 2011	<b>433,351</b>	<b>401,816</b>	<b>35,911</b>	<b>871,078</b>
At 31 December 2010	815,202	187,346	63,721	1,066,269

### 13 Investments

	Group undertakings £
<i>Cost</i>	
At 1 January and 31 December 2011	1,621,632
<i>Provisions</i>	
At 1 January and 31 December 2011	(976,000)
<i>Net book value</i>	
At 31 December 2010 and 31 December 2011	<b>645,632</b>

## Turbo Power Systems Limited

### Notes forming part of the financial statements for the year ended 31 December 2011 (Continued)

#### 13 Investments (continued)

##### *Subsidiary undertakings and other investments*

The principal undertakings in which the Company's interest at the year end is 20% or more are as follows

	Proportion of voting rights and ordinary share capital held	Nature of business
<i>Subsidiary undertakings</i>		
Intelligent Power Systems Limited	100%	Non-trading
Nada-Tech Limited	100%	Non-trading
Turbo Power Systems Development Limited	100%	Non-trading

The following figures have been extracted from the unaudited financial statements of the subsidiary undertakings for the year ended 31 December 2011

	Aggregate share capital and reserves		Profit for the year	
	2011	2010	2011	2010
	£	£	£	£
Intelligent Power Systems Limited	1	1	-	-
Nada-Tech Limited	561,250	561,250	-	-
Turbo Power Systems Development Limited	84,381	84,381	-	-

#### 14 Stocks

	2011	2010
	£	£
Raw materials and consumables	1,957,264	1,137,649
Work in progress	1,036,815	499,495
Finished goods and goods for resale	206,385	18,871
	<hr/>	<hr/>
	3,200,464	1,656,015
	<hr/>	<hr/>

There is no material difference between the replacement cost of stocks and the amounts stated above

**Turbo Power Systems Limited****Detailed profit and loss account for the year ended 31 December 2011 (Continued)****15 Debtors**

	2011 £	2010 £
Amounts receivable within one year		
Trade debtors	2,342,785	1,091,055
Prepayments and accrued income	338,884	330,453
Corporation tax receivable	-	350,000
VAT recoverable	355,945	144,611
	<hr/>	<hr/>
	3,037,614	1,916,119
	<hr/>	<hr/>

**16 Creditors: amounts falling due within one year**

	2011 £	2010 £
Trade creditors	3,146,877	1,121,729
Amounts owed to group undertakings	15,625,240	16,661,230
Taxation and social security	386,717	128,942
Other creditors	6,969	295,622
Accruals and deferred income	1,280,986	1,254,663
6% 2010 loan note – secured	8,166,472	-
	<hr/>	<hr/>
	28,631,261	19,462,186
	<hr/>	<hr/>

No interest is charged on the balances within creditors amounts falling due within one year owed to group undertakings

# Turbo Power Systems Limited

## Detailed profit and loss account for the year ended 31 December 2011 (Continued)

### 17 Creditors: amounts falling due after more than one year

	2011 £	2010 £
<b>Loan:</b>		
6% 2010 loan note – secured	-	1,916,472
	<u>-</u>	<u>1,916,472</u>
<b>Other:</b>		
Amounts owed to group undertakings	51,460,402	52,439,579
	<u>51,460,402</u>	<u>54,356,051</u>
Maturity of debt		
	<b>Loan 2011 £</b>	<b>Loan 2010 £</b>
In more than one year but not more than two years	<u>-</u>	<u>1,916,472</u>

### 6% 2010 Loan note

On 22 October 2010 the Company agreed to a £1,900,000 loan with TAO UK, which bears interest at 6% per annum and is repayable upon demand commencing 2 January 2012. On 28 October 2010 the Company was advanced £1,200,000 of this loan, and the remaining £700,000 was advanced on 26 November 2010. The loan is secured by a fixed and floating charge over the assets of the Company.

During 2011, TAO UK agreed to extend the terms of this loan under the same conditions by the following amounts:

25 February 2011	£800,000
28 March 2011	£400,000
15 April 2011	£2,200,000
24 May 2011	£1,000,000
5 September 2011	£1,500,000
20 December 2011	£350,000

On 25 May 2012 the loan outstanding at the year end was converted into equity in the Company, by the parent company, who settled the loan by a conversion of the loan into equity.

Subsequent to the year end, TAO UK agreed to extend the loan by the following amounts:

30 January 2012	£1,020,000
26 March 2012	£1,800,000

This amount is repayable on 1 April 2014

## Turbo Power Systems Limited

### Detailed profit and loss account for the year ended 31 December 2011 (Continued)

#### Amounts owed to group undertakings

There are no fixed repayment terms for the loans, totalling £51,460,402 (2010- £52,439,579) from Turbo Power Systems Inc, which are denominated in Canadian Dollars. However, the parent company has confirmed that it will not demand repayment prior to 30 August 2013. No interest is being charged on these loans.

#### 18 Provision for liabilities and charges

	Onerous Contracts		Dilapidations Provision		Warranty		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	280	-	723	-	290	100	1,293	100
Provided during year	493	280	49	723	-	190	542	1,193
Released during year	(233)	-	-	-	(41)	-	(274)	-
At 31 December	540	280	772	723	249	290	1,561	1,293

In 2010 the Company recognised that one contract for production of a significant number of units had material and labour costs that had increased such that the cost of production exceeds the likely revenues. Accordingly a provision has been made for the excess of cost over expected revenues as this is considered to be an onerous contract. The contract is expected to complete in 2013. In 2011 the Company reviewed the ongoing contracts and provided for future losses based on costs and estimates as at 31 December 2011.

In 2010 the Company recognised a requirement for a provision for the asset retirement obligations related to the two properties they lease, which terminate in 2013 and 2023. Accordingly a provision, based on the present value of the future expected expenditure was recorded at £674,000. Additional to the creation of the provision, the Company has recorded a further £49,000 (2010 £49,000) increase in administrative expenses.

Production units sold by the Company are provided with a warranty against operational failure. The warranty period provided is dependant upon the sales agreement with the customer and the nature of the unit, but typically is between one and two years from the date of delivery. The warranty provision is maintained at a level calculated to reflect the current costs of repair and incidence of failure of existing and similar units.

#### 19 Share capital

	Authorised 2011 £	Allotted, called up and fully paid 2011 £
<i>Equity share capital</i>		
10,000,000 Ordinary shares of £1 each	10,000,000	1,851,000
533,333,334 A-Ordinary shares of £0.005	2,666,667	2,241,667
3,000,000,000 Deferred shares of £0.005 each	15,000,000	8,625,000
	<u>27,666,667</u>	<u>12,717,667</u>



# Turbo Power Systems Limited

## Detailed profit and loss account for the year ended 31 December 2011 (Continued)

### 19 Share capital (continued)

	Authorised 2010 £	Allotted, called up and fully paid 2010 £
<i>Equity share capital</i>		
10,000,000 Ordinary shares of £1 each	10,000,000	1,851,000
533,333,334 A-Ordinary shares of £0.005	2,666,667	2,241,667
3,000,000,000 Deferred shares of £0.005 each	15,000,000	8,625,000
	<u>27,666,667</u>	<u>12,717,667</u>

### 20 Reserves

	Share based payment reserve £	Share premium account £	Profit and loss account £
At 1 January 2011	1,676,151	1,112,520	(83,796,105)
Loss for the year	-	-	(4,445,832)
Equity settled share based payments	75,000	-	-
	<u>1,751,151</u>	<u>1,112,520</u>	<u>(88,241,937)</u>
At 31 December 2011			

### 21 Reconciliation of movements in shareholder's deficit

	2011 £	2010 £
Loss for the year	(4,445,832)	(10,193,359)
Equity settled share based payments	75,000	66,009
Shares issued	-	2,000,000
Opening shareholder's deficit	(68,289,767)	(60,162,417)
	<u>(72,660,599)</u>	<u>(68,289,767)</u>
Closing shareholder's deficit		

## **Turbo Power Systems Limited**

### **Detailed profit and loss account for the year ended 31 December 2011 (Continued)**

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#### **22 Pensions**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund and amounted to £60,956 (2010 - £74,893). At the year end there was a balance outstanding of £14,624 (2010 - £25,286).

#### **23 Financial instruments**

During 2011 and 2010 the Company had no exposure to financial instrument options.

#### **24 Commitments under operating leases**

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

	<b>2011 Land and buildings £</b>	<b>2010 Land and buildings £</b>
Operating leases which expire		
Two to five years	<b>340,000</b>	340,000
After five years	<b>225,525</b>	<b>223,380</b>
	<b>565,525</b>	<b>563,380</b>

	<b>2011 Other equipment £</b>	<b>2010 Other equipment £</b>
Operating leases which expire		
Two to five years	<b>6,510</b>	<b>6,510</b>

#### **25 Related party disclosures**

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with members of the group headed by Turbo Power Systems Inc. on the grounds that all of the voting rights in the Company are controlled within that group and the Company is included in the consolidated financial statements.

#### **26 Ultimate parent company and parent undertaking of larger group**

The Company's parent undertaking and parent company is Turbo Power Systems Inc., a company registered in Yukon, Canada.

## **Turbo Power Systems Limited**

### **Detailed profit and loss account for the year ended 31 December 2011 *(Continued)***

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The Company's ultimate parent undertaking is VSE Vale Soluções em Energia S A , a company registered in Brazil

The smallest group in which the results of Turbo Power Systems Limited are consolidated is that headed by Turbo Power Systems Inc , and the largest group in which the results of Turbo Power Systems Limited are consolidated is that headed by VSE Vale Soluções em Energia S A

The Annual Report of the Group is available to the public and may be obtained from Turbo Power Systems Inc , Unit 3 Summit Centre, Hatch Lane, West Drayton, Middlesex UB7 0LJ

#### **27 Controlling party**

The Company is controlled by VSE Vale Soluções em Energia S A , its ultimate parent company

#### **28 Going concern**

The Financial Statements have been prepared on a going concern basis, which presumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company meets its day to day working capital requirements from cash resources and loans from Turbo Power Systems Inc , the immediate parent undertaking, and TAO UK, the principle shareholder of Turbo Power Systems Inc. The Company's ability to continue as a going concern depends on its ability to generate positive cash flow from operations or secure additional debt or equity financing.

The Directors have prepared budgets and forecasts in respect of the Company for a period in excess of twelve months. These show that further funding is expected to be required by the Company before it is forecast to become cash generative. Based on these budgets and forecasts the Company has received a commitment from Turbo Power Systems Inc , its parent company, that it will continue to provide financial support and will make available such additional support as is necessary for a period of not less than 12 months from the date of approval of these financial statements. In addition, and as disclosed in Note 17, TAO UK, the principle shareholder of Turbo Power Systems Inc, continues to support the Company through the existing loan arrangements and cash advances as and when required.

The Directors have concluded that the combination of these circumstances indicate the existence of a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern and that, therefore the Company may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has sufficient cash resources based on the expected parent company support to continue in operational existence for at least the next twelve months after the date of approval of these financial statements. For these reasons, they continue to adopt the going concern basis in preparing the annual financial statements.

These Financial Statements do not include adjustments that may be necessary if the going concern assumption was not appropriate.

## **Turbo Power Systems Limited**

### **Detailed profit and loss account for the year ended 31 December 2011 (*Continued*)**

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#### **29 Post balance sheet date events**

Subsequent to the year end the Company announced that it had extended the loan financing agreement with TAO UK, to support working capital requirements. The additional amount available to draw down as follows

30 January 2012	£1,020,000
26 March 2012	£1,800,000

These amounts are repayable on 1 April 2014, and accrue interest at 6% per annum

On 25 May 2012, the Company converted £8,150,000 of debt and £396,000 of accrued interest into equity owned by the parent company Turbo Power Systems Inc

On 31 May 2012, the Company increased its funding by placing a further £2,000,000 of A Shares