

**OCEAN POWER DELIVERY LIMITED**  
*Registered number: SC182368*

**Directors' Report and Financial Statements**

**For the year ended 31 December 2003**



# OCEAN POWER DELIVERY LIMITED

## Company information

<b>Directors</b>	Richard Yemm Max Carcas David Lindley Richard Erskine Marco Fabbri Bruno Derungs
<b>Secretary</b>	Secretar Securities Limited
<b>Company number</b>	SC182368
<b>Registered office</b>	c/o DLA Rutland Square Edinburgh EH1 2AA
<b>Auditors</b>	Scott-Moncrieff Chartered Accountants Registered Auditors 17 Melville Street Edinburgh EH3 7PH
<b>Bankers</b>	Royal Bank of Scotland plc St Andrew Square Edinburgh EH2 2YB
<b>Solicitors</b>	DLA Rutland Square Edinburgh EH1 2AA

# OCEAN POWER DELIVERY LIMITED

## Directors' report For the year ended 31 December 2003

The directors present their report and the financial statements for the year ended 31 December 2003.

### Statement of directors' responsibilities

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 of the profit or loss of the company 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;
- 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Principal activities

The principal activity of the company is in the field of development and construction of renewable energy systems and associated engineering projects.

### Directors

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	Ordinary shares of 25p each	
	<u>31/12/03</u>	<u>1/1/03</u>
Richard Yemm	241,000	241,000
Max Carcas	3,000	3,000
David Lindley	-	-
Richard Erskine	-	-
Marco Fabbri	-	-
Bruno Derungs	-	-

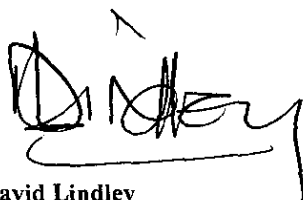
During the year, the company issued options to purchase ordinary shares in the company at £9 per share. At the year end M Carcas held 2,194 options (2002 - Nil) and D Lindley held 3,251 options (2002 - Nil). No consideration was paid for the options.

### Auditors

The auditors, Scott-Moncrieff, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

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

This report was approved by the board on 5 October 2004 and signed on its behalf by:



David Lindley  
Chairman

## OCEAN POWER DELIVERY LIMITED

### Independent auditors' report to the shareholders of OCEAN POWER DELIVERY LIMITED

We have audited the financial statements of Ocean Power Delivery Limited for the year ended 31 December 2003 set out on pages 3 to 10. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002) under the historical cost convention and the accounting policies set out on page 5.

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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

#### Basis of audit opinion

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

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Scott-Moncrieff*

Scott-Moncrieff

Chartered Accountants  
Registered Auditors

17 Melville Street  
Edinburgh  
EH3 7PH

Date:

*5 October 2004*

# OCEAN POWER DELIVERY LIMITED

## Profit and loss account For the year ended 31 December 2003

	Note	Year ended 31 December 2003 £	Period ended 31 December 2002 £
Turnover	1	21,945	12,167
Administrative expenses		(811,232)	(678,316)
Other operating income	2	20,688	81,651
<b>Operating loss</b>	3	<u>(768,599)</u>	<u>(584,498)</u>
Interest receivable		15,978	(592)
Interest payable		<u>(8,616)</u>	<u>14,078</u>
<b>Loss on ordinary activities before taxation</b>		<u>(761,237)</u>	<u>(571,012)</u>
<b>Tax on loss on ordinary activities</b>	5	<u>-</u>	<u>-</u>
<b>Retained loss for the financial year</b>	12	<u><u>(761,237)</u></u>	<u><u>(571,012)</u></u>

*The notes on pages 5 to 10 form part of these financial statements.*

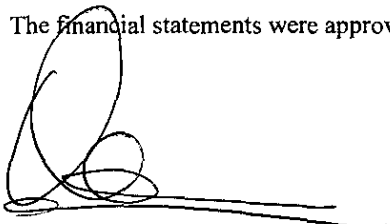
# OCEAN POWER DELIVERY LIMITED

## Balance sheet As at 31 December 2003

		31 December 2003		31 December 2002	
	Note	£	£	£	£
<b>Fixed assets</b>					
Intangible fixed assets	6		3,975,187		669,659
Tangible fixed assets	7		272,951		319,004
			<hr/>		<hr/>
			4,248,138		988,663
<b>Current assets</b>					
Debtors	8	63,197		177,590	
Cash at bank and in hand		856,247		332,736	
		<hr/>		<hr/>	
		919,444		510,326	
<b>Creditors: amounts falling due within one year</b>	9	(1,234,689)		(226,619)	
		<hr/>		<hr/>	
<b>Net current (liabilities)/assets</b>			(315,245)		283,707
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			3,932,893		1,272,370
<b>Accruals and deferred income</b>	10		(1,813,575)		(367,283)
			<hr/>		<hr/>
<b>Net assets</b>			2,119,318		905,087
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	11		197,200		164,334
Share premium account	12		3,582,464		1,639,862
Profit and loss account	12		(1,660,346)		(899,109)
			<hr/>		<hr/>
<b>Shareholders' funds</b>			2,119,318		905,087
			<hr/>		<hr/>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The financial statements were approved by the board on 5 October 2004 and signed on its behalf by:



**Richard Yemm**  
Director

The notes on pages 5 to 10 form part of these financial statements.

# OCEAN POWER DELIVERY LIMITED

## Notes to the financial statements For the year ended 31 December 2003

### 1. Accounting policies

#### 1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

#### 1.2 Cash flow

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective June 2002).

#### 1.3 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

#### 1.4 Intangible fixed assets and amortisation

Patents are valued at cost less accumulated amortisation.

Amortisation is calculated to write off the cost in equal instalments over their estimated useful life of 20 years.

#### 1.5 Tangible fixed assets and depreciation

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

Plant and equipment	-	25%	reducing balance
Motor vehicles	-	25%	reducing balance
Fixtures and fittings	-	25%	reducing balance

#### 1.6 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on the straight line basis over the lease term.

#### 1.7 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating loss.

#### 1.8 Research and development

Research and development costs are capitalised within intangible assets where they can be identified with a specific product or project anticipated to produce future benefits, and are amortised on the straight line basis over the anticipated life of the benefits arising from the completed product or project.

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

#### 1.9 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. Other grants are credited to the profit and loss account as the related expenditure is incurred.

# OCEAN POWER DELIVERY LIMITED

## Notes to the financial statements For the year ended 31 December 2003

### 2. Other operating income

	Year ended 31 December 2003 £	Period ended 31 December 2002 £
Government grants received	5,845	64,000
Government grants released	14,843	17,651
	<u>20,688</u>	<u>81,651</u>

### 3. Operating loss

The operating loss is stated after charging:

	Year ended 31 December 2003 £	Period ended 31 December 2002 £
Amortisation - intangible fixed assets	2,483	1,997
Depreciation of tangible fixed assets:		
- owned by the company	90,983	95,551
Auditors' remuneration	3,600	2,600
Pension costs	15,368	-
Difference on foreign exchange	-	3,127
	<u>                    </u>	<u>                    </u>

### 4. Directors' remuneration

	Year ended 31 December 2003 £	Period ended 31 December 2002 £
Aggregate emoluments	190,110	136,838
	<u>                    </u>	<u>                    </u>

During the year retirement benefits were accruing to 2 directors (2002 - nil) in respect of money purchase pension schemes.

### 5. Taxation

	Year ended 31 December 2003 £	Period ended 31 December 2002 £
Analysis of tax charge in year		
Tax on profit on ordinary activities	-	-
	<u>                    </u>	<u>                    </u>
Factors affecting tax charge for year		

Due to losses incurred there is no tax payable for the year.

#### Factors that may affect future tax charges

The company has tax losses of £1,877,525 to carry forward against future trading profits.



# OCEAN POWER DELIVERY LIMITED

## Notes to the financial statements For the year ended 31 December 2003

### 6. Intangible fixed assets

	Patents	Development expenditure	Total
	£	£	£
<b>Cost</b>			
At 1 January 2003	39,951	633,187	673,138
Additions	9,722	3,298,289	3,308,011
At 31 December 2003	49,673	3,931,476	3,981,149
<b>Amortisation</b>			
At 1 January 2003	3,479	-	3,479
Charge for the year	2,483	-	2,483
At 31 December 2003	5,962	-	5,962
<b>Net book value</b>			
At 31 December 2003	43,711	3,931,476	3,975,187
At 31 December 2002	36,472	633,187	669,659

### 7. Tangible fixed assets

	Plant and machinery	Motor vehicles	Furniture, fittings and equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2003	365,771	-	57,475	423,246
Additions	-	3,005	41,925	44,930
At 31 December 2003	365,771	3,005	99,400	468,176
<b>Depreciation</b>				
At 1 January 2003	89,357	-	14,885	104,242
Charge for the year	69,103	751	21,129	90,983
At 31 December 2003	158,460	751	36,014	195,225
<b>Net book value</b>				
At 31 December 2003	207,311	2,254	63,386	272,951
At 31 December 2002	276,414	-	42,590	319,004

### 8. Debtors

	2003 £	2002 £
<b>Due within one year</b>		
Sundry debtors	63,197	177,590

# OCEAN POWER DELIVERY LIMITED

## Notes to the financial statements For the year ended 31 December 2003

**9. Creditors:**  
amounts falling due within one year

	2003 £	2002 £
Bank loans and overdrafts	49,369	3,892
Trade creditors	390,175	177,400
Social security and other taxes	28,106	20,525
Other creditors	767,039	24,802
	<u>1,234,689</u>	<u>226,619</u>

Included within other creditors are £750,000 of convertible loan notes issued by the company during the year. These are secured by a bond and floating charge over the assets of the company. See note 15 for further details.

**10. Accruals and deferred income**

	2003 £	2002 £
Deferred government grants	<u>1,813,575</u>	<u>367,283</u>

**11. Share capital**

	2003 £	2002 £
<b>Authorised</b>		
600,000 Ordinary shares of 25p each	150,000	125,000
500,000 Ordinary 'A' shares of 25p each	125,000	125,000
	<u>275,000</u>	<u>250,000</u>
<b>Allotted, called up and fully paid</b>		
493,000 Ordinary shares of 25p each	123,250	123,250
295,800 Ordinary 'A' shares of 25p each	73,950	41,084
	<u>197,200</u>	<u>164,334</u>

On 14th April 2003 the company issued 131,466 'A' ordinary Shares of 25p each for a consideration of £1,999,598.

The ordinary 'A' shares may be redeemed, at the option of the holder, at any time following the fifth anniversary of the date of adoption of the company's Articles of Association. The earliest date of redemption is 18 June 2007. The option to redeem does not expire. A premium of 20% is payable upon redemption.

# OCEAN POWER DELIVERY LIMITED

## Notes to the financial statements For the year ended 31 December 2003

### 12. Reserves

<b>Share premium account</b>	<b>£</b>
At 1 January 2003	1,639,862
Premium on shares issued during the year	1,942,602
	<hr/>
At 31 December 2003	3,582,464
	<hr/>
<b>Profit and loss account</b>	<b>£</b>
At 1 January 2003	(899,109)
Loss retained for the year	(761,237)
	<hr/>
At 31 December 2003	(1,660,346)
	<hr/>

### 13. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £15,368 (2002 £Nil). There were no outstanding contributions payable to the fund at the balance sheet date.

### 14. Operating lease commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	2003	2002
	£	£
<b>Expiry date:</b>		
Within 1 year	10,000	10,000
Between 2 and 5 years	2,996	2,996
After more than 5 years	65,174	-
	<hr/>	<hr/>

### 15. Related party transactions

In January 2003 the company was loaned £125,000 by 3i Group plc, £35,000 by SAM Sustainability Private Equity LP, £90,000 by SAM Private Equity Energy Fund LP and £125,000 by Norsk Hydro Technology Ventures AS. The loans were settled in April 2003. Interest was payable at 2% above LIBOR. Interest totalling £3,417 was paid, no interest was outstanding at the year end.

In November 2003 the company issued £750,000 convertible loan notes. 3i Group plc holds £250,000, SAM Sustainability Private Equity LP holds £70,000, SAM Private Equity Energy Fund LP holds £180,000, and Norsk Hydro Technology Ventures AS holds £250,000. The loan notes are convertible under the terms of the investment agreement into 'A' ordinary shares of 25p each. Interest is payable at 2% above LIBOR. At the year end interest of £1,536 was accruing.

The convertible loan stock is secured by a bond and floating charge over the assets of the company in favour of Norsk Hydro Technology Ventures AS as trustee for and on behalf of the loan note holders.

3i Group plc, SAM Sustainability Private Equity LP, SAM Private Equity Energy Fund LP and Norsk Hydro Technology Ventures AS are shareholders of the company.

# **OCEAN POWER DELIVERY LIMITED**

## **Notes to the financial statements For the year ended 31 December 2003**

### **16. Going concern**

The directors have prepared these accounts on the going concern basis. During the year the company continued development of the Pelamis WEC and incurred a loss of £761,237.

Prior to the issue of these accounts, the company received further inward equity investment of £2.3m from current shareholders and £1.5m from a new investor.

In these circumstances the directors consider that it is appropriate to prepare these financial statements on the going concern basis.