

Reg no SC 182368

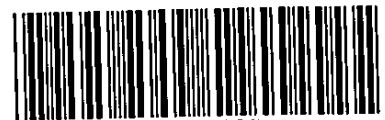
Pelamis Wave Power Limited

Directors' Report and Financial Statements

For the Year Ended

31 December 2013

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Pelamis Wave Power Limited

Directors' report and financial statements for the year ended 31 December 2013

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Pelamis Wave Power Limited

Company information

Directors

Gina Domanig
Richard Yemm
Stuart Deed
Charles Vaslet

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

Registered office

31 Bath Road, Edinburgh, EH6 7AH

Company number

SC 182368

Independent Auditors

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

Legal Advisers

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

Bankers

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

Pelamis Wave Power Limited

Report of the directors for the year ended 31 December 2013

The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2013.

Registered number

The registered number of the company is SC182368.

Principal activities, business review and future developments

The principal activities of the Company are the development and construction of wave energy converter systems and associated engineering projects. During the year the Company further progressed the testing and development of the two P2 machines located at the European Marine Energy Centre (EMEC) in Orkney. These machines were previously supplied to E.ON and ScottishPower Renewables. We have now accumulated some 12,000 hours of operational data from these machines which has enabled the Company to make progress on further enhancements to markedly reduce the cost of energy of the system. During the year the Company successfully completed a technology development study for the Energy Technologies Institute. This study outlined the basic design and economics of an enhanced P2 machine, the P2e. Subsequently the Company has carried out further development work to further improve the economics and efficiency of the machine. It is planned to build a new generation machine, commencing in 2015, ready for testing in early 2016. If successful this will form the basis for commercial deployment of the technology.

While it is planned to deploy the new generation machine initially at EMEC, the Company has continued to progress its licence to develop a wave farm at Farr Point off the North coast of Scotland, where it hopes to build out larger wave farm arrays in the future. The Company further progressed its licence to develop a wave farm site in Shetland through the joint venture with Vattenfall, Aegir Limited. Pelamis technology is also cited on offshore licences in Orkney and the Pentland Firth held by other utilities. If the next stages of the technology development programme deliver as planned these sites could help provide the company with a solid business plan for the coming years.

The market leading status of Pelamis Wave Power is validated by being selected as the offshore wave energy technology to continue to the next stage of engineering work on the ESB WestWave project in Ireland. This project recently secured a major funding package within the EU NER (New Entrants Reserve) funding scheme on top of the supportive funding regime already in place for wave energy in Ireland.

In addition to the core projects described above, wave energy is becoming more accepted on a wider global stage as evidenced by its inclusion within the EU Strategic Energy Technology Plan. Also, a number of other markets are developing around the world notably in the USA, Canada, Australia and Chile.

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

Going Concern

The company's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the business review above and key risk section on page 4. The financial position of the company and its cash flows for the year ended 31 December 2013 are set out in the Balance Sheet and Cashflow Statement on pages 11 and 13 of the financial statements.

Since 31 December 2013, the company has received additional shareholder loan funding of £3.3m and grant receipts of £1.1m. During the year to date, the company has also made progress towards securing additional investment and other revenues as reported below. However, at this date the company has insufficient secured funding to continue as a going concern for the next twelve months. Current cash projections including agreed loans indicate that without further inflows cash will run out around mid-November 2014.

The directors have concluded that the current lack of secured funding may mean that the company is unable to continue to realise its assets and discharge its liabilities in the normal course of business and accordingly this

Going Concern (continued)

fact represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern.

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

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

- Further major progress has been made over the past 12 months on proving out the technology. The P2 machines have completed ~12,000 hours of grid connected testing and the trial programmes continue to progress well. The machines have generated a sector-leading 250MWh of power so far and performance and reliability continue to improve;
- Building on the positive experience with the P2 machines in the period, significant progress has also been made on the development, specification and design of a next generation machine, anticipated to materially improve the economics and efficiency of electricity generation. This included a £1.4m funded project commissioned by the Energy Technologies Institute;
- Work on the above projects has been subjected to extensive third party review and the conclusions have been that the technology now has a viable route to commercial operation;
- Significant progress has been made towards consenting the Company's Farr Point wave farm site which can be used to host initial commercial arrays;
- The company and technology has been selected on a competitive basis to proceed to the next stage of engineering and design for the ESB WestWave project in Ireland;
- There is significant confidence in the company and its technology, as evidenced by the £3.3m additional shareholder loan funding received post year end;
- There continues to be strong Government support for the development of wave energy technologies. For example, the Company continues to explore ways it could access the £103m Renewable Energy Investment Fund (REIF) ;
- During 2013 the company was awarded a substantial grant from the Scottish Government Marine Renewables Commercialisation Fund to support on-going P2 testing, next generation machine development and Farr Point site development. This grant award was significantly increased during 2014; and

Discussions with existing investors about the provision of additional short and longer term financing are at an advanced stage. The Company also continues to progress other funding avenues from public and private sources to underpin on-going operations and technology development.

Pelamis Wave Power Limited

Report of the directors for the year ended 31 December 2013 (continued)

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 2013 the Group had turnover of £1.9m (2012: £1.5m) which was substantially derived from a technology development contract with the Energy Technologies Institute. The balance of turnover was derived from other technology development contracts, contracts to operate P2 machines at EMEC in Orkney and other contracts to develop sites. The operating loss was lower than last year at £2.9m (2012: £3.2m). Other operating income which relates to various grants increased to £1.2m (2012:£0.9m).

There was an operating cash outflow of £2.9m (2012: £2.9m outflow) and investment in capitalised development expenditure of £ nil (2012: £0.1m). The Group had a net outflow of cash for the year of £0.1m (2012: £0.2m outflow). At the end of the year the Group had net borrowings (including £10.6m in respect of 'B' and 'A1' shares) of £18.4m (2012: £14.2m including £10.6m in respect of 'B' and 'A1' shares). The 'B' shares are treated as debt due to the right to redemption at £6 per share. If the 'B' shares were treated as shareholder funds the adjusted net liabilities would amount to £3.8m (2012:£0.2m net assets).

The directors do not recommend payment of a dividend (2012:£nil).

Key risks / uncertainties

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

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

Pelamis Wave Power Limited

Report of the directors for the year ended 31 December 2013 (continued)

Directors

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the 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 the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

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

Disclosure of information to auditors

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

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

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

Strategic report

The directors have taken advantage of the small companies exemptions provided by section 414B of the Companies Act 2006 and not prepared a strategic report.

Pelamis Wave Power Limited

Report of the directors for the year ended 31 December 2013 (continued)

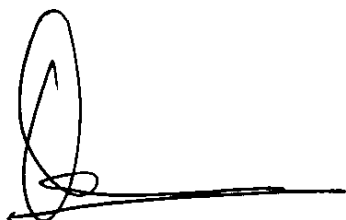
Independent Auditors

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

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

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

On behalf of the Board

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a horizontal line extending to the right.

Richard Yemm
Chief Executive Officer
8 September 2014

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2013 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

Emphasis of matter - Going concern

In forming our opinion on the company and group financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's and group's ability to continue as a going concern. The company and group have current liabilities as at 31 December 2013 and do not currently have sufficient secured funding for the next twelve months, which may mean that the company and the group are unable to continue to realise their assets and discharge their liabilities in the normal course of business. Although the directors have a reasonable expectation that the company and group will have adequate resources to continue in operational existence for the foreseeable future, this condition, along with the other matters explained in note 1 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the company's and group's ability to continue as a going concern. The company and group financial statements do not include the adjustments that would result if the company and group were unable to continue as a going concern.

What we have audited

The group financial statements and company financial statements (the "financial statements"), which are prepared by Pelamis Wave Power Limited, comprise:

- Consolidated balance sheet as at 31 December 2013 as at 31 December 2013;
- Consolidated profit and loss account for the year ended 31 December 2013 and Consolidated Statement of total recognised gains and losses relating to the year ended 31 December 2013 for the year then ended;
- Consolidated cash flow statement for the year ended 31 December 2013 for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Pelamis Wave Power Limited

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the directors for the year ended 31 December 2013 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

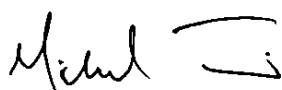
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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



Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
8 September 2014

Pelamis Wave Power Limited

Consolidated profit and loss account for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Group Turnover	2	1,897	1,538
Cost of sales		(3,828)	(4,076)
Gross loss		(1,931)	(2,538)
Administrative expenses		(2,092)	(1,523)
Other operating income	3	1,161	909
Group operating loss	6	(2,862)	(3,152)
Share of operating loss in associates		(38)	(50)
Loss on ordinary activities before finance charges and taxation		(2,900)	(3,202)
Interest receivable and similar income	7	1	1
Interest payable and similar charges			
Group	7	(1,250)	(3,050)
Associate	7	(9)	(10)
Loss on ordinary activities before taxation		(4,158)	(6,261)
Tax on loss on ordinary activities	8	(1)	(1)
Loss for the financial year		(4,159)	(6,262)

All amounts relate to continuing activities.

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

Pelamis Wave Power Limited

Consolidated statement of total recognised gains and losses relating to the year ended 31 December 2013

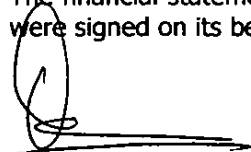
	2013 £000	2012 £000
Loss for the financial year	(4,159)	(6,262)
Exchange differences on consolidation	-	1
<hr/>		
Total recognised gains and losses for the year	(4,159)	(6,261)

Pelamis Wave Power Limited

Consolidated balance sheet as at 31 December 2013

	Note	2013 £000	2012 £000
Fixed assets			
Intangible assets	10	8,751	8,730
Tangible assets	11	123	243
Investments	12	78	125
		8,952	9,098
Current assets			
Debtors	13	518	368
Cash at bank and in hand		205	294
		723	662
Creditors: amounts falling due within one year	14	(24,091)	(20,170)
Net current liabilities		(23,368)	(19,508)
Total assets less current liabilities		(14,416)	(10,410)
Net liabilities		(14,416)	(10,410)
Capital and reserves			
Called up share capital	15	1,204	1,204
Share premium account	16	50,644	50,644
Profit and loss account	16	(66,965)	(62,959)
Foreign exchange reserve	16	701	701
Total shareholders' deficit	18	(14,416)	(10,410)

The financial statements on pages 9 to 31 were approved by the Board of Directors on 8 September 2014 and were signed on its behalf by:

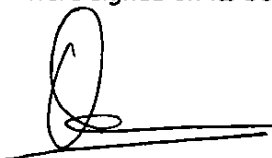


Richard Yemm, Chief Executive Officer

Pelamis Wave Power Limited
Company balance sheet as at 31 December 2013

	Note	2013 £000	2012 £000
Fixed assets			
Intangible assets	10	8,751	8,730
Tangible assets	11	123	243
Investments	12	50	74
		8,924	9,047
Current assets			
Debtors	13	516	362
Cash at bank and in hand		204	291
		720	653
Creditors: amounts falling due within one year	14	(24,088)	(20,165)
Net current liabilities		(23,368)	(19,512)
Total assets less current liabilities		(14,444)	(10,465)
Net liabilities		(14,444)	(10,465)
Capital and reserves			
Called up share capital	15	1,204	1,204
Share premium account	16	50,644	50,644
Profit and loss account	16	(66,292)	(62,313)
Total shareholders' deficit	18	(14,444)	(10,465)

The financial statements on pages 9 to 31 were approved by the Board of Directors on 8 September 2014 and were signed on its behalf by:



Richard Yemm, Chief Executive Officer

Pelamis Wave Power Limited**Consolidated cash flow statement for the year ended 31 December 2013**

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Net cash outflow from operating activities	21		(2,860)		(2,915)
Returns on investments and servicing of finance					
Interest received		<u>1</u>		<u>2</u>	
Net cash inflow from returns on investments and servicing of finance			1		2
Taxation			(1)		(1)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(32)		(27)	
Investment in intangible fixed assets		(48)		(128)	
Disposal of tangible fixed assets		3		12	
Net cash outflow from capital expenditure and financial investment			(77)		(143)
Cash outflow before financing			(2,937)		(3,057)
Cash inflow from financing					
Issue of 'B' and 'A1' shares		-		1,031	
Loans		<u>2,850</u>		<u>1,836</u>	
Cash inflow from financing			2,850		2,867
Decrease in cash	22		(87)		(190)

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013

1 Accounting policies

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include those of the Company and its subsidiary undertakings for the year ended 31 December 2013. No profit and loss account is presented for Pelamis Wave Power Limited as permitted by section 408 of the Companies Act 2006.

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

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

Going concern

The financial statements are prepared on a going concern basis.

At this point in time, the company has insufficient secured funding to continue as a going concern for the next twelve months. The Directors consider it appropriate, however, to prepare the financial statements on a going concern basis as discussed within the Directors' Report on pages 2 and 3 and noted below.

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

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

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

- Further major progress has been made over the past 12 months on proving out the technology. The P2 machines have completed ~12,000 hours of grid connected testing and the trial programmes continue to progress well. The machines have generated a sector-leading 250MWh of power so far and performance and reliability continue to improve;
- Building on the positive experience with the P2 machines in the period significant progress has also been made on the development, specification and design of a next generation machine, anticipated to materially improve the economics and efficiency of electricity generation. This included a £1.4m funded project commissioned by the Energy Technologies Institute;

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Going concern (continued)

- Work on the above projects has been subjected to extensive third party review and the conclusions have been that the technology now has a viable route to commercial operation;
- Significant progress has been made towards consenting the Company's Farr Point wave farm site which can be used to host initial commercial arrays;
- The company and technology has been selected on a competitive basis to proceed to the next stage of engineering and design for the ESB WestWave project in Ireland;
- There is significant confidence in the company and its technology, as evidenced by the £3.3m additional shareholder loan funding received post year end;
- There continues to be strong Government support for the development of wave energy technologies. For example, the Company continues to explore ways it could access the £103m Renewable Energy Investment Fund (REIF) ;
- During 2013 the company was awarded a substantial grant from the Scottish Government Marine Renewables Commercialisation Fund to support on-going P2 testing, next generation machine development and Farr Point site development. This grant award was significantly increased during 2014; and

Discussions with existing investors about the provision of additional short and longer term financing are at an advanced stage. The Company also continues to progress other funding avenues from public and private sources to underpin on-going operations and technology development.

Turnover

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

Foreign currency translation

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

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

Intangible fixed assets and depreciation

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

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Research and development

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

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

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

Tangible fixed assets and depreciation

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

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

Investments

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

Leases

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

Long term contract work in progress

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

Deferred taxation

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

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Pension costs

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

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Government grants relating to capitalised development expenditure are credited to the profit and loss account against the release of the associated expenditure. Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

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	2013 £000	2012 £000
Class of business:		
Operation and maintenance of wave energy converters	373	604
Feasibility study income	1,520	696
Sale of Pelamis wave energy converters	-	148
Sale and installation of offshore moorings infrastructure	-	90
Marine and miscellaneous services income	4	-
	1,897	1,538
Geographical analysis:		
United Kingdom	1,855	1,313
Rest of Europe	42	225
	1,897	1,538

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****3 Other operating income**

Group	2013 £000	2012 £000
Grant income	1,161	903
Other sundry income	-	6
	1,161	909

4 Employees

Group	2013 £000	2012 £000
Staff costs (including directors) consist of:		
Wages and salaries	2,258	2,105
Social security costs	238	195
Other pension costs	57	50
Share based payments	153	193
	2,706	2,543

Other pension costs refer to the Company's group pension plan, a defined contribution pension scheme. This is only scheme operated by the Company. Other creditors include £13,000 in respect of unpaid December 2013 contributions, settled in January 2014 (2012: £9,000).

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

Group	2013	2012
Engineering and operations	41	36
Selling and administration	9	9
	50	45

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****5 Directors' emoluments**

Directors' remuneration consists of:	2013 £000	2012 £000
Aggregate emoluments	176	361
Pension	4	3
	180	364

Emoluments of the highest paid director were £110,000 (2012: £234,000).

One (2012:one) director participated in the group personal pension plan.

No directors received shares during the year in respect of qualifying services (2012: nil) and no directors exercised share options during the year (2012: nil).

6 Operating loss

Group	2013 £000	2012 £000
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets	141	213
Amortisation of intangible fixed assets	27	24
Operating leases - land & buildings	331	129
Auditors' remuneration	23	25
Gain on disposal of fixed assets	(1)	(12)

7 Finance and similar charges (net)

Group	2013 £000	2012 £000
Interest payable	1,250	958
Less: interest receivable	(1)	(1)
Provision for 'B' share redemption	-	2,092
Finance and similar charges - Group	1,249	3,049
Share of associate's interest charge	9	10
	1,258	3,059

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

8 Tax on loss on ordinary activities

Group	2013 £000	2012 £000
Current Tax Charge		
UK corporation tax at 23.25% (2012: 24.5%)	-	-
	-	-
Foreign tax	1	1
Share of associate's current tax	-	-
Total current tax	1	1

The tax assessed for the year differs (2012: differs) from the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

Group	2013 £000	2012 £000
Factors affecting current tax charge for the year		
Loss on ordinary activities before taxation	(4,158)	(6,261)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 23.25% (2012 : 24.5%)	(967)	(1,534)
Effects of:		
Non deductible expenditure	116	88
Difference between depreciation and capital allowances	61	34
Tax losses available for carry forward	791	1,413
Current tax charge for year	1	1

Factors that may affect future tax charges

The Group has estimated tax losses, subject to the agreement of HMRC, arising in the UK of £56,536,000 (2012: £52,783,000) that are available indefinitely for offset against future taxable profits of Pelamis Wave Power Limited. In addition, a repayable tax credit of £140,000 relating to qualifying research and development expenditure in accordance with the research and development tax credit scheme may be receivable subject to agreement with HMRC. In addition, the Group has estimated tax losses arising in Portugal of £78,000 (2012: £70,000) that are available for a period of between 2 and 6 years, for offset against future taxable profits in Pelamis Portugal SA.

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

Factors that may affect future tax charges (continued)

Deferred tax assets have not been recognised in respect of any of these losses which will become recoverable when the Group makes sufficient future taxable profits. All timing differences at the balance sheet date have been measured at 21% (2012: 23%). The unrecognised deferred tax asset is estimated as £11,891,000 (2012: £12,142,000).

Group	2013 £000	2012 £000
Provision for deferred tax comprises:		
Tax losses available for carry forward	11,892	12,165
Capital allowances	2	(21)
Other timing differences	(3)	(2)
Total deferred tax asset not recognised	11,891	12,142

9 Loss for the financial year

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

The consolidated loss for the financial year of £4,159,000 (2012: £6,262,000) includes a £4,132,000 loss (2012: £6,209,000 loss) in respect of the parent company.

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****10 Intangible fixed assets**

Group and Company	Development expenses £000	Patents and licences £000	Total £000
Cost			
At 1 January 2013	8,353	507	8,860
Additions	-	48	48
At 31 December 2013	8,353	555	8,908
Amortisation			
At 1 January 2013	-	130	130
Charge for year	-	27	27
At 31 December 2013	-	157	157
Net book value			
At 31 December 2013	8,353	398	8,751
At 31 December 2012	8,353	377	8,730

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

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****11 Tangible fixed assets**

Group and Company	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2013	1,332	215	11	1,558
Additions	3	20	-	23
Disposals	-	(40)	(5)	(45)
At 31 December 2013	1,335	195	6	1,536
Accumulated depreciation				
At 1 January 2013	1,104	202	9	1,315
Charge for year	132	8	1	141
Disposals	-	(39)	(4)	(43)
At 31 December 2013	1,236	171	6	1,413
Net book value				
At 31 December 2013	99	24	-	123
At 31 December 2012	228	13	2	243

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 2013 (continued)****12 Fixed asset investments**

Share of net tangible assets of associates	£000
At 1 January 2013	125
Share of loss retained by associates	(49)
Translation adjustments	2
At 31 December 2013	78

Company	Loans to Associates £000
At 1 January 2013	74
Provisions for impairment	(24)
At 31 December 2013	50

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

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

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

Subsidiary undertakings	Description and proportion of share capital owned	Country of Incorporation	Nature of business
Pelamis Portugal SA	Ordinary 100%	Portugal	Wave power
Associate undertakings			
Companhia da Energia Oceânica SA	Ordinary 22.9%	Portugal	Wave power
Aegir Wave Power Limited	B shares 22.6%	Scotland	Project Development

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

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****13 Debtors**

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Due within one year:				
Trade debtors	206	275	206	275
Other debtors	9	18	7	12
Prepayments and accrued income	303	75	303	75
	518	368	516	362

14 Creditors

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Amounts falling due within one year:				
'B' and 'A1' shares	10,598	10,598	10,598	10,598
Loan	8,003	3,903	8,003	3,903
Trade creditors	329	348	326	343
Payments received on account on long-term contracts	63	57	63	57
Taxation and social security	72	64	72	64
Other creditors	13	74	13	74
Accruals and deferred income	5,013	5,126	5,013	5,126
	24,091	20,170	24,088	20,165

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

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

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

15 Called up share capital

Group and Company

	2013 £000	2012 £000
Allotted, called up and fully paid		
Included in share capital:		
493,000 ordinary shares of 25p each (2012 – 493,000 ordinary shares of 25p each)	123	123
4,324,729 'A' shares of 25p each (2012 – 4,324,729 'A' shares of 25p each)	1,081	1,081
Included in creditors falling due within one year:		
1,806,390 'B' shares of 25p each (2012 - 1,806,390)	452	452
1,963,852 'A1' shares of 1p each (2012 - 1,963,852)	20	20
23 'C' series shares of 25p each (2012 - 23)	-	-
	1,676	1,676

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

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****16 Reserves**

Group	Share premium account £000	Profit and loss account £000	Foreign exchange reserve £000
At 1 January 2013	50,644	(62,959)	701
Loss for the financial year (note 18)	-	(4,159)	-
Share based payments	-	153	-
At 31 December 2013	50,644	(66,965)	701
Company			
At 1 January 2013	50,644	(62,313)	-
Loss for the financial year (note 18)	-	(4,132)	-
Share based payments	-	153	-
At 31 December 2013	50,644	(66,292)	-

17 Share-based payments

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

Unapproved Share Options

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

Enterprise Management Incentive (EMI)

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

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

Pelamis Wave Power Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

17 Share-based payments (continued)

Group and Company	2013 £000	2012 £000
Total share-based remuneration	153	193

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 2013	256,954	£5.58
Forfeited during the year	(2,150)	£9.32
Outstanding at 31 December 2013	254,804	£5.55
Exercisable at 31 December 2013	254,804	£5.55

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.

There were no options granted during the year. No options were exercised during the year. There are no cash settlement alternatives for any share options.

The options outstanding at 31 December 2013 had an expected weighted average remaining life of 1 year. The exercise prices for options outstanding at the year end ranged between £0.25 and £10.00. The number of options exercisable were in the following ranges:

Range of exercise prices	No.
£0.25	1,824
£2	136,000
Between £9 and £10	116,980

The fair value of the equity-settled options granted is estimated at the date of grant using a Black-Scholes option pricing model. The following table lists the inputs to the model for years ended 31 December 2013 and 31 December 2012.

Valuation Information	2013	2012
Weighted average share price at grant date	n/a	£195.00
Weighted average exercise price	n/a	£0.25
Expected life of option (years)	n/a	2
Expected volatility	n/a	50%
Expected dividend growth	n/a	n/a
Risk-free interest rate	n/a	5%

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****18 Reconciliation of movements in shareholders' deficit**

Group	2013 £000	2012 £000
Total shareholders' deficit	(10,410)	(4,342)
Loss for the financial year	(4,159)	(6,262)
Translation differences on consolidation	-	1
Share based payments	153	193
Shareholders' deficit at 31 December 2013	(14,416)	(10,410)
Company		
Total shareholders' deficit	(10,465)	(4,449)
Loss for the financial year	(4,132)	(6,209)
Share based payments	153	193
Shareholders' deficit at 31 December 2013	(14,444)	(10,465)

19 Commitments under operating leases

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

	Land and Buildings 2013 £000	Land and Buildings 2012 £000
Operating leases which expire:		
Within one year	29	154
In two to five years	12	-
	41	154

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****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, which is consolidated into these financial statements.

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

Related Party	Group Share holding	Sales to related party £000	
Aegir Wave Power Limited	22.6%	36	

	2013	2012
	£000	£000
Operating loss	(2,862)	(3,152)
Depreciation of tangible fixed assets	141	213
Amortisation of intangible assets	27	24
Share based payments	153	193
Gain on disposal of tangible fixed assets	(1)	(12)
Decrease in stocks	-	158
(Increase) / decrease in debtors	(149)	71
Decrease in creditors	(169)	(410)
Net cash outflow	(2,860)	(2,915)

22 Reconciliation of net cash flow to movement in net debt

	2013	2012
	£000	£000
Decrease in cash	(87)	(190)
Cash inflow from issue of 'B' and 'A1' shares net of expenses	-	(1,031)
Cash inflow from loans	(2,850)	(1,836)
Change in net debt resulting from cash flows	(2,937)	(3,057)
Premium charged on 'B' share redemption	-	(2,092)
Interest accrued on loan	(304)	(137)
Premium charged on loan redemption	(946)	(821)
Translation differences	(2)	2
Net debt at beginning of year	(14,207)	(8,102)
Net debt at end of year	(18,396)	(14,207)

Pelamis Wave Power Limited**Notes forming part of the financial statements for the year ended 31 December 2013 (continued)****23 Analysis of movements in net debt**

	31 December 2012 £000	Cash Flow £000	Non-Cash Changes £000	Translation Adjustments £000	31 December 2013 £000
Cash and deposits	294	(87)	-	(2)	205
'B' and 'A1' Shares	(10,598)	-	-	-	(10,598)
Loans repayable within one year	(3,903)	(2,850)	(1,250)	-	(8,003)
Net debt	(14,207)	(2,937)	(1,250)	(2)	(18,396)

Non-cash changes relate to accrued loan interest and loan redemption premium.

24 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil for the group and the Company (2012: £nil group and Company).

25 Post balance sheet events

Between January 2014 and September 2014 the Company increased its shareholder loan by £3.3m on the same terms as its existing loan. The terms of the loan are detailed in note 14 on page 23.