ZENERGY POWER plc

Annual Report 2010

ZENERGY POWER

1 About Zenergy Power

Company Overview

Core expertise, key focus and strategy

The Company has created a patented portfolio of IP in the area of High Temperature Superconductivity ('HTS') which has been incorporated into a number of industrial power applications which have achieved significant firsts in their respective markets. These include the first industrial HTS product, the Magnetic Billet Heater, and the first HTS Fault Current Limiter installed in the US electrical grid. These achievements and the interest they have generated coupled with trends in the energy sector, such as the shift towards 'smart grid technologies', have led the Board to conclude that there is significant value in the Group's superconductor technology and applications.

Zenergy Power is a UK registered and AIM quoted energy technology company comprising of three operating subsidiaries located in Germany, the USA and Australia. The Company has successfully developed full-scale superconductor-based products and solutions for low-cost generation of renewable power; efficient use of electrical power in metals processing; and the delivery of a secure and reliable 'smart-grid' electrical system. Zenergy Power is recognised as having achieved the world's first sale of an industrial-scale commercial application incorporating superconductor technology in 2007 and has since that time secured further orders for installation of units in Germany, Italy, the United States and the United Kingdom.

2G HTS wire being 100 power denser then equivalent copper wire

Superconductor technology made by Zenergy Power

Current Activities

The Group is focused on four main areas for its superconductor technology and applications:

Magnetic Billet Heaters – Superior Efficiency in Non-Ferrous Metal Processing

Sold to industrial producers of metals goods, our Magnetic Billet Heater ('MBH') product is setting new standards for industrial productivity, energy efficiency, and process flexibility in aluminium, brass, bronze, and copper processing. The precise and energy efficient heating process softens raw material billets before they are shaped into end products.

Benefits:

- 50% reduction in energy consumption;
- 25% productivity increase;
- Improved process and product quality; and
- Single block heating system with very short start-up time, high flexibility and cost effective just-in-time production.

Smart Grid Technology

Acting like a firewall, Zenergy Power's Fault Current Limiter ('FCL') protects power grid equipment from the damaging power surges caused, for example, by short circuits or lightning strikes. The FCL has the potential to prevent wide-scale power grid failures, and can reduce the cost of grid capacity expansion for the wide-scale integration of renewable energy production.

Benefits:

- Suppression of uncontrolled high current power surges without the interruption of downstream power supply;
- Improved stability of fully stretched grids;
- Greatly reduced risk of large scale 'blackout' due to cascading grid failures following a local defect;
- Significantly reduced cost of substation upgrades;
- Cost-effective protection of grid equipment against power surge damages; and
- Cost-effective integration of renewable power generation into the grid infrastructure.

Zenergy Power's FCL superconductor technology has been put into operation in the United States electricity grid where it was the first such device to be adopted by a utility and has been followed by an order for the UK grid.

HTS Wire (2G)

The Company's HTS wire process offers the potential to reduce significantly the cost of HTS wire production through the use of a continuous chemical process which, when scaled-up, can deliver industrial quantities of wire at low cost, thus facilitating and stimulating the adoption of superconducting equipment generally.

Benefits:

- Mass production of loss cost wire using industrial sourced raw materials.

Generators and motors

The Company has also developed and supplied superconducting coils for use in generators and motors, where it has engaged with potentially interested industry players in wind, hydro and marine propulsion.

Benefits:

- Size and weight reductions of up to 70 per cent when compared to a conventional solution;
- Increase in hydro power ouput; and
- 99% generator conversion efficiency.

On 11th February 2011 it was announced that the Board had, concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products. Accordingly, the Board has appointed Matrix Corporate Capital LLP and Woodside Capital Partners to seek a purchaser for the Group. As a result, the Company has entered into an offer period for the purposes of the Takeover Code.

2 Chairman's & Chief Executive's Statement

11kV FCL to protect CE Electric UK's Station Road Substation, North Lincolnshire, UK

Superconductor technology made by Zenergy Power

2 Chairman's & Chief Executive's Statement

Results

During the year the Company continued to pursue, and make good progress with, its objectives of developing a process for the industrial production of 2G wire and of commercialising industrial equipment using superconductor technology.

In 2010 we received two important orders: a repeat order for a Magnetic Billet Heater from WeserAlu and the first order for a medium voltage Fault Current Limiter for the UK distribution grid. Overall order intake was weaker than expected and backlog at year end was relatively unchanged at €1.7m from €1.6m in 2009.

2010 commercial and financial results were, however, disappointing. Revenue (€2.6m) increased modestly over that generated in 2009 (€2.4m), but increased cost of sales and overheads pushed the Company into an increased operating loss of €9.9m compared with the prior year €8.3m. Net loss was €10.1m (2009: €8.5m).

The Company has taken steps to reduce its cost base, but these efforts have, to an extent, been frustrated by the need to devote resources to dealing with the issues described below. Nevertheless there will be some benefit in the current year.

Following the fund raising of €22.4m in January 2010, net cash flow in the year of (€13.4m), and opening cash of €6.9m the Company had net cash resources of €15.8M at year-end and approximately €13m at the date of this report.

The Board

During the year the structure of the Board was changed to be more appropriate for a plc. Following my appointment in May 2010, David Jeffcoat was appointed to the Board in November 2010.

Karen Chandler, CFO since September 2006 and Director since July 2008, has decided not to seek re-election to the Board at the AGM in May. She has accepted another position, but has agreed to make time available to Zenergy Power on a contract basis until the end of the year. The Board is grateful to Ms Chandler for being able to maintain this involvement.

The Future

The Board has spent much time considering the future of the Company. At the interim stage we confirmed the intention that the commercialisation of 2G wire should be conducted by a third party. This remains the strategy

At the same time we indicated that the Company could not address the Fault Current Limiter market directly. The long timescales and conservatism associated with purchases of capital goods for use in the electricity supply industry require organisations with the product range, geographical reach and reputation needed to achieve successful market penetration.

The Board further examined the likely timescales of sales of the Company's products and the possibility of separating the different activities. It concluded that the Magnetic Billet Heater, which is a demonstrably successful product despite recent setbacks, is likely to be of insufficient scale to be the main driver of the Company's growth.

The Board believes that the Company's technology and engineering is undoubtedly successful and of high value. Within the year we increased our patent portfolio (patents and patent applications) covering our key product areas to more than 300, thus augmenting the substantial strength of the Company in superconductor energy technology.

External intelligence suggests that the market for electrical equipment will grow strongly over the next decade and the Board believes that superconductor-based equipment has a valuable part to play in this market. However, although the Group is funded on its present cost structure for the next twelve months, the Board concluded that shareholders' (and employees') interests are best served by seeking a buyer on a timely basis for the whole Group.

Current Activities

Magnetic Billet Heaters ('MBH')

The repeat order from Weseralu in January 2010 was significant as, with this second unit, Weseralu will have fully converted to Zenergy's MBH technology.

The first MBH operating since 2008 at Weseralu continues to perform in line with customer expectations and to deliver the real commercial benefits anticipated. Approximately half a million billets have been processed so far at Weseralu.

There were at the end of 2009 three units scheduled for installation and commissioning in the latter months of 2010. The first of these, delivered as planned in September 2010, experienced some operational problems associated with the handling of heated billets. Shorter billets require the clamping mechanism to operate within the magnetic heating field and the billet clamping flanges proved to be insufficiently isolated. Modified flanges have since been fitted and the unit is operating on a three shift basis with different length billets. Production output is increasing but is not yet at maximum levels.

The other units in the order book, in the main now delivered to customers' premises, await final conclusion of the remedial actions described above. Having regard also to the seasonal manufacturing patterns of the customers, these units are expected to be commissioned during the second half year.

In February 2010, Zenergy and Bültmann received the innovation prize from the German Federal Ministry for the Environment together with The Federation of German Business and in June 2010 by the European Commission environmental prize for sustainable production technology.

Superconductor magnet powering the MBH at Sapa, Bolzano, Italy

☐ Superconductor technology made by Zenergy Power

Fault Current Limiter ('FCL')

The 11kV FCL unit, ordered by ASL, is for ultimate delivery to CE Electric, UK and is undergoing the final stages of independent third party testing in the USA. Subject to the completion of this and of some outstanding contract formalities, we expect to deliver this unit to the user site in the coming months.

The 138 kV high voltage FCL which is being developed with the financial support of the US Department of Energy (DOE), for installation and operation into the grid of American Electric Power, continues to make good progress towards its planned completion date of end 2011.

The distribution voltage unit was installed in 2009 into the 'substation of the future' operated by Southern California Edison ('SCE'). In 2010 the FCL successfully maintained supply to 1,400 Los Angeles customers when the grid experienced several real life faults.

Motors & Generators

As recently announced, the hydro coils delivered in 2009 have been incorporated in a generator which has successfully completed static testing. The Company looks forward to the installation of this unit, but the timescale is obviously outside our control. The Company continues to work with electricity utilities and with Converteam to identify other opportunities for hydro generators.

2G HTS wire

The Company is working towards a continuous process for 2G wire manufacturing. Honeywell was qualified as a supplier of commercial chemical constituents in January 2010. In April 2010, the Company announced the successful application of ink-jet coating onto textured metal tapes. The development of the coating process was completed with this step.

The Company received industrially-produced textured nickel tape from ThyssenKrupp in October 2010. The results of experimental work on short lengths of this substrate material have been encouraging. A hydrogen furnace designed to process large scale lengths of wire being representative of the ultimate manufacturing environment is undergoing commissioning. Subject to repeatability trials, this will enable the ThyssenKrupp tape to be qualified.

The Company received two additional grants from the German government for its continuous all chemical process, 'Northsee' and 'Suprametal'. The second project is in conjunction with ThyssenKrupp.

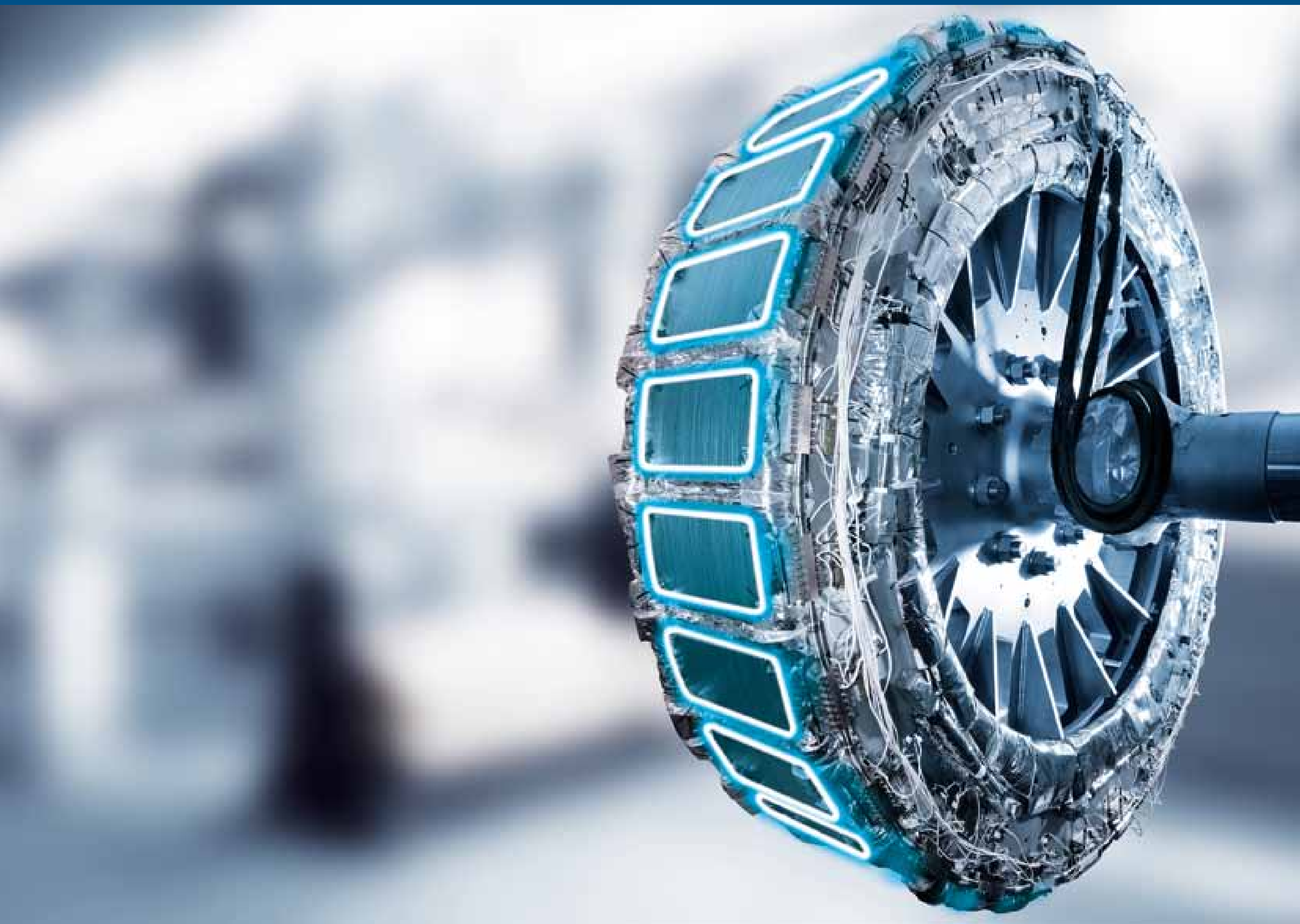
John Poulter
Chairman

Dr. Jens Mueller
Chief Executive Officer

3 Business Review

28 superconductor coils powering the 1.75 MVA hydro generator for E.ON

Superconductor technology made by Zenergy Power



3 Business Review

Financial Review

During the year the Group generated revenues of €2,567,000 a 5% increase from the prior year (2009: €2,437,000).

The Group made a gross loss on sales due to additional materials costs on several contracts as a result of changes in design, with full provision for the losses being booked in 2010.

During the year the Group made a loss of €10,106,000 (2009: €8,481,000) as significant expenditure was incurred in respect of the Group's continued research and development program. The Group continues to focus its development effort on commercial applications for superconducting coils together with its own proprietary development of 2G wire.

Cash at 31 December 2010 was €15,845,000 (2009: €6,900,000). In January 2010 the Group completed an institutional placing raising £20,040,000 (net £19,200,000), which at the exchange rate prevailing on the date the shares were admitted to trading was equivalent to €23,259,000 (net €22,296,000).

Revenue

Revenue for the year increased by 5% compared to 2009 to €2,567,000. At December 2009 the order backlog was €1,542,000; by December 2010 order backlog had increased to €1,698,000. In January 2010 the Group received orders for a Magnetic Billet Heater and a Fault Current Limiter.

Research and development

The Group's gross expenditure on R&D during 2010 was €4,674,000 (2009: €4,291,000). The expenditure predominately relates to development of Zenergy's proprietary 2G superconducting wire, continuation of Government funded projects including 2G, ship propulsion, linear motors, ongoing development of the FCL and MBH that do not qualify for capitalisation, together with expenditure in respect of patents and patent applications.

Government grant income of €669,000 receivable from various funding authorities in respect of this expenditure (2009: €806,000).

Intangibles

Significant expenditure has been incurred during the year in respect of development activities. In respect of costs relating to the Magnetic Billet Heater, Fault Current Limiter and superconducting coils the Directors have concluded that the expenditure meets the IAS38 criteria for capitalisation and as such €2,157,000 has been capitalised in 2010 (€4,327,000 of internal costs net of €2,170,000 of government grants receivable). The cumulative net book value at 31st December 2010 was €8,291,000 (2009: €5,706,000).

Government grants

The Group continues to receive strong support from Government bodies in respect of its development efforts. The Group has had the support of the Californian Energy Commission, who helped fund the landmark FCL installation in March 2009 and the United States Department of Energy (DOE) which has provided funding of up to $11 million to enable the Group to scale the FCL from distribution to transmission level.

In addition to the FCL grant, the Group is beneficiary of several other grants including superconducting hydro generators, 2G wire, linear motors and ship propulsion.

During the year the Group was awarded the following grants:

1. €0.9 million for the development of mass production techniques for 2G wire.
2. €0.2m to further development of nanotechnology engineering techniques.

Risk Management

The Group is exposed to a number of potential risks which may have a material effect on its reputation, financial or operational performance. It is not possible to identify or anticipate every risk that may affect the Group, or the materiality of that risk.

The Board has overall responsibility for risk management and internal controls and is supported by the Audit Committee. For further details see Corporate Governance section below.

Operational risks

There have been no material changes in the operational risks faced by the Group during the year, which continue to be those typical of an international technology group.

Key areas for ongoing risk management are:

1. Protection of intellectual property - for further details of the Group's strategy see the Intellectual Property section below.
2. Technology risk - due to the nature of the Group's products and the fact its products are the first of their kind.
3. Raw material supply – superconducting materials are core to all of the Groups products and applications and the Group is reliant on specialist wire supplies. With a limited number of companies able to supply, managing this risk is critical. Zenergy Power has a five year development and supply agreement with ThyssenKrupp for textured nickel tape and with Honeywell for chemicals, both of which are essential to the Group's development of 2G wire.
4. Staff retention and recruitment – given the importance of know-how, no individual has sole responsibility for any critical element of the Group's business, albeit that the loss of certain key personnel would clearly be disruptive to the business. Staff turnover has historically been exceptionally low and documentation of all key processes and procedures is in place.
5. Health and safety – due to certain of the Group's manufacturing processes and the materials handled, compliance with health and safety best practice and regulation is of critical importance.
6. International operations – operating in four geographic locations increases risk. Foreign exchange, language, legal, regulatory and cultural differences add to the complexity of managing the business. The foreign exchange strategy is approved by the Board and implemented by the Company. Subsidiaries are provided financing in their local currency which matches the majority of their expenditure. Financial and internal controls procedures are in place to ensure compliance of subsidiaries with Group policies. An in house legal team is in place to deal with the day to day legal risks, supplemented by external advice where appropriate.
7. Commercial partners – the Group has partnerships and agreements with a range of industrial and utility partners. Whilst these partnerships are secured by contracts and in most cases alternative partners could be found in the medium to longer term, the loss of support from any partner could have a detrimental impact on Zenergy Power's reputation or progress towards commercialisation.

Financial Risks

The major financial risks faced by the Group are liquidity risk, market risk and credit risk.

The Board regularly reviews these risks and approves policies covering overall risk limits and the use of financial instruments to manage financial risk.

Liquidity risk

The key liquidity risk facing the Group is obtaining sufficient funding in the period before profitable trating is established for its products, namely the Magnetic Billet Heater, FCL, coils for generators and motors whilst continuing the development of 2G wire.

As noted in the Current Activities section above, the Board has concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique Intellectual Property ('IP ') and products.

Cash at 31 December 2010 was €15,845,000 (2009: €6,900,000).

The Group does not have any external borrowings.

Market risks

Currency risk

The Group is exposed to foreign currency risk, notably US Dollar, Australian Dollar, Euro and Sterling. The funds of the Group were raised in Sterling whilst its subsidiaries incur costs in local currencies. The Group's objective is to cover the foreign exchange exposure and have certainty as to the Sterling cost of funding the subsidiaries. Forward contracts and spot purchases are used to mitigate exchange risk, with hedges/currency in place to cover up to 18 months currency requirement, based on budgeted cash flows.

The Group does not adopt hedge accounting.

Interest rate risk

Surplus funds are invested in short term money market deposits to earn adequate returns on investments. Given the current uncertainty in the banking markets, capital security is of paramount importance. The majority of the Group's funds are held with Kölner Bank, HSBC, Credit Suisse, Deutsche Bank and Bank of The West.

Credit risk

The Group currently has a small number of customers. Prior to contracting with a customer credit checks are undertaken. For construction contracts the Group tries to negotiate advance payments in line with the contract progress minimising the Group's credit risk.

In addition the Group receives significant contributions from Government funding. Whilst the Group has never had funded programmes cancelled or curtailed, there is a potential risk of future funds not being obtained, although this is perceived as very low.

Intellectual Property

The Group maintains an active IP strategy relating to its products and research and development activities and has sought whenever possible to maintain ownership of core IP developed in external collaborations.

During 2010 Zenergy Power commissioned an independent IP audit and a review of its IP strategy. The review concluded that the strategy, processes and procedures in place are well thought out, robust and strategically focused. They are very comprehensive at all stages of the IP lifecycle, from the initial identification of technical innovation of potential value, through to patent prosecution and analysis of third party patents. The Zenergy portfolio is very commercially focused with each product being well supported by a number of core, important and detail patents.

Zenergy Power currently has 45 patent families: resulting in more than 300 patents and patents pending.

4 Governance and Responsibility

12kV FCL to protect Southern California Edison´s substation of the future in San Bernardino, Los Angeles, USA

Superconductor technology made by Zenergy Power

4 Governance and Responsibility

Board of Directors

John Poulter
Chairman
Chairman of nomination committee, member of remuneration and audit committee
John Poulter joined the group as Chairman in May 2010. He has held senior positions at a number of high-growth companies and from 1988 to 2009 led Spectris plc (firstly as its Chief Executive and then as non-executive Chairman). Mr. Poulter has also held a number of other non-executive roles in both listed and private companies including, among others, Kidde plc, RAC plc, Macquarie European Infrastructure plc and Filtronic plc. He is chairman of 4imprint plc.

Dr. Jens Müller
CEO Executive Director
Jens Müller, has been CEO of Zenergy Power plc since 2006 and was co-founder of the Group's German subsidiary Zenergy Power GmbH (formerly Trithor GmbH). Today he is one of the leading experts for the commercialisation of high-temperature superconductor technology. Jens Müller worked as a corporate finance professional with Deutsche Bank specializing in high-tech IPOs and telecommunication project financing after several years of professional experience as a physicist at Siemens, Vacuumschmelze and Cryoelectra. He graduated with a PhD on the application of superconductive materials in power transmission after reading solid-state physics, energy technology and economics at Bonn University, Germany.

Karen Chandler
CFO Executive Director
Karen Chandler, CFO of the group joined Zenergy Power plc, shortly after admission to AIM in 2006. Previously Karen was an associate director at KPMG LLP, initially training in audit and qualifying as a chartered accountant and later specialising in transaction services. Karen gained experienced in AIM and Main Market flotations, as well as extensive expertise in private equity and corporate mergers and acquisitions. Karen holds an Executive MBA from the Ecole Nationale des Ponts et Chaussées and the University of Bristol and a BSc in mathematics and economics from Keele University. .

Keith Hodgkinson
Non-Executive Director
Member of nomination, remuneration and audit committee
Keith Hodgkinson served as CEO of electrical power systems specialists Chloride Group Plc from 1992 to 2009, having joined the board in 1991 and lead it into the FTSE 250 Index. Prior to this he held senior management positions within GEC Group for many years. He is non-executive director of The R&A Foundation.

Christopher Nash
Non-Executive Director
Member of remuneration, nomination and audit committee
Christopher Nash is active in the environment and renewable energy sectors as a non-executive Director of NTR plc (wind, solar thermal, bio-fuels, waste recycling), EVO Electric Limited (hybrid vehicle technology) and as an advisor to Current Group in the US (Smart Grid technology). He is also Senior Independent Director of Hutchison China Medical Limited. He has had a 30 year business career during which he was Senior Vice President and Group Head of Strategy and Corporate Finance at Global Crossing Ltd., where he also served on the Management Board and several divisional boards. In the mid 1990s he was Group Head of Corporate Finance at Cable & Wireless Plc and before that, a Director of North West Water International Ltd. He originally trained as a Civil Engineer at Imperial College, London and, after completing an MBA at Manchester Business School, worked for S.G. Warburg and Co. Ltd., followed by a period in the venture capital sector.

Tony O´Reilly

Non-Executive Director

Chairman of remuneration committee and member of audit and nomination committee

Tony O'Reilly is a graduate of Brown University in Rhode Island. He is founder and Chief Executive of AIM/Irish Stock Exchange quoted Providence Resources P.l.c. an international upstream oil and gas company. He has previously worked in mergers and acquisitions at Dillon Read and in corporate finance at Coopers and Lybrand, advising natural resource companies. He formerly served as Chairman of Arcon International Resources P.l.c. until 2005 (having been Chief Executive from 1996 to 2000). He joined Wedgwood in 2001 becoming Chief Executive (2002 to 2005) following which he became Chief Executive of Providence. He is also Trustee of IRRT and The O'Reilly Foundation.

David Jeffcoat

Non-Executive Director

Chairman of audit committee and member of remuneration and nomination committee

David Jeffcoat is both an engineering graduate and a Fellow of the Chartered Institute of Management Accountants and has considerable experience in international technology and engineering companies. From 2000 until 2009 he was Finance Director of Ultra Electronics Holdings plc and prior to that Group Financial Controller of Smiths Industries plc. He is a director of WYG plc and of Aberforth Smaller Companies Trust plc.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

Principal activities

Zenergy Power plc ('the Group') has created a patented portfolio of IP in the area of High Temperature Superconductivity ("HTS") which has been incorporated into a number of industrial power applications which have achieved significant firsts in their respective markets. These include the first industrial HTS product, the Magnetic Billet Heater, and the first HTS Fault Current Limiter installed in the US electrical grid. These achievements and the interest they have generated coupled with trends in the energy sector, such as the shift towards "smart grids", have led the Board to conclude that there is significant value in the Group's superconductor technology solutions.

Zenergy Power is a UK registered and AIM quoted energy technology company comprised of three operating subsidiaries located in Germany, the USA and Australia. The Company has successfully developed full-scale superconductor-based products and solutions for low-cost generation of renewable power; efficient use of electrical power in metals processing; and the delivery of a secure and reliable 'smart' electrical grid system. Zenergy Power is recognised as having achieved the world's first sale of an industrial-scale commercial application incorporating superconductor technology in 2007 and has since that time secured further orders for installation of units in Germany, Italy, the United States and the United Kingdom.

The principal activity of the Company is to act as the holding company and to develop business opportunities in the UK market.

Further information can be found on pages 4-5 About Zenergy Power and on our website www.zenergypower.com.

Business review and future developments

The consolidated income statement for the year is set out on page 28. A review of the Group's activities, performance, position and future developments are contained within the Company Overview – page 4, Chairman's Statement – page 7, Chief Executive's Statement – pages 8-9 and Financial Review – page 11.

The KPI's for the Group are revenue, gross (loss)/profit and operating loss.

Statutory reporting period	Year ended 31 December 2010 €000	Year ended 31 December 2009 €000
Revenue	2,567	2,437
Gross (loss)/profit	(424)	399
Operating loss	(9,944)	(8,319)

2010 has been a disappointing year for the Group in terms of financial results. The year started well with the Group securing a repeat order in January from WeserAlu for a Magnetic Billet Heater, which when delivered will result in this customer converting fully to Zenergy Power's MBH technology. Zenergy Power also secured the first full scale Fault Current Limiter contract for the UK grid, in the same month.

In addition on 22nd January 2010 the Group announced an institutional fundraising of £20 million to obtain additional funds to expand its commercial activities and continue its research and development activities.

However since January 2010 the Group has received no further orders for its products and delivery of the Group's order backlog has been protracted for several reasons, including design changes and contractual issues which have increased the financial risks of the Group.

As noted above, in light of the current financial risks the Board has concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products. Despite this the Directors have concluded that in light of the current cash position it continues to be appropriate to prepare the accounts on a going concern basis due to the Group's current strong cash position.

The average headcount for the Group for 2010 was 97 (2009: 93). Incremental personnel were required for 2G wire, and other development.

Since the year end the Group has announced that Converteam had successfully completed static testing of essential elements of its HYDROGENIE generator. HYDROGENIE promises a step change in generator efficiency together with size and weight reductions of up to 70 percent when compared to a conventional solution. This technology could improve the viability of run-of-river hydro as a source of clean, green power as well as being transferable to the wind power industry. The role of Zenergy Power in the project is the joint development, together with Converteam, and production of the core component, the 28 superconducting coils powering the generator. The coils have been successfully operated at a temperature of 50 K and their rated current.

Principal risks and uncertainties

The principal risks and uncertainties faced by the group are set out in the Risk Management section on page 12. Additional information in respect of accounting estimates and judgements can also be found in Note 2 to the Financial Statements.

Directors and Directors' interests.

See Directors remuneration report on pages 17-18.

Employees

The Group is an Equal Opportunity Employer and its policy is to ensure that all employees and job applicants will be given equal opportunities in all aspects of employment and training irrespective of their gender, ethnic origin, disability, age, marital status, sexual orientation or religious affiliation. Zenergy encourages, where possible, the employment of disabled people and the retention of those who become disabled during their employment with the Group.

The Group recognises the benefit of involving employees in target setting and keeping employees informed of progress. Due to the size of the Group, regular consultations with senior management take place. The views of employees are taken into account in making decisions which are likely to affect their interests.

Research and development

Investment in the development of new and improved products and applications and the protection of the intellectual property of such development work is considered key to the further improvement of Zenergy's competitive position. Further details can be found in the Intellectual Property section on page 13.

Proposed dividend

The directors do not recommend the payment of a dividend.

Policy and practice on payment of creditors

The Group does not have a formal code that it follows with regard to the payment of suppliers. It is the Company's and the Group's policy to agree fair terms of payment with each supplier when placing an order. This applies to each class of supplier. Payment is then made to these terms, subject to terms and conditions being met by suppliers. Given the nature of the Company's business, the Directors are of the opinion that the creditor days of the Group is a more meaningful measure; at the year end there were 30 days purchases in trade payables (2009:45 days).

Substantial shareholders

So far as is known to the Company, the only persons who, directly or indirectly, were interested in three per cent or more of the Company's share capital as at 28th February 2011 were as follows:

Shareholder	Number of shares	% of issued share capital
M&G	10,263,000	14.9
Cloverleaf Holdings Limited(1)	8,579,790	12.4
Fidelity	7,217,231	10.5
Ethna Aktiv E	6,760,000	9.8
Scottish Widows	3,754,350	5.4
Jane Capital Partners	2,650,400	3.8
Pictet	2,483,240	3.6

(1) 769,600 of the shares held by Cloverleaf Holdings Limited are held subject to a call option in favour of four members of Zenergy Power GmbH including 345,200 held for Dr Jens Müller.

Directors' liability insurance

The Company maintains liability insurance for the Directors and officers of all Group companies.

Political and charitable contributions

Neither the Group, the Company nor any of its subsidiaries made any political or charitable donations or incurred any political expenditure during the year (2009: €Nil).

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors 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 auditors are aware of that information.

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will take place on Tuesday 24th May 2011 at 9.00 am, at the Company's registered office, One America Square, Crosswall, London, EC3N 2SG.

Going Concern

The Directors confirm that they have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

As noted in the Current Activities section above, in light of the financial risks, the Board has concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products.

Forward looking statements

Certain statements in this annual report are forward looking. Although the Company believes that the expectations contained in such statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed in or implied by these forward-looking statements.

By order of the board

John Poulter
Chairman

One America Square
Crosswall
London
EC3N 2SG

Corporate Governance

The Board is responsible for formulating, reviewing and approving the Company's strategies, budgets and corporate actions. The Directors have responsibility for, and recognise the importance of implementing and maintaining, high standards of corporate governance, and intend that the Company will comply with the Combined Code on Corporate Governance dated June 2010, issued by the Financial Reporting Council ('Combined Code') and the Quoted Companies Alliance's Guidance for Smaller Quoted Companies' in such respects as are appropriate for a company of its size, nature and stage of development.

The Board of Directors

The Company is controlled by the Board of Directors, which currently consists of two Executive and five Non-Executive Directors.

The Directors believe the Board includes an appropriate balance of skills and uses them effectively to provide leadership to the Group.

The role of the Board

The principal responsibility of the Board is to deliver shareholder value and strategic vision and leadership for the Group; it is also responsible for effective risk management and oversight of internal controls.

The Board meets regularly, ten Board Meetings were held in 2010. The Board has a formal schedule of matters referred to it for decision; these include:

- » Meeting Companies Act requirements including the approval of financial statements, dividends and changes in accounting practices and policies;
- » Stock Exchange related issues including the approval of communications to the Stock Exchange;
- » Approval of the company's overall commercial strategy and a review of progress to date;
- » Financial matters including the approval of budget and financial plans, changes to the Group's capital structure, major investments such as capital expenditures, acquisitions and disposals;
- » Other policy matters including health and safety, and operational controls.

Operational control is delegated by the Board to the Executive Directors. Non-Executive Directors are in regular communication with the Executive Directors.

All the Directors have direct access to the advice and services of the Company Secretary and can take independent advice if necessary, at the Company's expense.

Board Committees

Audit Committee

The Audit Committee consists of five Non-Executive Directors and since 1st November 2010 has been under the chairmanship of David Jeffcoat. The Committee meets at least twice a year and more frequently if required. During 2010, 3 meetings were held. The Committee is responsible for monitoring the quality of internal controls, ensuring the financial performance of the Company is being properly measured and reported on, meeting with the auditors and reviewing reports from the auditors relating to accounting and internal controls. Other board members may be invited to attend meetings. The Non-Executive Directors are provided with an opportunity at the Audit Committee meetings to discuss matters with KPMG Audit Plc without the presence of the Executive Directors.

Remuneration Committee

The Remuneration Committee consists of five Non-Executive Directors and is chaired by Tony O'Reilly. The Committee meets at least twice a year and more frequently if required. During 2010, 2 meetings were held. The Committee reviews the performance of Executive Directors and senior management, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders. Other board members may be invited to attend meetings. The Remuneration Committee will also make recommendations to the Directors concerning the allocation of share options to Directors and employees. No Director is permitted to participate in discussions concerning their own remuneration. The remuneration and terms of appointment of Non-Executive Directors are set by the Board as a whole.

Nomination Committee

The Nomination Committee consists of five Non-Executive Directors and is chaired by John Poulter. The Committee leads the process for board appointments. Other board members and external advisors may be invited to attend meetings. The Committee will meet regularly to review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes. The Committee is also responsible for succession planning and identifying and nomination of candidates to fill Board vacancies as and when they arise.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The processes to identify and manage the key risks of the Group are an integral part of the internal control environment. Such processes, which are regularly reviewed and improved as necessary, include strategic planning, approval of annual budgets, regular monitoring of performance against budget (including full investigation of significant variances), control of capital expenditure, ensuring that proper accounting records are maintained, the appointment of senior management and the setting of high standards for health, safety and environmental performance.

The effectiveness of the internal control system and procedures is monitored regularly through a combination of review by management, the results of which are reported and considered by the Audit Committee and external audit.

The system of internal control comprises those controls established to provide assurance that the assets of the Group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. Any system of internal control can only provide reasonable, but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failing to achieve the business objectives of the Group.

Relations with shareholders

The Company is committed to open communication with all its shareholders. Communication is primarily through the Annual General Meeting which shareholders are encouraged to attend and where participation is encouraged so that the Board may answer questions. All shareholders will receive a copy of the Annual Report (electronic or hard copy depending on shareholder preference) and an interim report at the half year will be available on the Company's website. Care is taken to ensure any price sensitive information is released to all shareholders at the same time. The Company aims to provide a full, realistic and timely assessment of its business and operations in a balanced way, in all price sensitive reports and presentations.

Directors' Remuneration Report

The Directors who held office during the year were as follows:

	Appointed	Retired
John Poulter (Non-Executive Chairman)	19 May 2010	-
Michael Fitzgerald (Non-Executive Director)	26 July 2005	7 September 2010
Dr. Jens Müller (CEO, Executive Director)	29 June 2006	-
St. John Anthony ('Tony') O'Reilly (Non-Executive Director)	2 June 2006	-
John Voltz (Non-Executive Director)	2 June 2006	7 September 2010
Karen Chandler (CFO, Executive Director)	28 July 2008	-
Christopher Nash (Non-Executive Director)	28 July 2008	-
Keith Hodgkinson (Non-Executive Director)	3 December 2008	-
David Jeffcoat (Non-Executive Director)	1 November 2010	-

John Poulter and David Jeffcoat who have been appointed Chairman and Non-Executive Director respectively since the last Annual General Meeting, retire in accordance with the articles of association and, being eligible, offer themselves for re-election. The director retiring by rotation is Karen Chandler who is not offering herself for re-election.

The Directors who held office during the financial year had the following interests in the ordinary shares of Zenergy Power plc according to the register of Directors' interests:

	Class of share	Interest at 31 December 2010	Interest at 31 December 2009
John Poulter	Ordinary	50,000	-
Michael Fitzgerald	Ordinary	12,856	-
Dr. Jens Müller	Ordinary	1,134,000	1,124,000
Tony O'Reilly	Ordinary	157,539	151,111
John Voltz	Ordinary	6,428	-
Karen Chandler	Ordinary	25,000	-
Christopher Nash	Ordinary	30,964	-
Keith Hodgkinson	Ordinary	6,428	-
David Jeffcoat	Ordinary	-	-

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

Directors' emoluments

	Year ended 31 December 2010					Year ended 31 December 2009
	Salaries and other emoluments €000	Share based payment €000	Pension €000	Other benefits €000	Total €000	Total €000
John Poulter	73	-	-	-	73	-
Michael Fitzgerald	41	15	-	-	56	56
Karen Chandler	157	-	8	10	175	149
Keith Hodgkinson	35	8	-	-	43	28
Dr. Jens Müller	220	-	11	12	243	215
Christopher Nash	35	8	-	-	43	28
Tony O'Reilly	35	8	-	-	43	28
John Voltz	27	8	-	-	35	28
David Jeffcoat	7	-	-	-	7	-
	630	47	19	22	718	532

All amounts are paid or due.

Directors' rights to subscribe for shares in or debentures of the company and its subsidiaries are indicated below:

	Number of options		
	At start of year	At end of year	Exercise prices p
Karen Chandler	275,000	275,000	97/140.5
Dr. Jens Müller	30,000	30,000	140.5

It was resolved by the Directors at a board meeting on 16th March 2010, that all options previously granted to Non-Executive Directors would be surrendered. The Company resolved to issue shares in lieu of options on the date the annual and interim reports are published each year in line with the original option vesting period. The value of shares to be issued will be based on the closing price on the date the results are published and the value of shares to be granted will be in accordance with the calculated share option value based on the Company's standard option valuation model. It is the Company's intention that options will no longer be used as part of remuneration packages for Non-Executive Directors.

The following shares were issued to the Non-Executive Directors under this scheme:

	Number of shares	Market value of shares on date of issue €000
Michael Fitzgerald	12,856	15
Keith Hodgkinson	6,428	8
Christopher Nash	6,428	8
Tony O'Reilly	6,428	8
John Voltz	6,428	8

In addition to these shares the Chairman, John Poulter, is entitled to receive 25,000 shares per annum to be awarded at the rate of 12,500 (pro-rated for shorter periods) for the period 1st January to 30th June on publication of the interim results and for the period 1st July to 31st December on the publication of the annual report.

As reported in the interim accounts both Chairman and all Non-Executives waived their rights to receive shares for the period 1st January 2010 to 30th June 2010.

At a Board Meeting on 25th February 2011, the Chairman and Non-Executives agreed to waive all further rights to shares from the Company including those contractual entitlements of the Chairman and those shares offered to the Non-Executives when their originally granted share options were waived.

All Directors benefit from Directors and Officers insurance.

Dr Jens Müller entered into a service agreement with Zenergy Power GmbH dated 22 August 2005. In 2007 this contract was amended from a fixed term contract to a rolling contract with six months notice for either party. If the Company terminates employment, compensation for loss of office of a total of 12 months (including 6 months notice period) is payable. Annual base salary was increased to €220,000 in May 2009. Dr. Müller is entitled to an annual bonus of up to 30% of base salary. As determined by the Remuneration Committee; no bonus was awarded for 2010. Dr. Müller is also entitled to 5% pension contributions to his private pension plan and the use of a company car. Dr. Müller entered into an appointment letter with the Company dealing with his position as CEO of the Company in 2006.

Karen Chandler entered an employment agreement as CFO on the 27th September 2006. She has a six month notice period. Her base salary is £135,000 (€157,000) having increased in May 2009 from £93,500. In addition she is entitled to 5% pension contributions to her private pension plan, a car allowance and a bonus of up to 30% of base salary. No bonus was awarded for 2010.

The services of Tony O'Reilly and John Voltz as Non-Executive Directors is provided under the terms of appointment letters between the Company and each of them dated 16 August 2006. Each appointment is subject to termination upon three months notice. Identical service contracts were entered into by Christopher Nash and Keith Hodgkinson and David Jeffcoat on their employment. Non-Executives remuneration was increased from £15,000 per annum to £30,000 per annum in May 2009. In addition David Jeffcoat is paid £5,000 as Chairman of the Audit Committee.

On 19th May 2010 Michael Fitzgerald retired as Non-Executive Chairman, and was appointed as Non-Executive Director on that date. Since 5th January 2010 the services of Michael Fitzgerald as Non-Executive Chairman were provided pursuant to the terms of a consultancy agreement between the Company and Shamrock International Holdings Limited ('Shamrock'). Prior to this date Mr Fitzgerald's services were provided pursuant to an identical consultancy agreement between Cloverleaf and the Company, which was cancelled as part of the re-organisation of Cloverleaf in December 2009. In consideration for procuring the provision of the services of Mr. Fitzgerald as Non-Executive Director, Shamrock has been entitled to receive a fee of £30,000 per annum since May 2010. Prior to this date the annual fee as Chairman was £65,000. The agreement is terminable on three months' notice. In addition Mr. Fitzgerald had an appointment letter with the Company containing equivalent ancillary provisions to the appointment letters of the other Non-Executive Directors.

On 7th September 2010 Michael Fitzgerald and John Voltz retired as Non-Executive Directors.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRS's as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

5 Financial Statements and notes

5 Financial Statements and notes

Independent Auditors' report to the members of Zenergy Power plc

We have audited the financial statements of Zenergy Power plc for the year ended 31st December 2010 set out on pages 28 to 76. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditors' 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 explained more fully in the Directors' Responsibilities Statement set out on page 25, 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 1 to the financial statements concerning the Group's and the Parent Company's ability to continue as a going concern. The group incurred a net loss of €10,106,000 during the year ended 31st December 2010 and on 11th February 2011 the Group announced it had completed a review of the business and strategic options and concluded that the Group's business can best be developed as part of a larger group and has entered into an offer period for the purposes of the Takeover Code. These conditions, along with the other matters explained in Note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Parent Company were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Derek McAllan (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
KPMG Audit Plc,
Arlington Business Park,
Theale, Reading, RG7 4SD,
United Kingdom

Consolidated Income Statement
for year ended 31 December 2010

	Note	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Revenue	1,4,6	2,567	2,437
Cost of sales		(2,991)	(2,038)
Gross(loss)/profit		(424)	399
Other operating income	7	685	894
Sales and marketing expenses		(2,589)	(2,000)
Administrative expenses		(2,942)	(3,054)
Strategic marketing project	9	-	(267)
Research & development expenses		(4,674)	(4,291)
Operating loss	8,10	(9,944)	(8,319)
Financial income	11	325	103
Financial expenses	11	(513)	(289)
Net financing (expense)/income		(188)	(186)
Loss before tax		(10,132)	(8,505)
Taxation	12	26	24
Loss for the Year		(10,106)	(8,481)
Loss per share (Euros)			
Basic and fully diluted loss per share	23	(0.15)	(0.17)

Consolidated Statement of Comprehensive Income
for year ended 31 December 2010

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Loss for the period	(10,106)	(8,481)
Other comprehensive income		
Foreign exchange differences on translation of foreign operations	885	223
Other comprehensive income for the year, net of tax	885	223
Total comprehensive income for the period	(9,221)	(8,258)

Consolidated and Company Balance Sheets
at 31 December 2010

	Note	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Non-current assets					
Investment in subsidiaries	15	-	-	37,941	31,642
Property, plant and equipment	13	2,639	3,452	-	-
Goodwill	14	1,423	1,321	-	-
Other intangible assets	14	8,860	6,308	11	12
		12,922	11,081	37,952	31,654
Current assets					
Inventories	17	1,107	1,198	-	-
Trade and other receivables	18	3,466	2,349	904	32
Cash and cash equivalents	19	15,845	6,900	13,563	4,905
Assets classified as held for sale	5	1,781	-	-	-
		22,199	10,447	14,467	4,937
Total assets	3,4	35,121	21,528	52,419	36,591
Current liabilities					
Trade and other payables	20	(2,908)	(2,702)	(272)	(364)
Liabilities classified as held for sale	5	(73)	-	-	-
	29	(2,981)	(2,702)	(272)	(364)
Non current liabilities					
Deferred tax liabilities	16	(637)	(615)	-	-
Total liabilities	4	(3,618)	(3,317)	(272)	(364)
Net assets	4	31,503	18,211	52,147	36,227
Equity attributable to equity holders of the parent					
Share capital	22	934	738	934	738
Share premium		64,392	42,213	64,392	42,213
Translation reserve		(1,684)	(2,569)	(4,411)	(5,557)
Warrant reserve		200	200	200	200
Retained loss		(32,339)	(22,371)	(8,968)	(1,367)
Total equity attributable to shareholders		31,503	18,211	52,147	36,227

These financial statements were approved by the board of directors on 21st March 2011 and were signed on its behalf by:

John Poulter
Chairman

Consolidated and Company Statements of Changes in Equity

for the year ended 31 December 2010

Group	Note	Share capital €000	Share premium €000	Translation reserve €000	Warrant reserve €000	Retained loss €000	Total equity €000
Balance at 1 January 2009		649	32,050	(2,792)	200	(14,338)	15,769
Loss for the period		-	-	-	-	(8,481)	(8,481)
Other comprehensive income							
Foreign exchange differences on translation of foreign operations		-	-	223	-	-	223
Total comprehensive income for the period		-	-	223	-	(8,481)	(8,258)
Transactions with equity holders							
Equity-settled share based payment transactions	21	-	-	-	-	448	448
Issue of shares	22	89	10,163	-	-	-	10,252
Balance at 31 December 2009		738	42,213	(2,569)	200	(22,371)	18,211
Loss for the period		-	-	-	-	(10,106)	(10,106)
Other comprehensive income							
Foreign exchange differences on translation of foreign operations		-	-	885	-	-	885
Total comprehensive income for the period		-	-	885	-	(10,106)	(9,221)
Transactions with equity holders							
Equity-settled share based payment transactions	21	-	-	-	-	138	138
Issue of shares	22	196	22,179	-	-	-	22,375
Balance at 31 December 2010		934	64,392	(1,684)	200	(32,339)	31,503

The aggregated current and deferred tax relating to items that are charged or credited to equity is €Nil.

Company	Note	Share Capital €000	Share premium €000	Translation reserve €000	Warrant reserve €000	Retained loss €000	Total equity €000
Balance at 1 January 2009		649	32,050	(7,223)	200	(779)	24,897
Loss for the period		-	-	-	-	(1,036)	(1,036)
Other comprehensive income							
Foreign exchange differences on translation of foreign operations		-	-	1,666	-	-	1,666
Total comprehensive income for the period		-	-	1,666	-	(1,036)	630
Transactions with equity holders							
Equity-settled share based payment transactions	21	-	-	-	-	448	448
Issue of shares	22	89	10,163	-	-	-	10,252
Balance at 31 December 2009		738	42,213	(5,557)	200	(1,367)	36,227
Loss for the period		-	-	-	-	(7,739)	(7,739)
Other comprehensive income							
Foreign exchange differences on translation of foreign operations		-	-	1,146	-	-	1,146
Total comprehensive income for the period		-	-	1,146	-	(7,739)	(677)
Transactions with equity holders							
Equity-settled share based payment transactions	21	-	-	-	-	138	138
Issue of shares	22	196	22,179	-	-	-	22,375
Balance at 31 December 2010		934	64,392	(4,411)	200	(8,968)	52,147

The aggregate current and deferred tax relating to items that are charged or credited to equity is €Nil.

Consolidated and Company Cash Flow Statements

for year ended 31 December 2010

	Note	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000	Company Year ended 31 December 2010 €000	Company Year ended 31 December 2009 €000
Cash flows from operating activities					
Loss for the period		(10,106)	(8,481)	(7,739)	(1,036)
Adjustments for:					
Depreciation and amortisation	13,14	939	926	1	1
Foreign exchange gains/(losses)		(366)	(430)	(350)	(326)
Impairment loss on investment in subsidiaries	15	-	-	5,916	
Loss on sale of fixed assets		3	54	-	-
Financial income	11	(325)	(103)	(309)	(96)
Financial expenses	11	513	289	513	287
Equity settled share-based payment expenses	21	189	448	(32)	148
Taxation	12	(26)	(24)	-	-
Operating loss before changes in working capital and provisions		(9,179)	(7,321)	(2,000)	(1,022)
(Increase)/Decrease in trade and other receivables		(1,423)	(447)	(871)	889
Decrease/(Increase) in stock	17	62	(690)	-	-
Increase/Decrease) in trade and other payables		279	724	(92)	(195)
Cash absorbed by operations		(10,261)	(7,734)	(2,963)	(328)
Tax (Paid)/Received		-	-	-	-
Net cash (outflow)/inflow from operating activities		(10,261)	(7,734)	(2,963)	(328)
Cash flows from investing activities					
Interest received		124	34	109	27
Investment in subsidiaries	15	-	-	(11,019)	(11,342)
Proceeds from the sale of fixed assets		17	1	-	-
Acquisition of property, plant and equipment	13	(1,381)	(1,505)	-	-
Development expenditure capitalised and acquisition of other intangible assets	14	(2,175)	(1,369)	-	-
Net cash outflow from investing activities		(3,415)	(2,839)	(10,910)	(11,315)
Cash flows from financing activities					
Proceeds from the issue of share capital	22	22,375	10,252	22,375	10,252
Equity issued for services		-	-	-	-
Net cash inflow from financing activities		22,375	10,252	22,375	10,252
Net increase/(decrease) in cash and cash equivalents		8,699	(321)	8,502	(1,391)
Cash and cash equivalents at 1 January	19	6,900	6,797	4,905	5,872
Effect of exchange rate fluctuations on cash held		246	424	156	424
Cash and cash equivalents at 31 December	19	15,845	6,900	13,563	4,905

Notes

1 Accounting policies

Accounting convention and basis of preparation

Zenergy Power plc (the 'Company') is a company incorporated and domiciled in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value in both the Company and Group financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

Going concern

The accounts are prepared on a going concern basis.

The Group made a loss of €10.1 million in the year ended 31 December 2010 and is forecast to remain loss making in the year to 31 December 2011.

As at 31 December 2010 the Group had cash reserves of €15.8 million.

Cash flow forecasts for a period in excess of a year from the date of approval of these financial statements have been prepared. These forecasts show that both before and after sensitivities, the Group can continue to operate within the limits of the funds currently available for a period of at least twelve months from the date of signing these accounts.

These forecasts are consistent with those used in the impairment testing of intangible assets detailed in Note 14, except that no new orders have been assumed.

In preparing these forecasts the Directors have assumed delivery of current order book only. Personnel and overheads are based on existing levels adjusted as necessary for known or planned changes. Capital expenditure is based on critical items only using third party quotations for significant items. Government grants are based on existing grants in line with the project plan. Working capital assumptions are based on the Group's current experience. Foreign exchange rates are based on spot or forward hedged rates which are in place to cover the financing requirements for the subsidiaries over the period.

The Group has considered potential redundancy cost and other long term commitments in these forecasts. The sensitivities mainly relate to timing of cash inflows on existing contracts. In order to continue in the longer term the Group would however need to raise further capital.

The Board has concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products. In the event that Zenergy is acquired by another Company it is anticipated that the new owners and management will provide finance in order for the Group to continue its current activities. There is, however, significant uncertainty about whether new management will follow the existing plans in detail and whether they might transfer assets and activities out of Zenergy group entities.

In the event that a successful takeover and consequent refinancing is not achieved in the necessary timeframes set by the Board, the Directors will have to reconsider their strategy. The Directors have concluded that the decision to seek strategic alternatives together with other matters described above represents a material uncertainty that may cast significant doubt upon the Group's and Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

New accounting policies and future developments

Adopted IFRS applied for the first time in these financial statements:

» Revised IFRS 3 'Business Combinations'
» IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
» Amendments to IAS 27 'Consolidated and Separate Financial Statements'
» IFRIC 12 'Service Concession Arrangements'
» IFRIC 15 'Agreements for the Construction of Real Estate'
» Amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items'
» Amendments to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition'
» IFRIC 17 'Distributions of Non-cash Assets to Owners'.
» IFRIC 18 'Transfer of Assets from Customers'.
» Improvements to IFRSs (issued 16 April 2009) (effective for annual periods beginning on or after 1 January 2010). The adoption of these standards has had no material effect on the financial statements.

Adopted IFRS not yet applied

The following Adopted IFRS were available for early application but have not been applied by the Group in these financial statements. The adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

» Amendments to IAS 32 'Financial Instruments: Presentation – Classification of rights issue' (mandatory for year commencing on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
» Revised IAS 24 'Related Party Disclosure' (mandatory for year commencing on or after 1 January 2011). The changes introduced by IAS 24 (2009) relate mainly to the related party disclosure requirements for government-related entities, and the definition of a related party.
» IFRS 9 'Financial Instruments' (mandatory for year commencing on or after 1 January 2013). First chapters of new standard on accounting for financial instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard contains two primary measurement categories for financial assets:
  - amortised cost; and
  - fair value.

Financial assets are classified into one of these categories on initial recognition.

A financial asset is measured at amortised cost if the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are measured at fair value.

» IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (mandatory for year commencing on or after 1 July 2010). Deals with how entities should measure equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.
» Amendments to IFRIC 14 IAS 19 'The limit on a defined benefit – assets, minimum funding requirements and their interaction (mandatory for year commencing on or after 1 January 2011). The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
» Improvements to IFRSs (issued 16 April 2010) (adoption dates varies but certain improvements are mandatory for the year commencing on or after 1 July 2010).
» Improvements to IFRSs (issued May 2010) (adoption dates effective from 1 January 2011).

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The functional currencies of the Group companies are as follows: Zenergy Power plc – Sterling, Zenergy Power GmbH – Euros, Zenergy Power Inc – US Dollars and Zenergy Power Pty Ltd – Australian Dollars. The assets and liabilities of the Company and its subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Euros, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are taken directly to the balance sheet translation reserve. The translation differences will be released to the income statement upon disposal.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

Forward contracts are held at fair value based on the rate of exchange at the balance sheet date compared to the rate of exchange in the forward contract.

The functional currency of the Company is Sterling as the Company has a predominately Sterling based cash position and cost base. The results of the Group continue to be presented in Euros.

Share premium

Costs which are directly attributable to the issue of equity securities are written off against the share premium account.

Government grants

Government grants receivable relating to expensed research and development costs are included in other operating income in the same period as the costs which they are intended to compensate are recognised. Government grants relating to capitalised intangibles are netted against the capitalised costs.

Grants received in advance of associated costs are included in trade and other payables, grants receivable in respect of costs incurred at the balance sheet date are included in trade and other receivables.

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a. they include no contractual obligations upon the Company (or Group as the case may be) 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 (or group); 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.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment, in the parent company accounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Group does not have Bank overdraft facilities.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss and is included in financial income/expense.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- » Plant and equipment between 2 - 10 years
- » Fixtures and fittings between 2 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and businesses. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if and only if the product or process is technically and commercially feasible and the Group intends to complete the intangible to use or sell, it is probable the intangible asset will generate future economic benefit, the expenditure attributable to the intangible asset during its development can be measured reliably, the Group has the technical ability and sufficient resources to complete development and future economic benefits are probable. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of direct overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

- » Patents and trademarks 15 years
- » Capitalised development costs 5 – 20 years
- » Software 3 years

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost.

Construction contract debtors

Construction contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date (see the revenue accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Impairment

The carrying amounts of the Group's assets other than, inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary.

Trade and other payables

Trade and other payables are recognised initially at historical cost. Subsequent to initial recognition they are measured at amortised cost.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to the percentage of labour costs incurred to date compared to the expected labour costs to complete the contract. An expected loss on a contract is recognised immediately in the income statement.

Goods sold

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenues represent the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period. Revenue is recognised in the income statement when the goods are received by the customer or the services satisfactorily performed.

Customer loyalty programmes

Customer loyalty programmes are accounting in accordance with IFRIC 13, whereby discounts offered are treated as a separate component of the sale, with that component being deferred until utilised by the customer.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested, foreign exchange gains and losses that are recognised in the income statement (see Foreign Currency accounting policy).

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2 Accounting estimates and judgements

Accounting judgements

The following accounting judgements have been made by the directors in interpreting treatment of amounts included in these financial statement in accordance with IFRS's.

Going concern

See Note 1.

Construction contracts

The directors have determined that the nature of Magnetic Billet Heaters, Fault Current Limiters and superconducting coil sales meet the definition of a fixed price construction contract and hence account for such sales in accordance with IAS 11 – Construction contracts.

Key estimates and judgements

Development rights and capitalised development expenditure

The directors have determined that costs incurred in respect of the Magnetic Billet Heater, Fault Current Limiter and Superconducting Coils meet the IAS 38 – intangible assets tests, (which include: expectation to realistically generate economic benefit, the cost of the asset can be measured reliably, technical feasibility of completing the asset and adequate resources to complete the development and the ability to use or sell the asset,) and have correspondingly capitalised these costs. Development costs incurred in respect of other on-going projects including the development of 2G wire have not been capitalised as the directors consider that at the balance sheet date these projects do not meet all the requirements for capitalisation as set out in IAS 38.

Government grants

In respect of grants relating to research and development the costs of which are included in research and development in the income statement the directors have shown the associated grant income as a component of other income.

Government grants relating to expenditure which qualifies for capitalisation under IAS 38 is netted against the costs expended by the Group, thereby including the net cost to the Group as an intangible addition. The directors could alternatively have shown the grant income as a long term creditor and released this creditor as the intangible asset is amortised. As there no obligation to repay the grants received, the directors concluded the net approach was considered a better accounting reflection.

The following are the key estimates and judgements made by the directors in preparing the financial statements:

Impairment testing and carrying value of goodwill and development rights and capitalised development expenditure

The Group has significant carrying values of goodwill and intangible assets not yet available for use which include development rights and capitalised development expenditure. These assets are held at cost and tested annually for impairment. This requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. The impairment test involves estimation of future cash flows and the selection of a suitable discount rate (see Note 13). See also Going Concern which was assessed based on the same cash flow projections (see Note 1).

Investment in subsidiaries

A review of the carrying value of the investment in subsidiaries in the Company's balance sheet was undertaken as there was an indication of possible impairment. The carrying value of the investment in subsidiaries exceeded the calculated recoverable amount and as a result an impairment loss was recognised.

Construction contracts

The recognition of revenue and profits on construction contracts straddling the year end requires estimation of the total final revenue and profit arising on the contract as well as estimation of the percentage of the contract that has been completed at the year end date. Due to the nature of the contracts being early units technical issues which were unforeseen can arise resulting in additional costs on the contracts (see Note 6).

Share option charge

The fair value in respect of the share options granted to employees has been estimated using a share option valuation model. The assumptions used as inputs to the model are by their nature areas of judgement (see Note 21).

Deferred tax

The decision as to whether deferred tax assets should be recognised in the financial statements in accordance with IAS 12 has resulted in the directors concluding that due to the continuing losses forecast for 2011 there is currently insufficient convincing other evidence that sufficient taxable profits will be available to recover the assets. This is primarily due to the Group's continuing focus on further development areas including 2G and High Voltage Fault Current Limiters, the position will be reviewed each year. No deferred tax asset has been recognised in the Group or Company accounts (see Note 16).

Lease

The Group's lease on the German facility in Rheinbach extends to 2025. The net present value of the lease payments are estimated to be under 90% of the market value of the property. However, it is possible to increase the payments to over 90% if the interest rate is reduced below 5%. In addition the Group has an option to acquire the building, at market price, but the penalty for not exercising this option is only €10,000 and at the time the lease extension was signed and to date the Group is not in a position to secure financing to buy the building. The lease has therefore been accounted for as an operating lease.

Future customer discount

As part of a sales contract in 2009 Zenergy Power agreed to offer the customer future discounts of the value of the contract over a multiple unit future contract. This discount has been accounted for in accordance with IFRIC 13 'Customer Loyalty Programmes' and accounted for the fair value of the discount as deferred revenue. The fair value of the discount has been assessed to be 10% of the contract value.

3 Financial risk management

Overview

This note presents information about the Group's exposure to financial risk and the nature and extent of the risks arising from financial instruments along with the Group's policies and processes for measuring and managing these risks. The risks are managed centrally following board approved policies. The Group operates a centralised treasury function in accordance with board approved policies and guidelines covering funding and management of foreign exchange exposure and interest rate risk. Transactions entered into by the Company are required to be in support of, or as a consequence of, underlying commercial transactions.

The Group does not engage in holding speculative financial instruments or their derivatives.

There have been no changes in the Group's exposure to financial risks, the methods used to measure the risks or its objectives, policies and processes for managing the risks in the year.

Further quantitative disclosures are included in Note 24.

The Group has exposure to the following risks:

Liquidity risk

The key liquidity risk facing the Group is obtaining sufficient funding in the period to commercialisation of products, namely the Magnetic Billet Heater, Fault Current Limiter, superconducting coils for hydro and wind coils and development of 2G.

On 22 January 2010, 16,700,000 new ordinary 1p shares were issued, at a price per share of £1.20, raising £20.04 million (net of fees of £0.8 million), which at the exchange rate prevailing on that date was equivalent to €22.8 million (net of fees of €0.9 million).

As noted in the Current Activities section above, in light of the financial risks the Company faces, the Board has concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products. See Note 1.

Market risks

Currency risk

The Group is exposed to foreign currency risk, notably US Dollar, Australian Dollar, Euro and Sterling. The funds of the Group were raised in Sterling whilst subsidiaries incur costs in local currencies, the Group's objective is to cover the foreign exchange exposure and have certainty as to the cost of funding the subsidiaries. Forward contracts are used to mitigate exchange risk, with hedges and spot purchases put in place to cover up to 18 months currency requirement, based on budgeted cash flows. The Group does not adopt hedge accounting.

Interest rate risk

Surplus funds are invested in short term money market deposits to earn adequate returns on investments, given the current uncertainty in the banking markets, capital security is of paramount importance. The majority of the Group's funds are held with Kölner Bank, Credit Suisse, Deutsche Bank, Bank of the West and HSBC.

Credit risk

The Group currently has a small number of customers. Prior to contracting with a customer credit checks are undertaken, for construction contracts the Group negotiates advance payments in line with the contract progress minimising the Group's credit risk.

Whilst the Group has never had funded programmes that have been awarded in the past, cancelled or curtailed, there is a potential risk of future funds not being obtained, although this is perceived as very low risk.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain a strong investor, creditor and market confidence and to sustain future development of the business. As noted in the Current Activities section above, in light of the financial risks the Company faces, the Board has concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products. See Note 1.

Decisions in respect of financing for the Group will be evaluated on a case by case basis and will largely depend on the expected use of any financing proceeds. Consideration will be given to the current equity price and dilution effect when considering any equity placing. Typically, when available debt will be used for shorter term financing requirements with equity favoured for the longer term financing needs of the Group.

Where bank guarantees are required by customers, facilities to draw against these bank guarantees will if possible be put in place.

The Board is keen that employees are interested in the Company's growth and as such are encouraged to hold shares in the Company through participation in Zenergy Power plc 2006 Share Option Plan. The number of Ordinary Shares which may be utilised within any 10 year period under the Share Option Plan and under any other discretionary/executive share option plans established by the Company shall not normally exceed 5 per cent of the issued Ordinary Share Capital of the Company from time to time. However, up to 10 per cent of the issued Ordinary Share capital of the Company can be utilised for discretionary/executive share option plans provided that at least 5 per cent of the Ordinary Share Capital utilised relates to "super options" (being options the exercise of which requires achievement of a top quartile performance in respect of a pre-defined peer group).

Currently the Group has no external borrowings and working capital is funded from equity. There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

In the medium to long term the Group does not expect to make dividend payments.

4 Operating segments

The Group has four operating segments which are described below, which are the Group's subsidiary entities. The subsidiaries are managed separately and have separate functions within the Group. For each of the subsidiaries the Group CEO, who is considered to be the Group's Chief Operating Decision Maker (CODM) reviews the management accounts on a monthly basis as well as the annual budgets.

The operating segments are as follows:

» Zenergy Power GmbH – is responsible for the manufacture of Superconducting Coils and Magnets which are used in all of the Group's products, as well as sales of the Group's products in Europe. Zenergy Power GmbH is also responsible for the Group's intellectual property strategy and management.
» Zenergy Power, Inc. – is responsible, for the engineering of the Fault Current Limiter as well as for the integration and final assembly of the product which incorporates components from both Zenergy Power GmbH as well as third party suppliers.
» Zenergy Power Pty Ltd – are responsible for the development and design efforts for the Fault Current Limiter including modelling and simulation experiments.
» Zenergy Power plc – is the Group holding Company and is responsible for Group finances and Treasury, Investor relations and marketing as well as sales of the Group's products in the UK.

The accounting policies of all segments are consistent with Note 1.

Information regarding each operating segment, which are also our reporting segments, is included below. Segments are assessed based on revenues and loss before tax, as included in the internal management accounts that are reviewed by the Group CEO. Inter-segment pricing is determined on an arm's length basis.

Information about reportable segments

Year ended 31 December 2010	GmbH €000	Inc €000	Pty €000	Plc €000	Eliminations €000	Consolidated €000
Revenue						
Sales to external customers	1,503	-	-	1,064	-	2,567
Sales to other segments	1,961	1,050	1,221	-	(4,232)	-
Total segment revenue	3,464	1,050	1,221	1,064	(4,232)	2,567
Result						
Segment result being loss from operations	(5,648)	(1,956)	(154)	(1,619)	(567)	(9,944)
Finance income	32	7	4	310	(28)	325
Finance expense	-	-	-	(513)	-	(513)
Loss before tax	(5,616)	(1,949)	(150)	(1,822)	(595)	(10,132)
Tax	-	-	-	-	26	26
Loss for the year	(5,616)	(1,949)	(150)	(1,822)	(569)	(10,106)
Balance sheet						
Segment assets	10,709	6,853	1,388	52,419	(36,248)	35,121
Segment liabilities	(2,335)	(189)	(140)	(272)	(682)	(3,618)
Net assets/(liabilities)	8,374	6,664	1,248	52,147	(36,930)	31,503
Other information						
Capital additions	(1,981)	(1,943)	(115)	-	483	(3,556)
Depreciation and amortisation	(640)	(172)	(59)	(1)	(67)	(939)
Other non cash expenses (share option charge and directors shares)	(134)	(74)	(13)	32	-	(189)
Research and development	(3,724)	(522)	(405)	(23)	-	(4,674)

Year ended 31 December 2009	GmbH €000	Inc €000	Pty €000	plc €000	Eliminations €000	Consolidated €000
Revenue						
Sales to external customers	2,178	259	-	-	-	2,437
Sales to other segments	662	-	748	-	(1,410)	-
Total segment revenue	2,840	259	748	-	(1,410)	2,437
Result						
Segment result being loss from operations	(5,071)	(1,700)	(23)	(846)	(679)	(8,319)
Finance income	3	3	1	96	-	103
Finance expense	(2)	-	-	(287)	-	(289)
Loss before tax	(5,070)	(1,697)	(22)	(1,037)	(679)	(8,505)
Tax	-	-	-	-	24	24
Loss for the year	(5,070)	(1,697)	(22)	(1,037)	(655)	(8,481)
Balance sheet						
Segment assets	8,717	4,821	1,027	36,591	(29,628)	21,528
Segment liabilities	(2,128)	(68)	(141)	(364)	(616)	(3,317)
Net assets/(liabilities)	6,589	4,753	886	36,227	(30,244)	18,211
Other information						
Capital additions	(1,906)	(1,525)	(58)	-	615	(2,874)
Depreciation and amortisation	(603)	(206)	(52)	(1)	(64)	(926)
Other non cash expenses (share option charge)	(202)	(72)	(26)	(148)	-	(448)
Research and development	(3,227)	(140)	(114)	-	-	(3,481)
Strategic marketing	(958)	-	-	691	-	(267)

Information about geographical areas

The operating segments identified above, being the Group's subsidiary entities are organised according to geographical locations, Zenergy Power GmbH is located in Germany, Zenergy Power Inc is located in the USA, Zenergy Power Pty Ltd is located in Australia and Zenergy Power Plc is located in the United Kingdom. The disclosures presented above therefore are also geographical disclosures. Additional geographical disclosures are noted below.

Revenue by location of customer

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Germany	1,360	854
Rest of Europe	1,207	1,327
Other	-	256
Total revenues	2,567	2,437

The Group does not hold assets in any countries other than those countries where the operating segments of the Group are domiciled. The assets of each operating segment are located solely in the country in which the subsidiary is domiciled.

Information about products and services

Revenue by product

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Magnetic Billet Heater	1,503	2,032
Fault Current Limiter	1,064	259
Renewables	-	101
Other	-	45
Total revenues	2,567	2,437

Information about major customers

The Group has three customers (2009: Four) that each individually account for more than 10% of the Group's revenue. In reporting Segment GmbH, there are two (2009: Three) customers each accounting for more than 10% of total revenues as follows: €750,000 and €610,000 (2009: €1,275,000, €476,000 and €274,000). In reporting Segment Inc there are nil (2009: One) customers accounting for more than 10% of total revenue (2009: €259,000). In segment Plc there is one customer accounting for more than 10% of the total revenues of €1,064,000 (2009: nil).

How operating and reporting segments are determined

All reporting to the CODM is prepared at the subsidiary level and are both the Group's operating segments and reportable segments. This is the lowest level of information reviewed by the CODM for the purposes of resource allocation. The Group has three end product areas, namely Magnetic Billet Heater, Fault Current Limiters and Renewables, however for all products Zenergy's component is Superconducting Coils and Magnets which are all produced by Zenergy Power GmbH. Revenues and gross margins are reviewed by product but this is not used for resource allocation purposes all other information is reviewed at a subsidiary level due to the current size of the Group.

5 Assets held for sale/disposal group

The asset group held for sale relates to the 2G HTS activity but since the year end the Directors have announced their intention to find a buyer for the whole company and as a result post year end the asset group is no longer held for sale separately.

As noted in the interim statement the company has reviewed the investment required to scale-up 2G HTS production, the economics of volume manufacture and external assessments of the market potential, which predict that the main volume opportunities are likely to occur in the HTS power cable and wind generation industries. The company has concluded that the investment, timescale, management and financial resources required are too great for Zenergy Power to contemplate realisation itself.

Zenergy Power has appointed financial advisors to engage with companies experienced in the wire and cable universe to negotiate the transfer of responsibility for future scaled commercialisation of 2G wire production. Successful implementation of this strategy would deliver a reward to Zenergy Power shareholders for the substantial investment made in 2G wire development delivered in the form of transfer payments and royalty streams.

The 2G HTS asset group is held in the reportable segment GmbH.

	Group		Company	
	2010 €000	2009 €000	2010	2009
Assets classified as held for sale/disposal groups:	5.2	5.3	5.4	5.5
Property, plant and equipment	1,447	-	-	-
Inventories	28	-	-	-
Trade and other receivables	306	-	-	-
	1,781	-	-	-
	5.6	5.7	5.8	5.9
Liabilities classified within disposal; groups:	5.10	5.11	5.12	5.13
Trade and other payables	(73)	-	-	-

6 Revenue

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Sale of goods and services	13	369
Construction contract revenue	2,554	2,068
Total revenues	2,567	2,437

	Year ended 31 December 2010			
	Revenue €000	Costs incurred €000	Profit/(loss) recognised €000	Advance payments €000
Construction contracts	2,554	(2,979)	(425)	-

	Year ended 31 December 2009			
	Revenue €000	Costs incurred €000	Profit recognised €000	Advance payments €000
Construction contracts	2,068	(1,732)	336	-

7 Other operating income

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Government grants	669	806
Other	16	88
	685	894

8 Expenses and auditors' remuneration

Included in profit/loss are the following charges/(credits):

	Group 2010 €000	Group 2009 €000
Depreciation and amortisation	939	926
Loss on disposal of fixed assets	3	55
Operating lease rental payments	618	512
Research and development expensed as incurred	4,674	3,481

Included on research and development is the Group's work on the proprietary 2G wire programme as well as other development activities which do not yet qualify for capitalisation. The figure included is gross, the value of Government grants for these programmes is shown in Note 7.

Auditors' remuneration:

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	65	61
Audit of financial statements of subsidiaries pursuant to legislation	29	30
Other services relating to taxation	9	8
All other services	4	3

9 Strategic marketing

	Group Year ended 31 December 2010	Group Year ended 31 December 2009 €000
Strategic marketing study	-	267

On the 31st October 2008 the Company contracted Bain & Company to undertake a strategic marketing study for the Group in respect of the Magnetic Billet Heater market, total fees were €958,000. The project was completed in March 2009.

10 Directors and employees

The average number of persons employed by the group (including Directors) during the year, analysed by category, was as follows:

Number of employees	Group Year ended 31 December 2010	Group Year ended 31 December 2009
Production	24	22
Development	40	38
Sales and marketing	12	11
Admin and finance	21	22
	97	93

The aggregate payroll costs of these persons were as follows:

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Wages and salaries	5,864	5,018
Share based payments (See Note 21)	189	448
Social security costs	854	773
Other pension costs	150	38
	7,057	6,277

Details of Directors' emoluments and share interests are shown in the Directors' remuneration report on pages 22-24.

11 Finance income and expense

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Interest income - bank	124	34
Foreign exchange gain forward contracts	196	-
Exchange gains on cash held	-	69
Other exchange gains	5	-
Financial income	325	103
Foreign exchange loss	(513)	(287)
Other interest expense	-	(2)
Financial expenses	(513)	(289)

The foreign exchange loss in 2010 comprises losses on bank deposits held by the Company in non functional currency, notably Euros and US Dollars at the year end which have depreciated against Sterling. Gains on forward contracts, relate to forward contacts in Australian dollars taken out in the year to fund the working capital requirements of the group in 2010 and 2011 which continue to be in the money as the cost of the Australian dollar rises, other exchange gains relate to the gains on accounts payable balances.

12 Taxation

Recognised in the income statement

	Note	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Current tax income/(expense)			
Current period		-	-
Research and development tax credit		-	-
Adjustments in respect of prior periods		-	-
Deferred tax income			
Origination and reversal of temporary timing differences	16	26	24
Total tax income		26	24

Reconciliation of effective tax rate

	Note	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000
Loss before tax		(10,132)	(8,505)
Tax credit using the Group's effective tax rate of 32% (2009: 32 %)		3,032	2,722
Share based payments – deferred tax asset not recognised		(4)	(138)
Effect of tax losses not recognised	16	(3,002)	(2,560)
Total tax income in the income statement		26	24

13 Property, plant and equipment

	Group					
	Technical plant and equipment €000	Motor Vehicles €000	Tennant improvements €000	Office and business equipment €000	Assets under construction €000	Total €000
Cost						
Balance at 31 December 2008	2,768	-	155	505	352	3,780
Other acquisitions	234	19	1,112	140	-	1,505
Transfers	222	-	-	-	(222)	-
Disposals	(116)	-	-	(52)	-	(168)
Effect of movements in foreign exchange	(11)	-	-	23	-	12
Balance at 31 December 2009	3,097	19	1,267	616	130	5,129
Acquisitions through business combinations						
Other acquisitions	143	23	340	172	703	1,381
Transfers	123	-	-	-	(123)	-
Disposals	-	(11)	-	(14)	-	(25)
Effect of movements in foreign exchange	60	1	-	53	-	114
Transfers to assets held for sale	(1,662)	-	-	-	(610)	(2,272)
Balance at 31 December 2010	**1,761**	**32**	**1,607**	**827**	**100**	**4,327**
Depreciation						
Balance at 31 December 2008	(807)	-	(4)	(284)	-	(1,095)
Depreciation charge for the year	(472)	(3)	(52)	(175)	-	(702)
Disposals	84	-	-	28	-	112
Effect of movements in foreign exchange	10	-	-	(2)	-	8
Balance at 31 December 2009	(1,185)	(3)	(56)	(433)	-	(1,677)
Depreciation charge for the year	(491)	(5)	(105)	(163)	-	(764)
Disposals	-	3	-	2	-	5
Effect of movements in foreign exchange	(38)	(1)	-	(38)	-	(77)
Transfers to assets held for sale	825	-	-	-	-	825
Balance at 31 December 2010	**(889)**	**(6)**	**(161)**	**(632)**	**-**	**(1,688)**
Net book value						
At 31 December 2009	1,912	16	1,211	183	130	3,452
At 31 December 2010	**872**	**26**	**1,446**	**195**	**100**	**2,639**

No assets are held under finance leases.

There are no restrictions on title associated with the Group's fixed assets. No assets are pledged as security and there are no contractual commitments to purchase.

The Company has no fixed assets and hence no separate Company fixed asset note is presented.

14 Intangible assets

	Group			
	Goodwill	Patents, Trademarks and licenses	Development rights and capitalised development expenditure	Total
	€000	€000	€000	€000
Cost				
Balance at 31 December 2008	1,341	958	4,586	6,885
Other acquisitions – internally developed	-	-	1,362	1,362
Other acquisitions – externally purchased	-	7	-	7
Disposals	-	(4)	-	(4)
Effect of movements in foreign exchange	(20)	(26)	8	(38)
Balance at 31 December 2009	1,321	935	5,956	8,212
Other acquisitions – internally developed	-	-	2,157	2,157
Other acquisitions – externally purchased	-	18	-	18
Disposals	-	-	-	-
Effect of movements in foreign exchange	102	56	512	670
Balance at 31 December 2010	1,423	1,009	8,625	11,057
Amortisation				
Balance at 31 December 2008	-	(242)	(128)	(370)
Amortisation for the period	-	(102)	(122)	(224)
Disposals	-	-	-	-
	-	2	-	2
Effect of movements in foreign exchange	-	9	-	9
Balance at 31 December 2009	-	(333)	(250)	(583)
Amortisation for the period	-	(91)	(84)	(175)
Disposals	-	-	-	-
Effect of movements in foreign exchange	-	(16)	-	(16)
Balance at 31 December 2010	-	(440)	(334)	(774)
Net book value				
At 31 December 2009	1,321	602	5,706	7,629
At 31 December 2010	1,423	569	8,291	10,283

Amortisation charge

The Group amortisation charge is recognised in Research & development expenses in the income statement to the extent it does not relate to sales made in the period. An allocation of amortisation is included in the overhead rates included in cost of sales.

Goodwill

Goodwill arose on the following acquisitions: Zenergy Power GmbH €170,000, Zenergy Power, Inc. €1,149,000 (US$1,535,000) and Zenergy Power Pty Ltd €104,000 (Australian Dollars 136,000). Goodwill is denominated in the currency of the acquired entity.

Goodwill is tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to the cash generating units which contain the development activities to which the goodwill related. The allocation of goodwill to Cash Generating Units (CGU) represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and are not higher than the Group's operating segments as reported in Note 4.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	31 December 2010	31 December 2009
Zenergy Power GmbH - HTS Products including Coils and Induction heater	170	170
Zenergy Power, Inc. – Fault Current Limiter	1,149	1,066
Zenergy Power Pty Ltd – Fault Current Limiter	104	85
	1,423	1,321

Development rights and capitalised development expenditure

The Group's intangible assets relate to development rights acquired through business combinations and subsequent development expenditure meeting the criteria for capitalisation as required by IAS 38.

Significant expenditure has been incurred during the year in respect of research and development activities. In respect of costs relating to the Magnetic Billet Heater, Fault Current Limiter and superconducting coils the directors have concluded that the expenditure meets the IAS38 criteria for capitalisation and as such these costs have been capitalised, €2,157,000 has been capitalised in 2010 (€4,327,000 of internal costs net of €2,170,000 of grants receivable).

Much of the asset relating to development rights and capitalised development expenditure relates to development projects that are ongoing or not yet in use and as such the Group has not yet commenced amortisation of these assets. As required by IAS 38 the Group has tested intangible assets not yet in use for impairment. The intangible assets have historically been reviewed based on the same cash generating units as the goodwill arising on acquisitions. However in 2010 in conjunction with the strategic review business plans were prepared by product line and as such the intangibles were evaluated compared to the recoverable amount as follows:

	31 December 2010	31 December 2009
Magnetic Billet Heaters	1,228	914
Fault Current Limiters	6,427	4,377
HTS coils for motors and generators	636	415
	8,291	5,706

The recoverable amount of each of the cash generating units has been determined based on the value in use, which was determined by discounting the future cash flows generated from the continuing use of the unit. The value in use in 2010 was determined using a 10 year plan by business unit. Management have used an approved forecast period of greater than five years due to the early stage of the products commercialisation and to reflect the fact that due to the nature of the consumers of the product there is a long adoption cycle. A discounted cash flow analysis was used as this is what management believes is the best evidence to approximate recoverable amount for the product lines. Management could not reasonably approximate a fair value less costs to sell for any of its CGUs. The calculations of the value in use were based on the following key assumptions:

Magnetic Billet Heater

The key assumptions in determining the value in use are based on the Group's 10 year plan. Management's approach to determining the key forecast assumptions are based on order book and expected future contracts based on status of negotiations and future opportunities. Cost assumptions are based on past experience adjusted for known changes and inflation as appropriate.

A five per cent growth rate was included in the calculation of the terminal value.

The significant variables in the key assumptions are sales price, gross margin, unit sales per annum and operating costs. The increase in unit sales volume is the key sensitivity. The growth rates used are considered to be in line with expected market penetration rates for new technology products of a capital nature.

Cash flows have been discounted to their present value using a pre-tax market participant discount rate (Weighted Average Cost of Capital ('WACC')) of 15.4% (2009 16.0%).

The calculated recoverable amount exceeds the carrying amount of the cash generating unit and no impairment is considered necessary.

Fault Current Limiter

The key assumptions in determining the value in use are based on the Group's 10 year plan. They are based on order book and expected future contracts reflecting the status of negotiations and future opportunities. Cost assumptions are based on past experience adjusted for known changes and inflation as appropriate.

A five per cent growth rate was included in the calculation of the terminal value.

The significant variables in the key assumptions are sales price, gross margin, unit sales per annum and operating costs. The increase in unit sales volume is the key sensitivity. The growth rates used are considered to be in line with expected market penetration rates for new technology products of a capital nature.

Cash flows have been discounted to their present value using a pre-tax market participant discount rate ('WACC') of 21% (2009: 21 %).

The calculated recoverable amount exceeds the carrying amount of the cash generating unit and no impairment is considered necessary.

HTS coils for motors and generators

The key assumptions in determining the value in use are based on the Group's 10 year plan. They reflect the current order book and expected future contracts based on status of negotiations and future opportunities. Cost assumptions are based on past experience adjusted for known changes and inflation as appropriate.

A five per cent growth rate was included in the calculation of the terminal value.

The significant variables in the key assumptions are sales price, gross margin, unit sales per annum and operating costs. The increase in unit sales volume is the key sensitivity. The growth rates used are considered to be in line with expected market penetration rates for new technology products of a capital nature.

Cash flows have been discounted to their present value using a pre-tax market participant discount rate ('WACC') of 15.4% (2009 16.0%).

The calculated recoverable amount exceeds the carrying amount of the cash generating unit and no impairment is considered necessary.

	Company Patents, Trademarks and licenses €000
Cost	
Balance at 31 December 2008	14
Effect of movements in foreign exchange	1
Balance at 31 December 2009	15
Effect of movements in foreign exchange	(1)
Balance at 31 December 2010	14
Amortisation	
Balance at 31 December 2008	(2)
Amortisation for the year	(1)
Balance at 31 December 2009	(3)
Amortisation for the year	(1)
Effect of movements in foreign exchange	1
Balance at 31 December 2010	(3)
Net book value	
At 31 December 2009	12
At 31 December 2010	11

The Company amortisation charge is recognised in Administration expenses in the income statement.

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with IAS 38.

15 Investments in subsidiaries

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	2010	Ownership 2009
Zenergy Power GmbH	Germany	Ordinary	100%	100%
Zenergy Power, Inc.	USA	Ordinary	100%	100%
Zenergy Power Pty Limited	Australia	Ordinary	100%	100%

Zenergy Power, Inc. holds 32,500 of its 75,000 issued Ordinary shares in treasury, effective ownership by Zenergy Power plc is 100%. Zenergy Power, Inc. holds 100% of the issued share capital in Zenergy Power Pty Limited.

Movement on cost and net book value of investments in subsidiaries:

	Zenergy Power GmbH €000	Zenergy Power, Inc. €000	Zenergy Power Pty Limited €000	Total €000
Balance at 31 December 2008	10,089	7,246	1,315	18,650
Funding from Company	7,128	2,455	734	10,317
Other intercompany charges/(credits)	402	1,409	(786)	1,025
Share option charge	202	72	26	300
Foreign exchange translation	825	428	97	1,350
Balance at 31 December 2009	18,646	11,610	1,386	31,642
Funding from Company	9,348	1,349	1,525	12,222
Other intercompany charges/(credits)	(2,081)	2,170	(1,292)	(1,203)
Share option charge	134	74	13	221
Foreign exchange translation	574	337	64	975
Impairment loss	(3,591)	(2,096)	(229)	(5,916)
Balance at 31 December 2010	23,030	13,444	1,467	37,941

Other intercompany charges/(credits) relate to amounts settled by subsidiaries on behalf of other group companies in respect of amounts denominated in the currency of the local subsidiary, or intercompany invoices settled by parent.

Foreign exchange translation is the gain arising when translating the investment in subsidiary from Sterling to the Group's presentational currency of Euros.

An impairment of €5,916,000 has been provided at 31st December 2010 following the strategic review of the Group. The impairment is the difference between the net present value of the forecasted cash flows, and the total carrying value of the investment in subsidiaries.

16 Deferred tax assets and liabilities

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Intangible assets				
Patents and trademarks	182	193	-	-
Development rights	455	422	-	-
Deferred tax liabilities	637	615	-	-

Movement in deferred tax during the period

	31 December 2009 €000	Recognised in income €000	Recognised in equity €000	31 December 2010 €000
Intangible assets				
Patents and trademarks	193	(26)	15	182
Development rights	422	-	33	455
	615	(26)	48	637

Movement in deferred tax during the prior year

	31 December 2008 €000	Recognised in income €000	Recognised in equity €000	31 December 2009 €000
Intangible assets				
Patents and trademarks	223	(24)	(6)	193
Development rights	437	-	(15)	422
	660	(24)	(21)	615

The movement recognised in equity relates to foreign exchange differences arising on retranslation of deferred tax balances relating to entities with functional currencies other than the Euro.

Unrecognised deferred tax assets

No deferred tax assets have been recognised in respect of the cumulative losses of the Group or in relation to temporary differences on share based payments, as in accordance with IAS 12 there is currently insufficient convincing other evidence that sufficient taxable profits will be available to recover the assets. This is primarily due to the Group's continuing focus on further development areas including High Voltage Fault Current Limiters and the position will be reviewed each year. The Group's unrecognised deferred tax asset is €11,794,000 (2009: €8,097,000) of which €4,000 (2009: €226,000) relates to temporary differences on share based payments. The unrecognised deferred tax asset in respect of losses is €11,790,000 (2009: €7,871,000). €347,000 (2009: €390,000) of this asset relates to pre-acquisition losses of subsidiaries, the use of €335,000 (2009: €351,000) of these losses is restricted and unwinds by 2014.

No deferred tax asset has been recognised in respect of the cumulative losses of the Company or in relation to temporary differences on share based payments as, in accordance with IAS 12 there is currently insufficient other evidence that sufficient taxable profits will be available to recover the assets, the position will be reviewed each year. The unrecognised deferred tax asset is €1,192,000 (2009: €755,000) of which nil (2009: €19,000) relates to temporary differences on share based payments.

17 Inventories

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Raw materials and consumables	816	1,112	-	-
Work in progress	291	86	-	-
Finished goods				
	1,107	1,198	-	-

€2,991,000 has been recognised as an expense in the year (cost of sales) (2009: €2,038,000). No inventory has been written down in either year.

18 Trade and other receivables

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Trade receivables due from non-related parties	2,344	1,670	763	-
Receivable in respect of Government funded projects	380	329	-	-
Gain on forward exchange contracts held at fair value	95	6	95	6
Other receivables and prepayments	647	344	46	26
	3,466	2,349	904	32

Included within trade and other receivables is €61,000 (2009: nil) for the Group and nil (2009: nil) for the Company expected to be recovered in more than 12 months.

At 31st December 2010 aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to €5,070,000 and €296,000 respectively and €5,366,000 in total (2009: €2,812,000). Progress billings and advances received from customers under open construction contracts amounted to €4,196,000 (2009: €1,391,000) of which €900,000 (2009: nil) was outstanding at the year end.

Advances for which related work has not started, and billings in excess of costs incurred and recognised profits are presented as deferred income and amounted to €303,000 at 31st December 2010 (2009 : €66,000).

19 Cash and cash equivalents/ bank overdrafts

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Bank – current account	962	548	391	187
Bank – deposit account	13,137	5,471	12,985	4,718
Money market deposit	1,746	881	187	-
Cash and cash equivalents per cash flow statement	15,845	6,900	13,563	4,905

Included in the cash balance at 31 December 2010 is €804,000 (2009: €753,000) against which bank guarantees are in place in respect of Magnetic Billet Heater orders. Bank guarantees are typically released on factory test or delivery of the Magnetic Billet Heaters.

20 Trade and other payables

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Current				
Trade payable due to non related parties	419	498	116	96
Advance customer payments	303	66	-	-
Advance payments in respect of Government funded projects	257	389	-	-
Non-trade payables and accrued expenses	1,929	1,749	156	268
	2,908	2,702	272	364

21 Equity settled share based payments

Share-based payments

The Company operates the Zenergy Power plc 2006 Share Option Plan, the principal provisions of which are summarised below:

Options to subscribe for Ordinary Shares of the Company may be granted (at the discretion of the Board or the Remuneration Committee of the Board) to selected employees or directors of or consultants to the Group.

Options may normally only be granted within 42 days of adoption of the Share Option Plan, within 42 days after announcement of the Group's preliminary results or interim results or to an individual within 14 days of that individual becoming an employee or director of or consultant to the Group. However, options may be granted outside this period if the Board consider the circumstances are exceptional.

Options must be granted at a subscription price per Ordinary Share which is at least the greater of:

» Where the option holder owns (or is deemed to own) more than ten per cent, of the issued Ordinary Share capital of the Company at the date of grant of the option, one hundred and ten per cent of the mid-market price of an Ordinary Share on the date of grant of the option;
» Where the above condition does not apply, the mid-market price of an Ordinary Share on the date of grant of the option; and
» 1p (being the nominal value of an Ordinary Share).

No consideration is payable for the grant of an option. Options are not transferable or assignable.

The number of Ordinary Shares which may be utilised under all employee share incentive plans established by the Company shall not exceed 10 per cent of the issued Ordinary Share capital of the Company within any 10 year period. This excludes options granted prior to Admission.

The number of Ordinary Shares which may be utilised within any 10 year period under the Share Option Plan and under any other discretionary/executive share option plans established by the Company shall not normally exceed 5 per cent of the issued Ordinary Share Capital of the Company from time to time. However, up to 10 per cent of the issued Ordinary Share capital of the Company can be utilised for discretionary/executive share option plans provided that at least 5 per cent of the Ordinary Share Capital utilised relates to "super options" (being options the exercise of which requires achievement of a top quartile performance in respect of a pre-defined peer group). No such super options have been granted.

The number of Ordinary Shares over which options may be granted to an individual option holder (ignoring Ordinary Shares which relate to "super options") is normally limited so that the aggregate subscription price paid or payable on exercise of his options, when added to the costs of subscribing for shares under all share option plans (other than savings related plans) in the last 12 months, does not exceed the employee's annual remuneration over the previous 12 months. This limit may be exceeded if, in the Board's opinion, the circumstances are exceptional.

Options will vest (become exercisable) 25 per cent on the expiry of 12 months from the date of grant. Thereafter, an equal percentage of the option will vest each month until the expiry of four years from the date of grant when 100 per cent of the option will have vested.

An option may not be exercised after the expiry of the option period which must not exceed:

» Where the option holder owns (or is deemed to own) more than 10 per cent of the issued Ordinary Share Capital of the Company at the date of grant of the option, the period commencing on the date on which the option is granted and expiring at the close of business on the date preceding the fifth anniversary thereof; and
» Where the above does not apply, the period commencing on the date on which the option is granted and expiring at the close of business on the date preceding the tenth anniversary thereof.

In certain circumstances, the Board has discretion to allow an option to vest earlier (for example on cessation of employment or on a take-over, reconstruction or voluntary winding up of the Company).

The exercise of an option may be subject to the achievement of specific performance conditions to be determined by the Board or the Remuneration Committee.

In the event of a general offer to acquire the whole of the issued share capital of the Company as a result of which the offeror obtains control of the Company, an option holder may, with the consent of the acquiring company, release each subsisting and unexercised option for a new right which is equivalent to his option, but relates to shares in a different company (generally, the offeror). If another company obtains control of the Company then options which are not exercised within a restricted period (ending 40 days after the date of the completion of the Rule 9 Event) thereafter will lapse.

The number and/or class of shares and the subscription price of shares subject to an option may be varied by the Board in the event of a reorganisation of capital (such as a capitalisation or rights issue) subject to an opinion of the auditors of the Company that the variations are fair and reasonable.

The Share Option Plan will be administered by the Board or a Remuneration Committee of the Board. The Board has the power to amend the Share Option Plan, but (a) no amendment may be made which would materially affect the existing rights of an option holder unless it has been approved by a majority of option holders and (b) no amendment may be made to the matters referred to in this summary which is to the advantage of existing or future option holders (other than minor amendments for general administrative, fiscal or regulatory benefit) except with the consent of the Company in a general meeting.

The Board may terminate the Share Option Plan at any time with the effect that no further options may thereafter be granted although in all other respects the Share Option Plan will remain in force. No options may be granted under the Share Option Plan after the tenth anniversary of its adoption. Options granted under the Share Option Plan will not form part of the participant's remuneration for pension purposes.

UK employee options are granted as EMI options up to the EMI limits, currently £120,000.

The terms and conditions of the grants during the year are as follows, whereby all options are equity settled by physical delivery of shares:

Effective date of award	Group Number of instruments	Company Number of instruments	Contractual life of options
1 April 2010	21,915	-	10 years
2 September 2010	89,543	-	10 years
14 October 2010	418,500	7,000	10 years
	529,958	7,000	

The number and weighted average exercise prices of share options for the Group are as follows:

	Group Year ended 31 December 2010		Group Year ended 31 December 2009	
	Number of options	Weighted average exercise price	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	2,477,130	95p	1,858,000	89p
Granted during the period	529,958	40p	669,285	117p
Exercised during the period	(78,830)	30p	-	-
Expired unexercised during the period	(394,410)	101p	(50,155)	216p
Outstanding at the end of the period	2,533,848	85p	2,477,130	95p
Exercisable at the end of the period	1,631,845	82p	1,318,229	74p

The options outstanding at the year end have an exercise price in the range of 21p to 294p and a weighted average contractual life of 8 years.

The number and weighted average exercise prices of share options for the Company are as follows:

	Company Year ended 31 December 2010		Company Year ended 31 December 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the period	785,947	102p	754,947	100p
Granted during the period	7,000	35p	31,000	133p
Expired unexercised in period	(390,000)	101p	-	-
Outstanding at the end of the period	402,947	103p	785,947	102p
Exercisable at the end of the period	323,915	101p	338,053	100p

The options outstanding at the year end have an exercise price in the range of 35p to 205p and a weighted average contractual life of 7 years.

The fair value of options granted was measured using a Hull-White share option valuation model, using the following assumptions as inputs:

Fair value of option at measurement date	32p-138p
Weighted average option price	89p
Expected share price on option exercise	134p-584p
Expected volatility	30-40%
Expected time to option exercise	3.5-8.3 years
Expected dividends	0%
Risk-free interest rate (based on national government bonds)	4.5%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

There are no market conditions associated with the share option grants.

This resulted in a share option charge of €138,000 (2009: €448,000) for the Group and €83,000 credit (2009:charge €143,000) for the Company in the year.

The total expenses recognised for the period arising from share based payments are as follows:

	Group Year ended 31 December 2010 €000	Group Year ended 31 December 2009 €000	Company Year ended 31 December 2010 €000	Company Year ended 31 December 2009 €000
Share option charge	138	448	(83)	148
Shares issued to directors for services	51	-	51	-
Equity settled share based payment expense	189	448	(32)	148

In addition to the share options issued to employees, shares were issued to the non executive directors in lieu of their surrendered options, see Note 22.

22 Capital and reserves

Share capital

Ordinary shares in thousands of shares	Year ended 31 December 2010	Year ended 31 December 2009
On issue at start of period	52,242	44,325
Issued for cash	16,779	7,917
Issued in settlement of services	38	-
On issue at 31 December – fully paid	69,059	52,242

	2010 £000	2010 €000	2009 £000	2009 €000
Allotted, called up and fully paid				
Ordinary shares of £0.01 each	691	934	522	738
Shares classified in equity		934		738

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 5 May 2009 7,916,667 new ordinary 1p shares were issued, at a price per share of £1.20, raising £9.5 million (net of fees of £0.4 million), which at the exchange rate prevailing on that date was equivalent to €10.8 million (net of fees of €0.5 million).

On 22 January 2010 16,700,000 new ordinary 1p shares were issued, at a price per share of £1.20, raising £20.04 million (net of fees of £0.8 million), which at the exchange rate prevailing on the date the shares were admitted to trading was equivalent to €23.3 million (€22.3 million net of fees of €1.0 million).

On 18 March 2010 52,035 shares were issued in respect of an exercise of options resulting in proceeds of £15,611 (€17,461).

On 30 March 2010 38,568 shares, with a value of £44,000 (€49,000), were issued to the non executive directors in lieu of their surrendered options.

On 15 April 2010 26,795 shares were issued in respect of an exercise of options resulting in proceeds of £8,039 (€9,129).

In number of shares	Number of shares ('000)	Net proceeds €000
On issue at 31 December 2008 – fully paid	44,325	22,120
Issued for cash – placing	7,917	10,252
On issue at 31 December 2009 – fully paid	52,242	32,372
Issued for cash – placing	16,700	22,299
Issued for cash – options exercised	79	27
Issued to directors for services	38	49
On issue at 31 December 2010 – fully paid	69,059	54,747

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Warrant reserve

The warrant reserve comprises the fair value of the equity component of warrants issued by the Company. 160,000 warrants to subscribe for Ordinary Shares at par, were issued to Cloverleaf Holdings Limited. These warrants were issued by the Company as a commitment fee for Cloverleaf Holdings Limited making available a €2 million working capital facility at the time of Admission to AIM. The facility was automatically cancelled in May 2007 when the Group raised new funds from an institutional placing.

23 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2010 of €0.15 loss (2009:€0.17 loss) was based on the loss attributable to ordinary shareholders of €10,106,000 (Year ended 31 December 2009: €8,481,000) and a weighted average number of Ordinary Shares outstanding during the period of 68,025,000 (Year ended 31 December 2009: 49,531,000), calculated as follows:

Thousands of shares	Year ended 31 December 2010	Year ended 31 December 2009
Issued ordinary shares at start of period	52,242	44,325
Placing – May 2009	-	5,206
Placing – January 2010	15,694	-
Options exercised	60	-
Shares issued in settlement of fees	29	-
Weighted average number of ordinary shares at 31 December	68,025	49,531

Diluted earnings per share

Share options and warrants have not been included in the calculation of fully diluted earnings per share since these are anti-dilutive. The instruments that could potentially dilute the basic earnings per share in the future, but were not included because they were anti-dilutive for the periods presented are:

Thousand of shares	Year ended 31 December 2010	Year ended 31 December 2009
Warrants	160	160
Share options	2,534	2,513
Total potential dilutive instruments	2,694	2,673

24 Financial instruments

Exposure to currency, interest rate and credit risk arises in the normal course of business.

Qualitative disclosures in respect of the nature and extent of the Group and Company's exposure to risks arising from financial instruments along with the methods used to measure the risks and the objectives, policies and processes employed for managing the exposure are described in Note 3.

Credit risk

The carrying amount of financial assets at the balance sheet date represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Cash and cash equivalents				
Bank – current account	962	548	391	187
Bank – deposit account	13,137	5,471	12,985	4,718
Money market deposit	1,746	881	187	-
Cash and cash equivalents per cash flow statement	15,845	6,900	13,563	4,905
Trade and other receivables				
Trade receivables due from non-related parties	2,344	1,670	763	-
Receivable in respect of Government funded projects	380	329	-	-
Gain on forward exchange contracts held at fair value	95	6	95	6
Other receivables	565	320	42	26
	3,384	2,325	900	32

Receivables in respect of Government funded projects are considered secure as they relate to funded projects that have already commenced in respect of funds ear marked for the specific project. The Group has never experienced non payment of Government funds.

Exposures to financial counterparties arise from the use of derivative financial instruments (forward currency contracts), cash balances and short term deposits. The Group protects itself against the risk of financial loss arising from the failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties.

No collateral or security is held in relation to amounts shown within trade and other receivables, with the exception of bank guarantees, see Note 19. None of the amounts shown are past due or impaired. Trade receivables are all current and due from a small number of customers. There is significant concentration of credit risk by customer and geography although the Group considers the possibility of significant loss in the event of non-performance by a commercial counterparty to be unlikely.

Liquidity risk
The following are the contractual maturities of financial liabilities at the reporting date:

Group 2010	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Non Derivative financial liabilities				
Trade and non trade payables and accruals	(2,348)	(2,348)	(2.348)	-
Derivative financial liabilities				
Forward exchange contracts				
Outflow	-	(1,161)	(586)	(575)
Inflow	95	1,256	632	624
	(2,253)	(2,253)	(2,302)	49

Company 2010	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Non Derivative financial liabilities				
Trade and non trade payables and accruals	(272)	(272)	(272)	-
Derivative financial liabilities				
Forward exchange contracts				
Outflow	-	(1,161)	(586)	(575)
Inflow	95	1,256	632	624
	(177)	(177)	(226)	49

Group 2009	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Non Derivative financial liabilities				
Trade and non trade payables and accruals	(2,247)	(2,247)	(2,247)	-
Derivative financial liabilities				
Forward exchange contracts				
Outflow	-	(463)	(463)	-
Inflow	6	469	469	-
	(2,241)	(2,241)	(2,241)	-

Company 2009	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Non Derivative financial liabilities				
Trade and non trade payables and accruals	(364)	(364)	(364)	-
Derivative financial liabilities				
Forward exchange contracts				
Outflow	-	(463)	(463)	-
Inflow	6	469	469	-
	(358)	(358)	(358)	-

Interest rate risk

At the reporting date the interest rate profile of the Group's and Company's interest-bearing financial instruments was:

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Variable rate instruments				
Cash and cash equivalents	15,845	6,900	13,563	4,905

The Group and Company invests surplus cash in short term money market or deposit accounts, in order to achieve the highest possible interest rates, but having regard to the credit rating of the banking institutions and the currencies required by the Group. The Group or Company currently has no borrowings.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2009.

Group 2010	Profit or loss		Recognised directly in equity	
	100 basis point increase €000	100 basis point decrease €000	100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	158	(158)	-	-
Cash flow sensitivity (net)	158	(158)	-	-

Group 2009	Profit or loss		Recognised directly in equity	
	100 basis point increase €000	100 basis point decrease €000	100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	69	(69)	-	-
Cash flow sensitivity (net)	69	(69)	-	-

Company 2010	Profit or loss		Recognised directly in equity	
	100 basis point increase €000	100 basis point decrease €000	100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	136	(136)	-	-
Cash flow sensitivity (net)	136	(136)	-	-

Company 2009	Profit or loss		Recognised directly in equity	
	100 basis point increase €000	100 basis point decrease €000	100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	49	(49)	-	-
Cash flow sensitivity (net)	49	(49)	-	-

Foreign currency risk

The Group's exposure to foreign currency risk based on notional amounts was as follows.

2010	Euros €000	USD €000	Sterling €000	Australian Dollars €000	Yen €000
Trade and other receivables	2,419	115	904	29	0
Cash and cash equivalents	7,625	1,117	6,566	184	353
Trade and non trade payables and accruals	(1,716)	(189)	(259)	(140)	(45)
Net exposures	8,328	1,043	7,211	73	308

2009	Euros €000	USD €000	Sterling €000	Australian Dollars €000
Trade and other receivables	2,123	177	32	17
Cash and cash equivalents	4,455	1,104	1,223	118
Trade and non trade payables and accruals	(1,693)	(102)	(310)	(142)
Net exposures	4,885	1,179	945	(7)

The Company's exposure to foreign currency risk was as follows based on notional amounts:

Company 2010	Euros €000	USD €000	Sterling €000	Australian Dollars €000	Yen €000
Trade and other receivables	-	-	904	-	-
Cash and cash equivalents	6,427	187	6,566	31	353
Trade and non trade payables and accruals	(13)	-	(259)	-	-
Net exposures	6,414	187	7,211	31	353

Company 2009	Euros €000	USD €000	Sterling €000	Australian Dollars €000
Trade and other receivables	-	-	32	-
Cash and cash equivalents	3,496	139	1,223	47
Trade and non trade payables and accruals	(19)	(34)	(310)	(1)
Net exposures	3,477	105	945	46

The following significant exchange rates applied during the year:

Euro	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD	0.755253	0.719808	0.748391	0.694155
Sterling	1.16609	1.123038	1.16177	0.12599
Australian Dollar	0.693786	0.566309	0.761267	0.624689

Exchange differences arising on the settlement of invoices are taken to the income statement as incurred. Exchange gains or losses on the retranslation of monetary items at the balance sheet date are also taken to the income statement. See Note 11.

Intercompany debt is denominated in the currency of the borrowing subsidiary, as such at the balance sheet date the exchange gain or loss on the retranslation of these debts is taken to the income statement.

Forward contracts have been taken to hedge the foreign currency requirements of the subsidiary entities to cover forward up to 18 months worth of budgeted cash flows. The Company is exposed to Sterling:Euro, Sterling:US Dollar and Sterling:Australian Dollar exchange movements as a large percentage of funds are held in Sterling.

The results of subsidiary entities Zenergy Power, Inc. and Zenergy Power Pty Ltd are denominated in their functional currency, US Dollars and Australian Dollars respectively. Virtually all expenditure of subsidiary entities is denominated in their functional currency. Exchange gains or loss from translation of foreign operations are included as a separate translation reserve in equity in accordance with IAS 21.

The functional currency of Zenergy Power GmbH is Euros, virtually all Zenergy Power GmbH's income and expenditure is denominated in Euros. Certain supplies are purchased from the USA; forward contracts to cover this exposure are taken by the Company in line with budgets.

Sensitivity analysis

In managing interest rate and currency risks the Company and Group aims to reduce the impact of short-term fluctuations on the Company and Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

A strengthening of the Euro, as indicated below, against the US Dollar, Sterling and Australian Dollar would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group consider to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

Group	Equity €000	Profit and loss €000
31 December 2010		
US dollar (10 per cent strengthening)	666	19
Pounds Sterling (10 per cent strengthening)	778	747
Australian Dollars (10 per cent strengthening)	125	3
Japanese yen (10 per cent strengthening)	-	35
31 December 2009		
US dollar (10 per cent strengthening)	330	14
Pounds Sterling (10 per cent strengthening)	458	394
Australian Dollars (10 per cent strengthening)	89	52

Company	Equity €000	Profit and loss €000
31 December 2010		
US dollar (10 per cent strengthening)	-	19
Pounds Sterling (10 per cent strengthening)	-	747
Australian Dollars (10 per cent strengthening)	-	3
Japanese yen (10 per cent strengthening)	-	35
31 December 2009		
US dollar (10 per cent strengthening)	-	14
Pounds Sterling (10 per cent strengthening)	-	394
Australian Dollars (10 per cent strengthening)	-	52

A weakening of the Euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown, on the basis that all other variables remain constant.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are shown below. Due to the short term nature of the assets and liabilities it has been deemed that the carrying amount equals fair value:

Group	Carrying amount 2010 €000	Fair value 2010 €000	Carrying amount 2009 €000	Fair value 2009 €000
Held at amortised cost				
Trade and other receivables	3,371	3,371	2,319	2,319
Cash and cash equivalents	15,845	15,845	6,900	6,900
Assets classified as held for sale	1,781	1,781	-	-
Liabilities classified as held for sale	(73)	(73)	-	-
Trade and non trade payables and accrued expenses	(2,348)	(2,348)	(2,247)	(2,247)
Held at fair value				
Other forward exchange contract	95	95	6	6
	18,671	18,671	6,978	6,978

Company	Carrying amount 2010 €000	Fair value 2010 €000	Carrying amount 2009 €000	Fair value 2009 €000
Held at amortised cost				
Trade and other receivables	809	809	26	26
Cash and cash equivalents	13,563	13,563	4,905	4,905
Assets classified as held for sale	-	-	-	-
Liabilities classified as held for sale	-	-	-	-
Trade payables and non trade payables and accrued expenses	(272)	(272)	(364)	(364)
Held at fair value				
Other forward exchange contract	95	95	6	6
	14,195	14,195	4,573	4,573

Fair values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

» Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
» Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (ie as prices) or indirectly (ie derived from prices).
» Level 3: inputs for the asset or liability that are not based on observable market date (unobservable inputs).

Group	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 December 2010				
Forward exchange contracts	-	95	-	95
At 31 December 2009				
Forward exchange contracts	-	6	-	6

Company	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 December 2010				
Forward exchange contracts	-	95	-	95
At 31 December 2009				
Forward exchange contracts	-	6	-	6

There were no transfers between Level 1 to Level 2 or vice versa.

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2010 €000	Group 2009 €000	Company 2010 €000	Company 2009 €000
Less than one year	450	420	3	3
Between one and five years	1,801	1,384	-	-
More than five years	3,228	3,565	-	-
	5,479	5,369	3	3

Group
During the year €618,000 (2009: €512,000) was recognised as an expense in the income statement in respect of operating leases.

€4,942,000 (2009: €5,274,000) of the total lease commitment relates to Zenergy Power GmbH's facility in Rheinbach, Germany. During 2009 the landlord completed an extension of the facility, in conjunction with this extension Zenergy has extended the lease agreement from July 2015 to July 2025. Zenergy has an option to purchase the facility at market value.

None of the Groups operating leases include payments for non lease elements or contingent rent. There are no restrictions in place in respect of existing lease arrangements.

Zenergy Power, Inc's lease expired in January 2010, in February 2010 a lease for a new premises was entered. The lease has a five year term, at an annual rental of €74,000, increasing each year by 2%.

Zenergy Power Pty Limited entered a new lease on 1st October 2009 which is extendable for one or two years. A one year extension to September 2011 has been taken. The annual rent is €17,000.

Company
During the year €6,000 (2009: €5,000) was recognised as an expense in the income statement in respect of operating leases.

26 Capital commitments

Group
Outstanding capital commitments at 31 December 2010 were €291,000 (2009: €3,000) in respect of contracts to purchase wire and fixed assets.

Company
Outstanding capital commitments at 31 December 2010 were Nil (2009: Nil).

27 Contingencies

There were no contingencies at 31 December 2010 (2009: Nil).

28 Related parties

Zenergy Power plc is the parent company of Zenergy Power GmbH and Zenergy Power, Inc. Zenergy Power, Inc. holds 100% of the issued share capital in Zenergy Power Pty Limited.

During the year the Company has provided equity funding to Zenergy Power GmbH of €4,635,000, Zenergy Power, Inc. €3,593,000 and Zenergy Power Pty Ltd €246,000.

Zenergy Power GmbH has designed and manufactured superconducting magnets for Zenergy Power, Inc. during the course of the year for which invoices of €1,962,000 were raised. Pricing between group companies is on an arm's length basis. There are no balances receivable or payable between Group companies at the year end. Amounts due between subsidiaries have been settled during the year, via Zenergy Power plc. All funding provided to subsidiaries to date have been converted to equity and forms part of the cost of investment.

There are no guarantees in place between Group companies.

Directors of the Company and their immediate relatives control 3.7 per cent of the voting shares of the Company.

Details of the holdings by Director are set out in the Director's report.

Details of the Directors service contracts and remuneration is set out in the Directors' remuneration report.

John Voltz, who served as a Non-Executive Director during the year was an employee of Jane Capital Partners LLC a company in which Jane Lindner the spouse of Woody Gibson (Executive Vice President Sales and Business Development for Zenergy Power Plc) has a controlling interest.

Jane Capital Partners LLC, a company in which Mr Gibson's spouse, Jane Lindner is interested has been reimbursed €8,000 ($11,000) in respect of health insurance arranged on behalf of Woody Gibson in 2010. Woody Gibson ceased to be an employee of the Group on 31st January 2011.

29 Post balance sheet events

These Financial Statements were authorised for issue on 21st March 2011 by the Board.

On 11th February 2011 the Group announced that it has completed a review of the Group's business and strategic options and an assessment of the long term viability of the Group's current overall strategy.

The Company has created a patented portfolio of IP in the area of High Temperature Superconductivity ('HTS') which has been incorporated into a number of industrial power applications which have achieved significant firsts in their respective markets. These included the first industrial HTS product, the Magnetic Billet Heater, and the first HTS Fault Current Limiter installed in the US electrical grid. These achievements and the interest they have generated, coupled with trends in the energy sector, such as the shift towards 'smart grids', have led the Board to conclude that there is significant value in the Group's superconductor technology solutions.

The Directors believe that the funding required to finance Zenergy through the period of commercialising its technology will be substantial and there can be no certainty that the Group would be able to secure such funding.

The Board has, therefore, concluded that Zenergy's business can best be developed as part of a larger group with access to the necessary funding and commercial relationships to enable commercialisation of Zenergy's unique IP and products. Accordingly, the Board has appointed Matrix Corporate Capital LLP and Woodside Capital Partners to seek a purchaser for the Group. As a result, the Company has entered into an offer period for the purposes of the Takeover Code.

On 22nd February 2011 the Group announced that it noted the Converteam's announcement that Converteam had successfully completed static testing of essential elements of its HYDROGENIE generator. HYDROGENIE promises a step change in generator efficiency together with size and weight reductions of up to 70 per cent when compared to a conventional solution. This technology could improve the viability of run-of-river hydro as a source of clean, green power as well as being transferable to the wind power industry.

The role of Zenergy Power in the project is the joint development, together with Converteam, and production of the core component, the 28 superconducting coils powering the generator. The coils have been successfully operated at a temperature of 50 K and their rated current.

Zenergy Power plc
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