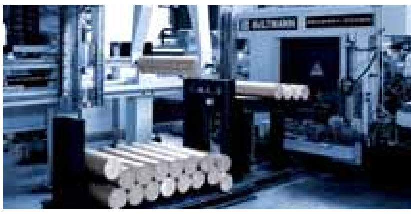
ZENERGY POWER plc
Annual Report 2008



ZENERGY POWER

1 About Zenergy Power

1 About Zenergy Power

Company Overview

Core expertise, key focus and commercial strategy

At Zenergy Power plc ('Zenergy' or the 'Group') we focus on engineering and patenting clean energy solutions centred on the exploitation of the incredible electrical properties of superconductive materials. The Group's key value proposition is to develop a range of patented technology solutions and engineering know-how that define the means with which to enable quantum leaps in the efficiency and performance of industrial scale electrical equipment. By focussing on the design and creation of core superconductive components, Zenergy's commercial strategy is to enter into collaborative partnerships with established industry participants with whom it can rapidly develop and deploy highly competitive energy efficient products into multi-billion dollar global markets.

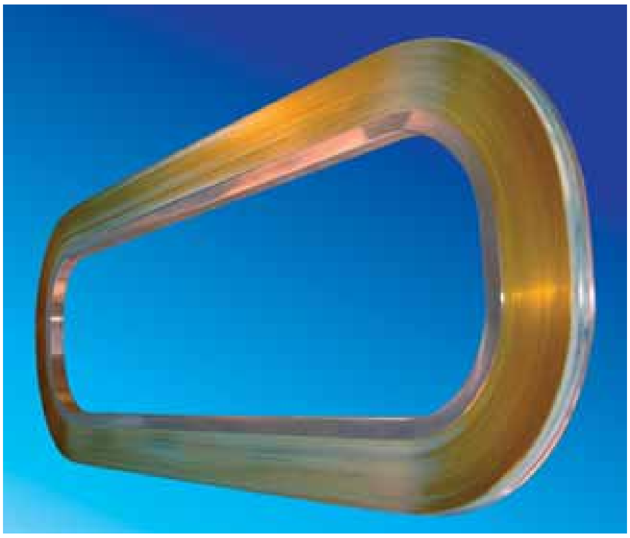
Zenergy Power plc is a UK registered and AIM quoted energy Technology Company comprising three operating subsidiaries located in Germany, USA and Australia. Currently we provide products and solutions for renewable power production, efficient power use and increased power grid reliability and security. Zenergy achieved the world's first sale of an industrial scale commercial application incorporating superconductor technology in 2007.

About superconductivity

Superconductive materials are capable of conducting electricity without any electrical resistance and were first discovered in 1911 in what was to prove to be one of the most significant scientific breakthroughs of the 20th century.

The global market for high efficiency power applications incorporating these incredible materials is substantial and growing, with a number of market studies projecting multi-billion dollar opportunities across a number of clean energy markets. The proliferation of the use of superconductor materials is largely being driven by the following key factors:

(a) Superconductive materials conduct electricity with no electrical losses and so are complementary to energy efficient aspirations as an ideal substitute for traditional copper
(b) Superconductive materials can carry over 100X more electrical power than copper and enable a huge reduction in materials use
(c) Current developments are leading to the production of superconductive wires that are projected to become cheaper than their copper equivalents over the next few years
(d) Power applications incorporating superconductive components are delivering exceptional energy efficiencies and thus reduced power consumption, running costs and carbon emissions
(e) The widespread adoption of superconductors would lead to a significant reduction in CO2 emissions produced by a wide range of industries
(f) Superconductor applications are helping to deliver end consumers more power with increased reliability and reduced raw material usage.



1 About Zenergy Power

Current Activities and core commercial focus

It has been over twenty years since the core development team of Zenergy recognised the profound implications of superconductors' electrical properties. Since that time we have been committed to the development of industrial-scale commercial applications for this technology and are the current market leaders in a number power applications for our technology.

In 2007 we became the first company to ever achieve a commercial sale of an industrial-scale device based on superconductor technology and have since that time grown from strength to strength both in our technical development and our commercial deployment. To date the Group is focused on three main areas of commercialisation for superconductor technology:

Next generation low cost wire (2G)

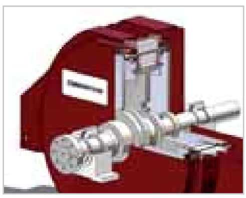
In-house coiling of superconductor wire

Induction Heater
see page 5

Industrial Heating of Metals

Fault Current Limiter ('FCL')
see page 6

Smart Grid Hardware



Coils for Generators
see page 7

Low-cost large-scale Renewable Energy Production

Induction Heaters – Superior Efficiency in Non-Ferrous Metal Processing

Sold to industrial producers of metals goods our induction heaters are setting new standards for productivity, energy efficiency, and process flexibility in industrial aluminium, brass, bronze, and copper processing. The precision and energy efficient heating process softens raw material billets before they are shaped into end products and uses superconductors to deliver:

Benefits:

- 50% reduction in energy consumption together with 25% productivity increase;
- Improved product quality;
- Single block heating system with very short start-up time, highly flexible and cost effective for just-in-time production;
- Energy cost savings alone can amortise purchase price within five years of operation.

"This process is a quantumn leap for the metal processing industry
– as up to 5% of the electricity of industrialised countries is consumed in conventional induction heaters"
[Dr. Fritz Brickwedde, General Secretary of the German Enviromental Fund]

1 About Zenergy Power

Smart Grid Technology

Acting like a firewall, Zenergy'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 significantly reduces the risk of power grid failures and contributes to preparing electricity grids for the wide scale integration of renewable energy production.

Benefits:

- Suppression of overloads, while the downstream power supply is maintained without any interruption and at its regular strength;
- Improved operational reliability of fully stretched grids;
- Greatly reduced risk of large scale "blackout" due to cascading grid failures following a local defect;
- Cost-effective protection of power grid equipment against power surge damages;
- Cost-effective integration of renewable power generation into the grid infrastructure.

Zenergy's Fault Current Limiter with superconductor technology has been put into operation in the United States electricity grid and is the first such device to be adopted by a commercial utility company in the United States.

"Blackouts cost the U.S. economy between $104 bn and $164 bn every year." [EPRI - 2001]

1 About Zenergy Power

Renewable Energy Production

By exploiting the incredible current carrying capability of superconductor wire Zenergy has been developing over a number of years a new generation of lightweight and compact electricity generations designed specifically for reducing the costs associated with the production of renewable energy. We are focussed purely on small hydro power generation and offshore wind generation and are due to see E.On AG make the landmark installation of the first of these superconductor generators this year. Also within our hydro activities we are currently carrying out a wide spread technical evaluation for RWE AG.

Within offshore wind we are currently in conjunction with Converteam SAS, developing a 10MW class of lightweight superconductor generators that are set to eliminate the use of complex gear-boxes in wind turbines and dramatically reduce the costs of deploying offshore technology.

Benefits:

- 25% reduction in cost of offshore wind power production
- Improved reliability and lower maintenance owing to greatly improved thermal management;
- Improved grid stability due to unique electrical properties of superconductors.

1 About Zenergy Power

Awards 2008

Hermes Award

In April 2008 the Group was the proud recipient of the coveted Hermes Award. Regarded as one of the most prestigious annual technology prizes, the Hermes Award was presented to Zenergy at the opening of the 2008 Hannover Fair for its groundbreaking superconductor induction heater; the first industrial application of its kind to employ superconductor technology.

The Award was presented to Zenergy, in conjunction with its collaborative manufacturer Bültmann GmbH, at the opening ceremony of the Hannover Fair on 20th April 2008 in the presence of distinguished guests notably including the German Chancellor Dr. Angela Merkel. The Hannover Fair was first established in 1947 and is the world's largest annual industrial technology exhibition, incorporating 10 flagship international tradeshows and over 6,400 exhibitors, which in turn attracts in excess of 240,000 visitors.

In addition to the honor of being only the fifth company to receive the Hermes Award, Zenergy is the beneficiary of what is acknowledged as the most generous international industrial prize of €100,000. The Award is presented to the most exceptional new technical product that demonstrates substantial commercial benefit and has either undergone rigorous industrial trials or reached the industrial application stage.

The Group's superconductor induction heater was chosen over a short-list of five finalists that were carefully selected from over 50 initial nominations from across a broad range of technologies.

At the presentation of the Award, Dr. Annette Schavan, German Federal Minister for Education and Research, commented:

`Zenergy's superconductor induction heater is contributing towards the fight against climate change and helping to safeguard the environment. It clearly demonstrates that the classical engineering and electro-technical industries are proving to be successful partners in our attempts at climate control.'

HERMES
AWARD
2008

AIM Technology Company of the Year 2008

In October 2008, Zenergy was presented with the Technology Company of the Year Award at the AIM Awards Dinner. Zenergy beat stiff competition from Accsys Technologies plc; Advanced Medical Solutions Group plc and Endace Ltd.

The AIM Awards, now in its twelfth year, is sponsored by PricewaterhouseCoopers, in association with The London Stock Exchange. The AIM Awards Dinner, which recognises outstanding individuals and companies quoted on the market across a range of categories, is the blue ribbon AIM event of the year, providing a forum for the AIM "club" to meet and celebrate the success of the previous year.

The criteria for the Best Technology is - 'The winner of this award will be a company which reflects the innovation and entrepreneurial skills that are the cornerstone of the AIM culture. The technology concerned does not have to have been proven. Obviously this is, potentially, a high risk award, given the innovative nature of the subject matter, and the Voting Panel will be aware of, and make allowances for, this fact.'

The AIM Awards Dinner 2008

CleanEquity Monaco 2008

In March 2008, Zenergy was also proud to be awarded the 'Excellence in the Field of Environmental Technology Development' at the CleanEquity Conference in Monaco.

CleanEquity Monaco 2008

2 Chairman's Statement

Chairman's Statement

It is with great pleasure that I present my report on a year that has been shaped by some of the Group's most significant technical achievements to date. Looking over the year the cumulative impact of these achievements has been to establish a growing recognition of the substantial improvements in energy efficiency and electrical performance that can be gained through the adoption of our superconductor technology. This recognition is testament to our world class in-house engineering capabilities that we continue to focus on the practical and commercial needs of our end-customers. Moreover, our strategy of focussing on the development of high-value superconductor components, employed at the heart of a number of industrial applications, has enabled us through the year to remain on track with our commercialisation objectives. Accordingly, we have continued to work closely with our collaborative partners to rapidly commercialise and bring to market a range of highly competitive energy efficient products that are capable of delivering measurable, proven and value-enhancing energy performances to our customers.

Perhaps most significantly, we saw in the Period the first installation of one of our superconductor products into a customer's commercial premises. The installation of our superconductor induction heater also marked a first for our industry, as never before had an industrial-scale device employing superconductor technology been adopted into an existing large-scale manufacturing operation. Subsequent to this landmark achievement, we were further encouraged by the machine's operating performance which exceeded all expectations of the customer and ourselves by delivering not only dramatic energy savings, but also significant productivity increases.

Elsewhere, the Group made significant progress in the development of both its Smart Grid Technology products and its Renewable Energy Technology products. In relation to both of these product areas, I was delighted to see us achieve the all important third party validation of our technology. Building on these success we have now progressed to delivering what will be the first full scale units of both these products. In relation to our Smart Grid Technology we successfully tested our first full-scale Fault Current Limiter ('FCL') under the observation of a number of the largest U.S. utility companies and were subsequently invited to deliver the device for installation into the Californian electricity grid. Within our Renewable Energy Technology activities we had our first full-scale superconductor coil tested and validated by our development partner, Converteam SAS, and we are now on course to deliver the remaining coils that will be used to construct a hydro-generator for installation by E.On AG into a commercial hydro site located in Bavaria, Germany.

But in reviewing the year it is equally important, and encouraging, to note the fundamental and profound shift that has occurred within our target markets as a result of a worldwide ubiquitous government-led push for renewable and clean energy solutions. The routes of this shift are perhaps embedded in the events of 2007 that saw the world's financial markets begin to unravel amid a well publicised global credit crunch. As we progressed through 2008, we witnessed these events begin to impact on the real economy as economic growth quickly receded into recession and productivity contracted. This rapid and severe contraction in the private sector has brought the world's governments to the forefront of our economies and they in turn have focussed on developing the renewable and clean energy industries. As we progress, there is little doubt that government intervention and government spending will play the defining role in driving the economy through the current financial turmoil and even less doubt about the new enlarged role that clean energy will play within our economy as it emerges from this recession.

As we look to 2009 we can only do so with confidence and anticipation. It has now been two-and-a-half years since the Group listed on the London Stock Exchange and very few could have predicted the huge shifts that have taken place within the world's economies since that time. These have placed the renewable energy industry in the centred and formidable position that it finds itself today. 2008 can be defined as the year in which a paradigm shift occurred in the perception of the renewable and clean energy industries which in turn led to a fundamental increase in the importance now being conferred upon them to provide the means of sustainable economic and social development. This move from the periphery to mainstream consciousness and commercial industry is today manifesting itself in the type of capital investment, public policy commitment and regulatory change that will lay the foundations from which our target industries can flourish.

Institutional Fundraising

Following the close of the Period we approached a number of new and existing institutional investors to raise further capital in response to the commercial opportunities we can see arising as a consequence of the U.S. and other government spending on stimulus packages aimed at the clean energy sectors. Accordingly, I am pleased to report that we were successful in raising an additional £9.5 million for the Group by way of a Placing. As reported at the time, the main rationale behind this Placing was to enable the Group to take full advantage of two particular stimulus proposals within the American Recovery and Reinvestment Act of 2009 that we anticipate will have a direct impact on the Group's sales efforts.

1) The U.S. Government's commitment to provide a 50 per cent. funding programme for electricity utility companies investing in smart grid technology; and

2) The U.S. Government's commitment to provide a 50 per cent. funding programme for industrial businesses making investments in energy efficient technology capable of reducing energy consumption by 25 per cent..

It is the belief of Zenergy's Director's that these two U.S. Government funded schemes will have clear implications for commercial prospects of the FCL and the induction heater. Our engagement by The Consolidated Edison Company of New York shortly after the close of the Period also highlights the commercial opportunities we have in the United States and our ability to raise these funds at this time clearly demonstrates the wider support that exists for the exciting work that we are doing in the field of superconductivity.

I would like to thank everyone who has contributed to the progress that we have made in these past two-and-a-half years which has placed us in the advantageous position we find ourselves today, from where we can fully benefit from the huge growth occurring within the global clean energy markets. I have no doubt that we are, with the additional funds now available to us, better placed than ever to realise our great potential as we begin to deliver superconductor based energy solutions to our target markets.

Michael Fitzgerald
Chairman

11th May 2009

3 Business Review

Chief Executive's Report 2008

Summary

Overall, 2008 can be considered to be the year in which our technology left our research and development facilities and entered into the real commercial world.

As I go into more detail below we will see that this was achieved through both commercial sales and rigorous third party testing and validation. In both instances, the outcome underlines the same significant fact; that our technology has proven itself capable of living up to, and beyond, our expectations in both laboratory and real-world conditions. The importance of this 'real-world' operation cannot be overstated and already we have been able to progress a number of commercial discussions as a direct result of the technical achievements of 2008.

Our corporate drive and motivation is based around our technology's capability to lead a revolution in the electrical performance of industrial scale equipment and throughout 2008 we continuously demonstrated and documented the impact that superconductors can have on the economic viability of a clean energy economy. To this end, it is highly encouraging to see that in every instance in which we have subjected our technology to third party validation it has performed at least as well as we had anticipated and proven in real terms the significant implications of its electrical properties.

At Zenergy we focus on the development of core high-value superconducting components designed and engineered to be adopted into multiple product applications for commercial exploitation in a number of different energy markets. There are numerous advantages to this focussed approach and in 2008 we achieved significant progress across all of our commercialisation activities as a result of them:

Assessing this focussed approach from a technology development perspective we see the main advantage as being the emergence of a growing overlap of know-how and expertise between different products as we focus on the core components common to those products. This focus on core superconducting component engineering has enabled us to develop a number of different clean energy applications without overstretching our internal resources. In fact, what we have experienced in 2008 is that the technical progress achieved over a number of years during the development of one application can often mean de facto progress on other applications in the future. Accordingly, we achieved some of our most significant technical breakthroughs during the year that led to not only the launch of our second commercial product, but also the technical validation of our third. Both of these achievements were especially important to the Group as they involved a substantial level of third party evaluation of our technical abilities by not only by our commercial partners and end customers, but also by industry regulators, analysts and standard bearers. The cumulative impact of this progress has been to position us as one of the most accomplished experts in the field of developing and commercialising superconductor energy technology whilst at the same time also conferring a substantial level of credibility upon our commercial products.

Moving on to assess our focussed approached from the perspective of an overall commercial product development strategy we note the main advantage as being our ability to enter into several different global product markets in quick succession. 2008 witnessed a deepening recession in which we immediately began to reap the benefits of our ability to address multiple markets. Looking to our first commercial product, the induction heater, we can expect a slower than hoped for uptake in the short-term as industrial businesses assess their capital expenditure plans. However, looking to our second commercial product, the Fault Current Limiter, we can now expect a much faster than expected uptake in the short-term as a result of the substantial proposed stimulus packages in the United States and their specific focus on clean energy and electrical grid expenditure. In this respect, our focus on developing the core superconducting components has led to the mitigation of the slow down in the metals industry by our ability to capture the significantly enlarged opportunity within the Smart Grid industry in the United States. Looking to our third product, the superconductor hydro-generator (due for initial installation into E.On AG's commercial hydro-power dam in Bavaria December 2009) we can also expect the growing regulatory pressure on renewable energy production levels to benefit us in the short- to medium-term.

Looking from a corporate development perspective we see the advantage of our focussed approached manifesting itself in a growing level of recognition, trust and faith that we and our technology receive from industry participants, regulators and government bodies. It is worth noting that in this respect it is not just the fact that we focus on superconducting components that is important; but more that these components govern the fundamental performance characteristics of the products that they are used in. For instance, it is our patented superconducting coils used in the induction heater (developed in conjunction with our manufacturing partner, Bültmann GmbH) that enable the 50% reduction in electricity consumption and the 25% increase in productivity; it is our patented superconducting coils used in the FCL's (developed in conjunction with our manufacturing subcontractor T&R Electric Inc) that enable the handling of huge power surges multiple times a second; it is our patented superconducting coils used in the hydro generators (built in conjunction with our collaborative partner, Converteam SAS) that enable the significant increases in electrical efficiency and power output of hydro-dams; and, it is our patented superconducting coils used at the heart of wind generators (also being developed in conjunction with our collaborative partner Converteam SAS) that will enable the cost reduction of offshore wind power production by 25%. It is the fact that our patented components have the ability to bring about these substantial improvements in electrical performance of industrial equipment that has led to us being able to establish numerous valuable collaborations and partnerships with some of the world's most established and revered global companies.

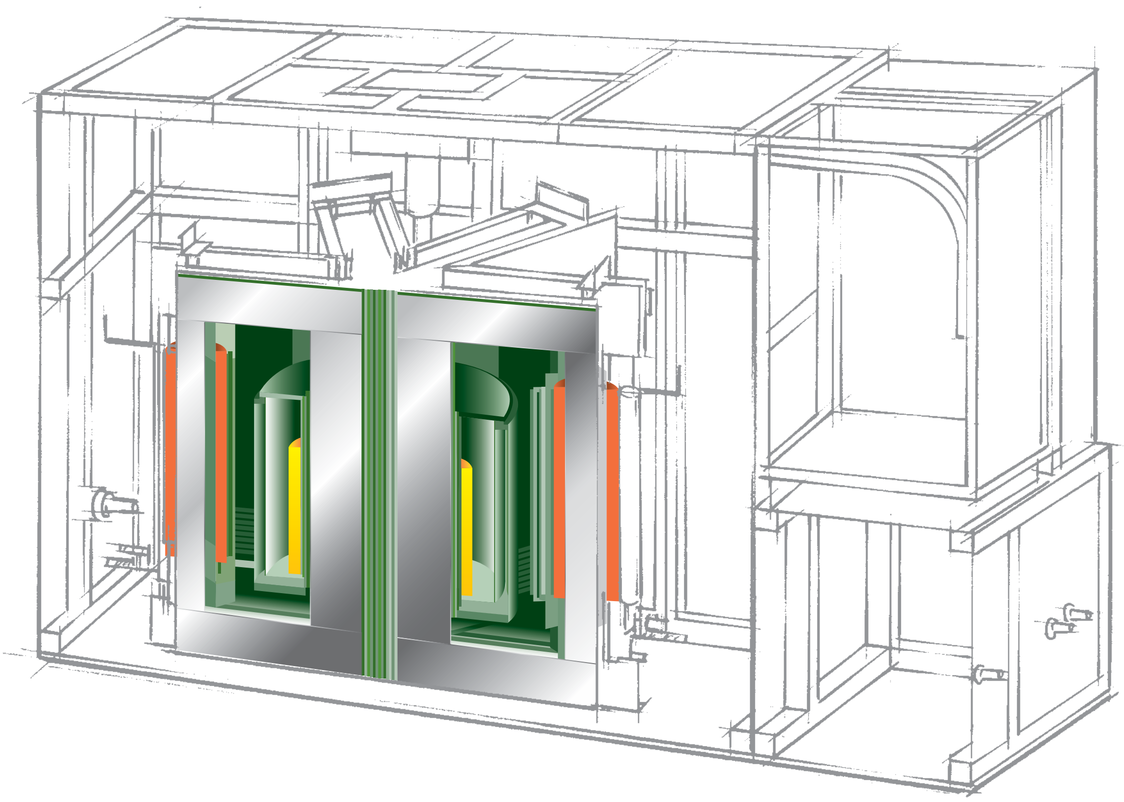
Overall, as we review 2008 we can see that our strategy of focussing on core superconducting components is bringing about the rapid emergence of our first set of industrial products employing superconductive technology. Below I focus on our 3 main product areas and briefly summarise the main points of progress made through the year.

3 Business Review

Smart Grid Technology

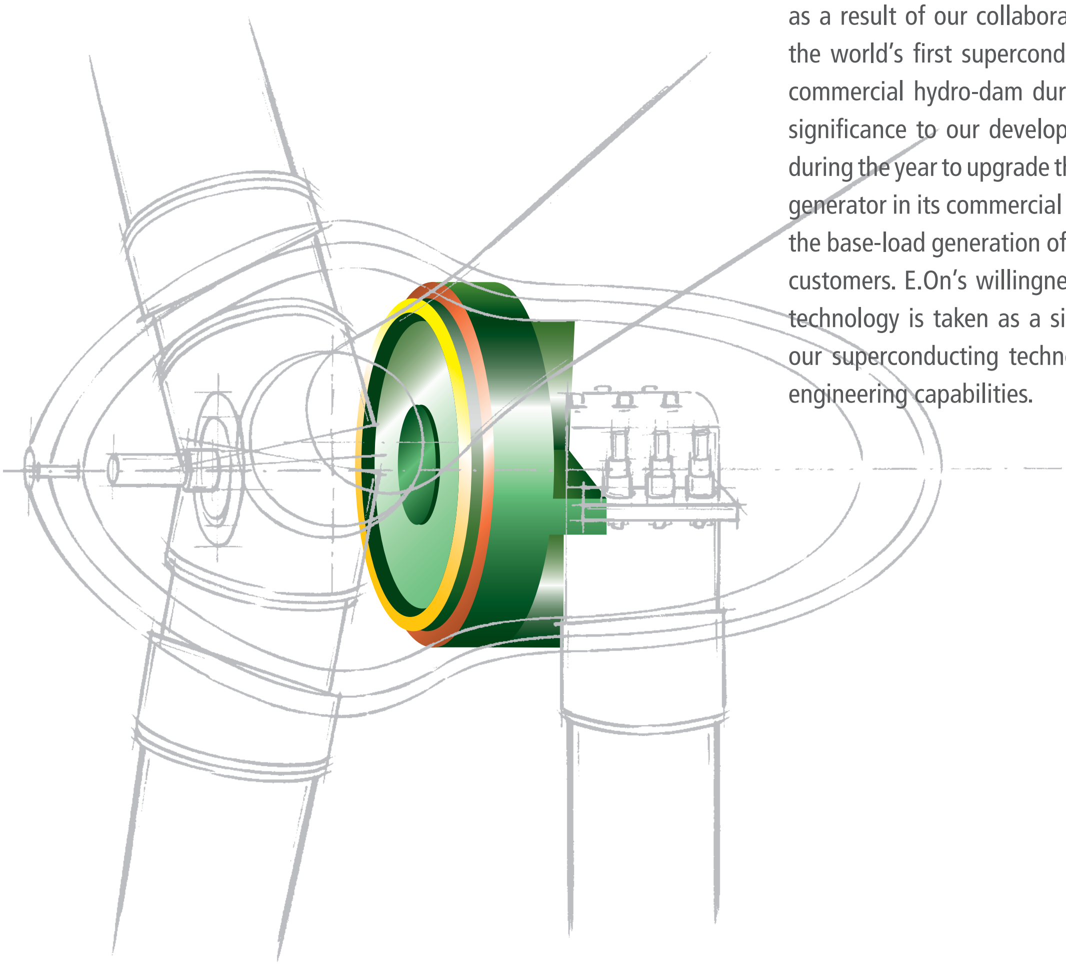
During the course of the year we saw the launch of our second commercial product, the Fault Current Limiter. This was a particularly important milestone for the Group because of the tremendous commercial potential that is currently emerging in the United States as a result of the huge amounts of investment and government funding that grid technology is now receiving.

Our superconductor FCL represents one of the few technology solutions that can directly protect electricity grids from damaging power surges and during the year was approved for installation into the United States electricity grid. Accordingly we delivered the first unit to Southern California Edison ('SCE') who, following rigorous rounds of pre-installation tests, cleared the unit for installation in the first quarter of 2009. This unit has now been successfully installed into the Avanti distribution circuit of SCE's electricity grid and is the first such superconductor FCL device to ever be installed and operated in the United States grid. Since this landmark installation we have now been contracted under commercial terms by Consolidated Edison of New York (the Unites States' largest investor owned utility company) to build and test a demonstration device specifically for the needs of their New York City grid system.



Renewable Energy Generators

Our business proposition within renewable energy production is a simple one; as is our technology's value add. In summary, we are using our core high performance superconducting coils to replace the bulky and inefficient copper coils found in existing generator designs. In doing so we enable a new class of electricity generator capable of significantly reducing the cost of producing renewable energy. We are able to achieve this by exploiting the incredible current carrying capability of superconductive materials - which can carry over 100X the amount of electricity as compared to copper - to produce generators that are substantially smaller and lighter than those produced today. The significance of this is substantial when it is considered that a conventional 6MW direct-drive copper generator used in offshore wind turbines weighs over 400 tonnes and is approximately 9 metres in diameter. In contrast, generators developed using superconducting coils will be just one sixth of the weight of and one third of the size. Particularly important when considering the logistical challenges of constructing and maintaining offshore wind turbines.



Collaboration

In 2007 we entered into an exclusive co-operation agreement with Converteam SAS (formerly Alstom Power Conversion) to jointly develop superconductor generators for the hydro-power and wind power markets. Since that time we have enjoyed numerous development, engineering and design success as a result of our collaborative efforts and are due to install the world's first superconductor hydro-generator into E.On's commercial hydro-dam during December 2009. Of particular significance to our development efforts, was E.On's decision during the year to upgrade the generator to be the pole position generator in its commercial dam; thus it will be responsible for the base-load generation of electricity for over 3,000 of E.On's customers. E.On's willingness to entrust its reputation in our technology is taken as a significant endorsement not just of our superconducting technology but also of our design and engineering capabilities.

3 Business Review

2G Wire Development

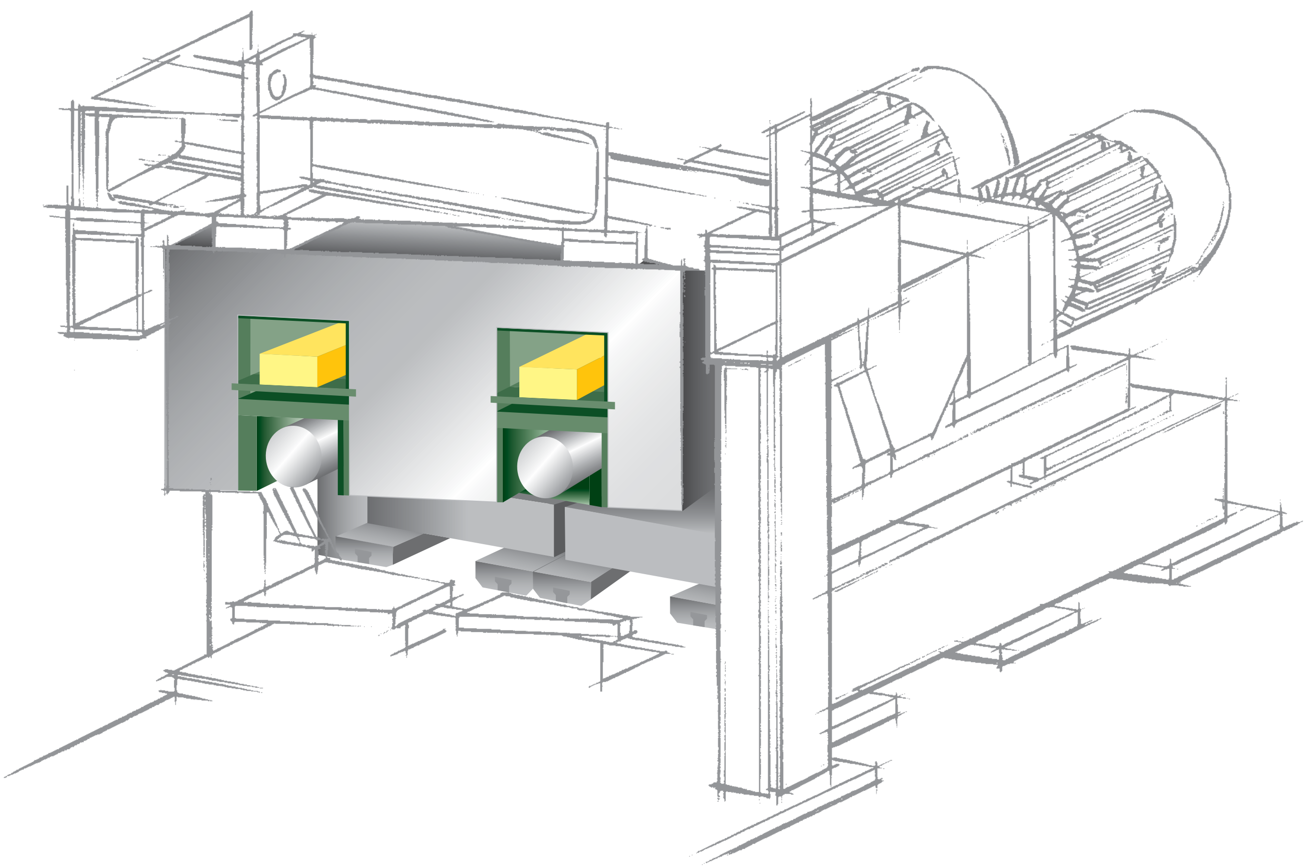
With regard to the massive growth in demand we expect for renewable power generation, Zenergy has been committed to the development of proprietary lower-cost production techniques for a second generation of superconducting wire know as 2G wire. Unlike existing 1G wire, 2G wire will not use silver, and in the case of Zenergy's proprietary 'all chemical' process, will be mass manufactured using continuous thin film production techniques. 2008 was another progressive year for our research programme during which we achieved significant improvements in wire quality and consistency. Most significantly during the year, we entered into an exclusive joint development agreement with Honeywell Specialty Materials ('Honeywell'). Under the agreement, Honeywell will now work with us to develop a number of the chemical precursors that will be required in the volume production of our 2G wire.

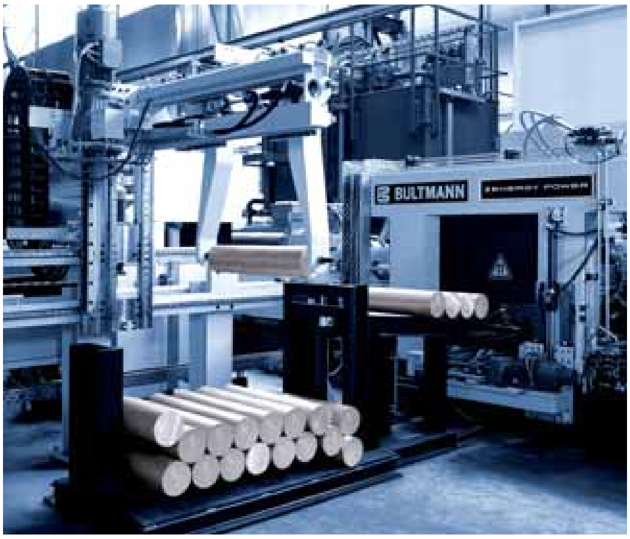
This agreement is particularly important to our 2G strategy as, when combined with our existing exclusive arrangement with ThyssenKrupp VDM, it secures us the volume supply of all the highly specialised chemical and raw materials required for our intended mass manufacturing of 2G wire.

Induction Heaters

The third and most mature of our current commercial products is the superconductor induction heater which is used within the metals industry to heat (and therefore soften) metal billets prior to extrusion. Our superconductor induction heater continues to represent a substantial commercial opportunity to the Group despite the current downturn in the metals industry. But of equal importance to the Group is the role that the induction heater has played in demonstrating the commercial viability of industrial scale devices based upon superconductor technology. The order for our first induction heater in the third quarter of 2007 represented the first ever sale of a commercial industrial scale device based upon superconductor technology. The significance of this cannot be overstated as the single most important validation for any emerging technology is to achieve initial commercial traction and deployment into real world operating environments. In both of these respects 2008 has, in spite the tough economic environment, been our most progressive year to date for the induction heater.

The momentum for our induction heater in 2008 began in March when we were successful in securing our second





commercial sale to a prominent multi-billion Euro global copper producer. This sale was then followed by the completion of the installation of the first ever superconductor induction heater into our first customer's industrial premises. The result of this is that as of July 2008, we have been able to show potential customers our ground-breaking machine in operation in commercial premises. This is a significant factor in de-risking our technology in the minds of those customers. To date, we have received requests from over 25 major metals producers to visit the machine in Weseralu's facilities and have entered into a number of commercial discussions as a consequence. These are ongoing and I expect them to make a positive impact during the course of 2009.

To round off another great year for the induction heater, we were delighted in October of 2008 to receive from our first customer a summary of the installed machine's operational performance that showed it had reduced its energy consumption by 50% and also increased the productivity of its extrusion line by 25%. These results from Weseralu GmbH exceeded our expectations and spell out clearly the economic and environmental benefits of our superconductor induction heater.

2009 Outlook

As summarised at the beginning of my report, 2008 can be seen as the year in which our technology commercialised and gained widespread third party validation. Looking to 2009 I expect the proven capability of our ground-breaking superconductor energy technology to gain growing commercial traction within all of our target markets. Looking at the levels of activity within our target markets, and especially in relation to the clean energy markets, I expect this commercial traction to lead to further commercial sales, further collaborative partnerships and possible new ventures for the Group.

Jens Müller

Dr. Jens Müller
Chief Executive Officer

11th May 2009

Financial Review

Key highlights

During the year the Group generated revenues of €2,028,000 (2007: €268,000).

During the year the Group made a loss of €5,272,000 (2007: €5,237,000) 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 HTS wire. The number of customers and potential partners has escalated. Consequently, the directors look forward to the future with confidence.

Cash at 31 December 2008 was €6,797,000 (2007: €17,746,000). On 29th April 2009 the Company announced a placing raising €10,670,000 (£9,500,000) (€10,221,000 (£9,100,000 net of expenses) by way of placing 7,916,667 new Ordinary Shares at a price of 120p with a number of new and existing institutional investors.

Revenue

The significant increase in revenue in 2008 was due to the delivery of the first induction heater to Weseralu in July 2008, the recognition on percentage of complete of a second induction heater, scheduled for delivery in Q4 2009 and the completion of the wire contract for Converteam.

At 31 December 2008 the Group's order book included a second induction heater partially recognised in 2008, coil order for Converteam for a scaled wind generator and the upgrade to the hydro generator order for E.On.

Since the year end the Group has received orders from:

- RWE Power AG ('RWE') to draft a study evaluating the potential increase in electrical output that could be achieved from RWE's existing run-of-river hydro plants by the use of superconductor variable speed generators; and
- The Consolidated Edison Company of New York to build and test a 'Smart Grid' device for improving the stability and reliability of New York City's electrical system The equipment, known as a Fault Current Limiter ('FCL'), instantly detects and absorbs spikes in power that, left unmanaged, could damage electrical equipment or trigger power outages.

Research and development

The Group's gross expenditure on R&D during 2008 was €3,028,000 (2007: €2,644,000). The expenditure predominately relates to development of Zenergy's proprietary 2G superconducting wire.

Government grant income of €718,000 was earned from various funding authorities in respect of this expenditure (2007:€520,000).

Intangibles

Significant expenditure has been incurred during the year in respect of development activities. In respect of costs relating to the Induction 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, €2,138,000 has been capitalised in 2008 (€3,478,000 of internal costs net of €1,340,000 of grants receivable).

Government grants

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

In addition to the ongoing grants in respect of superconducting hydro generators and 2G wire.

The Group was awarded the following grants during the year:

Induction heater

In October 2008, Zenergy announced that its German subsidiary Zenergy Power GmbH has been awarded a €115,000 grant (60% funding coverage) for its €192,000 project by the German Environmental Fund for the purpose of evaluating a number of additional applications for its ground-breaking HTS induction heater technology.

2G HTS wire

In November 2008 Zenergy announced that it has been awarded a €475,000 grant by the European Commission in support of its research into the development of low-cost production techniques for 2G superconducting wires. This grant has been awarded to the Group's German subsidiary, Zenergy Power GmbH, and is part of a €3.55 million project being funded by the European Commission to accelerate the development of a range of ink-jet technologies capable of applying layers of ceramic materials onto the surfaces of metals and other materials. The funded project is scheduled to last for 36 months and consists of an alliance of eight international partners working on the development of a range of advanced ink jet processes.

Poseidon – Ship propulsion

In December 2008, Zenergy was pleased to announce its participation in a €21.5 million maritime propulsion project funded by the European Commission. As a result of its participation, the Group will receive funding to develop a range of HTS motors and generators designed for deployment in commercial ships using energy efficient all electrical drive systems. It is the Commission's belief that wider deployment of these electrical systems would reduce significantly the CO2 emissions generated by the transportation of people and goods by the shipping industry.

The project will commence in January 2009 and will develop the concept of the electric ship by producing a land-based scaled demonstrator of an integrated electric ship based on cutting-edge technologies and, in particular, a selection of HTS materials and components. Working in conjunction with its collaborative partner, Converteam SAS ('Converteam'), Zenergy will supply the enabling HTS components and coils for the demonstrator's motors and generators. Converteam will construct and supply the HTS generators to the overall project coordinator, BMT Defence Services Limited. It is expected that Zenergy's expenditure to convert its proven HTS coil technology for use in maritime applications will amount to just €1.1 million and that it will receive an €850,000 contribution towards this from the European Commission. The project is expected to last for 4 years and includes over 30 participants including Nexans, Rolls-Royce Power Engineering and The European Maritime Equipment Council.

Risk Management

The Group, in common with other international businesses, 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 assisted 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 identified during the year, and risks faced by the group 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 Intellectual Property section below.

2. Technology risk, Zenergy is and continues to be the first company to launch commercial products based on high temperature superconductors. In July 2008 Zenergy installed the first large scale product based on high temperature superconductors. Similarly the Fault Current Limiter ('FCL') was the first FCL connected to the grid in the USA and is the first device based on the patented 'saturated core' principal to be built. In December 2009 the Group expect to the first superconducting hydro generator to be installed in E.On's grid.

3. Raw material supply – superconducting materials are core to all of the groups products and applications and until the Group can produce sufficient quantities of its own 2G, is reliant on wire supplies from the market. With a limited number of companies able to supply managing this risk critical. Zenergy have a five year development and supply agreement with ThyssenKrupp for textured nickel tape and 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 Groups 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. Availability of sufficient talented employees to expand the business in the longer term will be necessary. The current employees are sufficient to achieve the Group's strategic objectives and expected order growth in 2009.

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 – having operations in four geographic locations increases operational 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. Manufacturing scale up – scaling up of manufacturing capability to deal with the anticipated growth in order book and to scale the 2G wire production require capital expenditure and management resources.

8. 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 sought in the medium to longer term, the loss of support from any partner could have a detrimental impact on Zenergy's reputation or progress towards commercialisation.

Financial Risks

As an international business, 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 the use of financial instruments to manage financial risk and overall risk limits.

Liquidity risk

The key liquidity risk facing the Group is obtaining sufficient funding in the period to profitability of products, namely the induction heater, FCL, hydro and wind coils whilst continuing the development of 2G.

On 29th April 2009 the Company announced a placing raising €10,670,000 (£9,500,000) (€10,221,000 (£9,100,000) net of expenses) by way of placing 7,916,667 new Ordinary Shares at a price of 120p with a number of new and existing institutional investors. The placing enables the Directors to conclude the Group has sufficient funds to continue commercialisation of its products and continue with the strategic product development that enhances the Groups valuation.

The Group does not currently have any external borrowings. The Group has a working capital facility which is currently undrawn, which can be utilised against customer deposits at the rate of €0.50 for every €1 up to a maximum draw down of €0.5 million.

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 and are held 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 put in place to cover up to 12 months currency requirement, based on budgeted cash flows, to the extent necessary spot purchases are used to cover any shortfall in currency requirements.

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 Credit Suisse, Deutsche Bank 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.

In addition the Group receives significant contributions from Government funding. Whilst the Group has never had funded programmes cancelled or curtailed, particularly in the US where DOE funding has to be re-applied for on an annual basis there is a potential risk of future funds not being obtained.

Intellectual Property

The Group maintains an active Intellectual Property ('IP') strategy relating to its research and development activities and has sought to maintain ownership of core IP developed in external collaborations whenever possible. The Group has not received any challenges against its granted patents to date.

The Directors believe the Group enjoys a strong IP position with respect to its 2G wire process, coil production FCL and induction heater products. Its portfolio of over 130 patents, patent applications and IPR covers superconducting wires production, superconducting components and devices, with 31 patents (2007:25) and a growing number of patent applications covering its products and processes. For some patent applications, the Group can file or has filed PCT applications which allow for international patent applications over an extended period of time.

The Group's IP strategy targets the crucial manufacturing steps of 2G wire as well as processes required for further utilising each product. FCL technology is covered by two basic patent families, one patent granted in the US, applications for the second is pending. Both cover the proprietary technology and processes, as well as crucial construction elements of the design.

The Group expects further patent applications and patents to be granted in 2009 in each of the core areas.

4 Governance and Responsibility

Board of Directors

Dr. Jens Müller

CEO, Executive Director

Jens Müller, has been CEO of Zenergy Power plc since 2006and 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 commercialization 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, sponsored by Siemens. He graduated from Bonn University, Germany where he read 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 specializing 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.

Michael Fitzgerald, LLB LLM

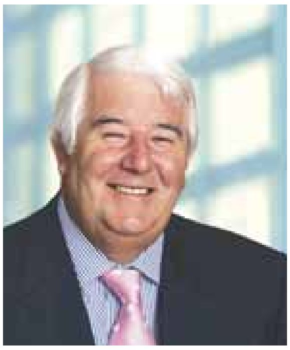
Non-Executive Chairman

Member of audit and remuneration committee

Michael is the founder of the Cloverleaf Group and is primarily focused on sourcing new investment opportunities as well as chairing many of the Cloverleaf Group's existing investments, particularly those based in Europe. Michael also specialises in the structuring and financing of innovative technology and healthcare companies and in the provision of international banking and corporate legal services to clients in Australia, the United States and the United Kingdom. In 1995, Michael co-founded Gemini Genomics plc (Nasdaq: GMNI) and from 1995 to 2001 he served as Chairman and representative of the lead shareholder. Gemini was successfully merged with Sequenom, Inc. (Nasdaq: SQNM) in September 2001 in a transaction which valued Gemini at $238 million.

Most recently, Michael co-founded and acts or acted as Chairman of each of Block Shield Corporation plc, Medcenter Holdings, Inc., Quadrant Technologies Limited and Zenergy Power plc and is a director of Clear Play International, Inc. and Roxro Pharma, Inc. Michael has a Masters in Law and is admitted as a barrister in England and Wales, a barrister and solicitor in Victoria, Australia and a solicitor in New South Wales, Australia. He has authored numerous papers on company and banking law.

4 Governance and Responsibility



Keith Hodgkinson
Non-Executive Director
Member of audit committee
Keith Hodgkinson served as CEO of electrical power systems specialists Chloride Group Plc from 1992 to 2008, 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 De La Rue plc and The R&A Foundation.

Christopher Nash
Non-Executive Director
Member of remuneration committee
In addition to his non-executive role with Zenergy, 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 29 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
Chair of remuneration committee and member of audit 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. (having been Chief Executive from 1996 to 2000) until 2005. He joined Wedgwood in 2001 becoming Chief Executive (2002 to 2005) following which he became Chief Executive of Providence. He is also a non-executive Director of Lundin Mining Inc. and Trustee of IRRT and The O'Reilly Foundation.

John Voltz
Non-Executive Director
Chairman of audit committee

John is a co-founder and Principal at Jane Capital Partners, LLC, a San Francisco based corporate advisory and merchant banking firm focused on clean energy. He was a founding officer and a director of SC Power, Inc. a high temperature superconductor company acquired by Zenergy in 2006. Formerly, John was Director of Business Development at Globalgate, an e-commerce holding company. He holds a B.A. from Grinnell College and an M.B.A. from UCLA.

Directors' report

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

Principal activity

Zenergy Power plc ('the Group') is a global specialist manufacturer and developer of high efficiency industrial and renewable energy devices that employ superconductor technologies. Comprising three local operating subsidiaries located in Germany, USA and Australia, Zenergy is highly focussed on the commercialisation of a number of energy efficient applications to be adopted in energy intensive industrial processes, power distribution and renewable power generation.

The Group has to date developed a number of commercial applications based on superconductors and is seeking to deploy these into three main markets namely renewable energy (superconducting coils for wind and hydro), industrial applications (Induction Heater) and power distribution (Fault Current Limiter).

Zenergy achieved the World's first sale of an industrial scale superconducting induction heater which has been in operation since July 2008.

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 3 and 6 and on our website www.zenergypower.com.

Business review and future developments

The consolidated income statement for the year is set out on page 43. A review of the Group's activities, performance, position and future developments are contained within 'About Zenergy' – pages 3-8, Chairman's Statement – pages 10-11, Chief Executive's Report – pages 12-17 and Financial Review – pages 18-19.

The KPI's for the Group are revenue, gross margin and loss before one off expenditure, research & development, depreciation & amortisation & equity settled share based payments.

	Statutory reporting period Year ended 31 December 2008 €000	Statutory reporting period Year ended 31 December 2007 €000
Revenue	2,028	268
Gross profit	448	47
Loss before one off expenditure, research & development, depreciation & amortisation & equity settled share based payments	(2,478)	(1,586)

The Group has delivered a significant increase in revenue and gross margin and is now firmly on track to commericalisation.

The loss before one off expenditure, research & development, depreciation & amortisation & equity settled share based payments has increased as the business has scaled up in prepared for commercialisation of products, following the launch of the induction heater in 2007 and first commercial installation in 2008 and in anticipation of the fault current limiter which was delivered to Southern California Edison in December 2008 and was subsequently installed in the grid in March 2009.

The average head count for 2008 is 67 (2007: 45). Incremental heads were required for 2G wire, production scale up, sales staff as products have commercialised and additional administrative staff.

During 2008 a major extension of Zenergy's manufacturing facility based in Rheinbach, Germany commenced. The extension will significantly improve the capacity of the facility enabling the Group to accommodate the anticipated increased volume production of its ground-breaking superconducting induction heater over the coming years. The extension also assigns sufficient expansion capability for the manufacturing of superconducting magnets for superconducting Fault Current Limiters , as well as coils and 2G wires.

The 50% expansion of the Group's manufacturing facility to 3,300m^2 has been undertaken at this time to significantly increase the Group's production capabilities in anticipation of increased commercial order flow following the recent successful commercial launch of its HTS induction heater; the first of the Group's energy efficient products based on its proprietary HTS technology.

On 29th April 2009 the Group announced an institutional fundraising of £9.5 million to provide the Group with additional working capital to expand its commercial activities in the United States whilst continuing to progress its ongoing research and development activities. This placing secures sufficient cash resources to enable the directors to conclude the accounts can be prepared as a going concern.

In addition since the period end the Group are delighted to have reported on:
- The successful installation of a smart grid device into the U.S. electricity grid;
- A commercial contract for development of further smart grid device from The Consolidated Edison Company of New York;
- A commercial contract for superconductor hydro power evaluation from RWE AG.

Principal risks and uncertainties

The principal risks and uncertainties faced by the group are set out in the Risk Management section on pages 19-21. 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 Remuneration Report on pages 35-38.

4 Governance and Responsibility

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 irrespective of their sex, race, ethnic origin, disability, age, marital status, sexual orientation or religious affiliation in all respects of employment and training.

The Group encourages where possible, the employment of disabled people and retention of those who become disabled during their employment with the Group.

The company recognises the benefit of keeping employees informed of the progress of the business and of involving them in the Group's performance. Due to the size of the Group, regular consultations with senior management take place. Views of all employees are taken into account in making decisions which are likely to affect their interests.

Employees are encouraged to participate in the Group Share Option Plan.

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 pages 21.

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 Group's policy to agree and abide by the terms of payment with each supplier when arranging the transaction. 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 business of the Company, the directors are of the opinion that the creditor days of the Group is a more meaningful measure; at the year end there were 37 days purchases in trade payables (2007: 34 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 2009 were as follows:

Shareholder	Number of shares	% of issued share capital
Cloverleaf Holdings Limited (1)	12,579,790	28.4
M&G	5,650,000	12.7
Fidelity	4,617,011	10.4
Jane Capital Partners	3,650,400	8.2
Credit Suisse Zurich	2,172,700	4.9
AXA Farmington	2,646,846	6.0
Narwally Investments	1,515,347	3.4

(1) See notes under Directors' shareholding(s) table included in the Remuneration Report on pages 35-38.

Directors' liability insurance

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

Political and charitable contributions

The Group made no political contributions during the year (2007: €Nil), the group made €Nil of charitable contributions during the year (2007: €6,000).

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 themself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming General Meeting.

4 Governance and Responsibility

Annual General Meeting

The Annual General Meeting of the Company will take place on 16th June 2009 at 11am, 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.

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

Michael Fitzgerald
Chairman

One America Square
Crosswall
London
EC3N 2SG

11th May 2009

Corporate and social responsibility

Zenergy is passionate about economic but ecological solutions.

Products

Zenergy's products are based on superconductors which deliver exceptional energy efficiencies and thus reduced power consumption and running costs. Superconductors are set to play a significant role in reducing CO2 emissions in line with international targets

Zenergy's products enable:
(a) Induction Heaters to be twice as efficient for the metals industry
(b) Fault Current Limiters to protect power grids from blackouts
(c) Direct-drive wind generators to be significantly reduced in size and weight allowing the operation of wind generators in excess of 8 MW
(d) Existing hydro-power sites to upgrade to energy efficient Hydro-generators

Employees

Zenergy is committed to providing equal opportunities both for recruitment and thereafter, regardless of sex, age, race or disability.

Zenergy ensures fair and competitive employment practices to ensure the maximum potential development of our people. At 31 December 2008, the Group employed 83 in its four countries of operation. Germany which accounts for 75% of the headcount has a personnel manager who is responsible for compliance with human resources policies, legislation and health and safety. HR for the other entities is the responsibility of the finance department with external guidance sought where necessary.

Zenergy is keen to promote staff retention and has very low levels of staff turnover, staff keen to pursue further educational qualifications are given the support of the Group. All employees are encouraged to participate in training to further their personal development and improve their skill sets relevant to their jobs.

Health and safety

Zenergy recognises the importance of ensuring the health and safety of our employees and others affected by the Group's activities. Group policy is to ensure that staff and others are not exposed to unnecessary risks and that health and safety polices comply or exceed legislative requirements in the countries in which we operate. The CEO/Managing Director has responsibility for compliance and policies in their jurisdiction. Policies and procedures are documented and employees are provided with training on joining and updates on a regular basis. In particular, staff handling chemicals, permanent magnets, mechanical systems and working with electricity are trained accordingly.

4 Governance and Responsibility

Manufacturing facility

In line with Zenergy's efforts to be an environmentally responsible and energy efficient business, the manufacturing facility and its extension – due to be completed in 2009 – are compliant with all EU energy efficiency standards for industrial plants. In addition, the power supplied to the facility is 100 per cent renewably generated, thus CO2 free and certified by TÜV Süd, under CMS Standard EE 01. The facility, which is currently leased by Zenergy, is also subject to a call option permitting Zenergy the right to purchase on request. It is the intention of the Board to secure the long-term ownership of the facilities at a time when their purchase represents the most appropriate use of the Group's cash resources.

Electronic communications

Zenergy encourages shareholders to register for electronic communication, registration can be completed via the shareholder portal, found under Investor Relations/Shareholders Services on the company's website (www.zenergypower.com).

Choosing electronic shareholder information means you will receive an email every time any new shareholder information is published – instead of paper documents in the post.

These emails will contain weblinks to our annual and interim reports, documents relating to our annual general meeting and any other shareholder communications. The emails will come from our registrar, Capita Registrars. Shareholders are also able to register any shareholder votes online.

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 2006, 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 board has been strengthened during the course of 2008 with the addition of two independent non executive directors, Christopher Nash and Keith Hodgkinson.

The directors believe the Board continues to include 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 and 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, employee remuneration 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.

4 Governance and Responsibility

Board committees

Audit committee

The audit committee consists of four non-executive directors and is under the chairmanship of John Voltz. The committee meets at least twice a year and more frequently if required. 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 Executives directors are provided an opportunity at the Audit committee meetings to discuss matters with KPMG without the presence of the CFO.

Remuneration committee

The remuneration committee consists of four non-executive directors and is chaired by Tony O'Reilly. 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 his own remuneration. The remuneration and terms of appointment of non-executive directors are set by the Board.

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 management self-assessment and external audit. The results are reported and considered by the Audit Committee.

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.

Remuneration Report

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

	Appointed	Retired
Michael Fitzgerald (Non-executive Chairman)	26 July 2005	-
Jens Müller (CEO, Executive director)	29 June 2006	-
Karen Chandler (CFO, Executive director)	28 July 2008	-
Carsten Bührer (CTO, Executive director)	2 June 2006	28 July 2008
Woody Gibson (Executive director)	2 June 2006	28 July 2008
St. John Anthony ('Tony') O'Reilly (Non-executive director)	2 June 2006	-
John Voltz (Non-executive director)	2 June 2006	-
Christopher Nash (Non-executive director)	28 July 2008	-
Keith Hodgkinson (Non-executive director)	3 December 2008	-

Neither Carsten Bührer or Woody Gibson were paid compensation for loss of office.

Karen Chandler, Christopher Nash and Keith Hodgkinson, who were appointed directors' 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 Tony O'Reilly who, being eligible, offers himself for re-election.

The directors who held office during the financial year had the following interests in the ordinary shares of Group companies according to the register of directors' interests:

	Company	Class of share	Interest at 31 December 2008	Interest at 31 December 2007
Michael Fitzgerald	Zenergy Power plc	Ordinary	- (1)(2)(6)	12,818,990 (1)(2)(6)
Jens Müller	Zenergy Power plc	Ordinary	1,124,000 (5)	1,124,000 (5)
Karen Chandler	Zenergy Power plc	Ordinary	-	-
Carsten Bührer	Zenergy Power plc	Ordinary	- (3)	1,124,000 (3)
Woody Gibson	Zenergy Power plc	Ordinary	- (4)	4,773,400 (4)
Tony O'Reilly	Zenergy Power plc	Ordinary	151,111	151,111
John Voltz	Zenergy Power plc	Ordinary	-	-
Christopher Nash	Zenergy Power plc	Ordinary	-	-
Keith Hodgkinson	Zenergy Power plc	Ordinary	-	-

(1) These ordinary shares are registered in the name of Cloverleaf Holdings Limited, a company previously controlled by Mr Fitzgerald. During December 2008 the company was advised of a major restructuring of Cloverleaf and its assets for inheritance and succession purposes, the consequences of which are that the ownership of Cloverleaf has been transferred to a trust, the beneficiaries of which are the family of Zenergy Chairman, Mr Michael Fitzgerald, but not including himself, his wife or his children. As a result, Mr Fitzgerald is no longer deemed to be interested in any Ordinary Shares in Zenergy. Nonetheless, notwithstanding the fact that Cloverleaf is no longer deemed to be controlled by Mr Fitzgerald, in light of the continuing interests of Mr Fitzgerald's wider family, Cloverleaf has confirmed that it will continue to voluntarily comply with Zenergy's share dealing code on an ongoing basis and support Mr Fitzgerald as the Chairman of Zenergy. At 31 December 2008 Cloverleaf Holdings Limited was the holder of 12,739,790 Ordinary Shares.

(2) 769,600 (2007: 848,800) of the Ordinary Shares held by Cloverleaf Holdings Limited are non-voting and are held in favour of five members of the management of Zenergy Power GmbH. There are no performance criteria attached to acquiring the shares, which may be acquired by each relevant member of management on payment of a total of €1.00 for all their respective shares.

(3) There have been no changes in the interest of Dr Bührer during the year who retired as a director on 28 July 2008. Dr Bührer is entitled to 345,200 of these Ordinary Shares from Cloverleaf Holdings Limited and can call for delivery of these shares for an aggregate exercise price of €1.00 at any time before August 2016, there are no performance criteria attached to Dr Bührer's ability to acquire the shares.

(4) There have been no changes in the interest of Woody Gibson during the year who retired as a director on 28 July 2008. 3,650,400 of these Ordinary Shares are registered in the name of Jane Capital Partners, LLC, a Company in which Mr Gibson's spouse, Jane Lindner, is interested.

(5) Dr Müller is entitled to 345,200 of these Ordinary Shares in identical terms to that summarised at Note (2) above.

(6) 160,000 of these Ordinary Shares are the subject of warrants to subscribe for Ordinary Shares at par issued by the Company to Cloverleaf Holdings Limited as a commitment fee for 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 a placing.

Directors' emoluments

	Year ended 31 December 2008					Year ended 31 December 2007
	Salaries and other emoluments €000	Bonus €000	Pension €000	Other benefits €000	Total €000	Total €000
Michael Fitzgerald	25	-	-	-	25	29
Jens Müller	152	-	7	18	177	143
Karen Chandler	49	-	2	-	51	-
Carsten Bührer	87	-	4	7	98	148
Woody Gibson	61	-	6	7	74	139
Keith Hodgkinson	1	-	-	-	1	-
Christopher Nash	8	-	-	-	8	-
Tony O'Reilly	19	-	-	-	19	22
John Voltz	19	-	-	-	19	22
	421	-	19	32	472	503

The salaries of Carsten Bührer and Woody Gibson are included above to the date of resignation, 28th July 2008. Neither was paid compensation for loss of office and they continue to act as CEO's of Zenergy Power GmbH and Zenergy Power, Inc. respectively. The emoluments of Karen Chandler are included in the table above from appointment on 28th July 2008.

All amounts are paid or due.

In addition to fees for non executive services, Christopher Nash was paid €7,000 (£6,000) in consulting fees for other services provided to the Company.

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 price p
Michael Fitzgerald	-	130,000	100.5
Carsten Bührer	-	-	-
Karen Chandler	250,000	250,000	97/100.5
Woody Gibson	-	-	-
Keith Hodgkinson	-	65,000	100.5
Jens Müller	-	-	-
Christopher Nash	-	65,000	100.5
Tony O'Reilly	-	65,000	100.5
John Voltz	-	65,000	100.5

All directors benefited from Directors and Officers insurance.

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 €145,000 in March 2008, previously €125,000. 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 2008. Dr Müller is also entitled to 5% pension contributions and the use of a company car. Dr Müller has entered into an appointment letter with the Company dealing with his position as CEO of the Company.

Carsten Bührer entered into a service agreement with Zenergy Power GmbH dated 28 July 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 €160,000 in March 2008, previously €120,000. Dr Bührer is entitled to a bonus of up to 30% of base salary, as determined by the remuneration committee, no bonus was awarded for 2008.. Dr Bührer is also entitled to 5% pension contributions and the use of a company car. Dr Bührer has entered into an appointment letter with the Company dealing with his position as executive director of the Company. Dr Bührer was appointed CTO of the Group on 13th June 2007. Dr Bührer's salary is included in the table above from 1st January to 28th July 2008, the date he retired as executive director of the Company. Dr Bührer continues to hold the position of CTO and CEO of Zenergy Power GmbH.

Woody Gibson entered into a service agreement with Zenergy Power, Inc. dated 1 January 2006 for an initial period of 24 months from 1 January 2006, to be automatically renewed on an annual basis. Mr Gibson is an "at will" employee meaning that his employment may be terminated by Zenergy Power, Inc. at any time. The agreement provides for an annual salary of $154,000 together with a bonus of up to 30% of base salary, no bonus was awarded for 2008. Mr Gibson is also entitled to reimbursement of health and accidental death and disability insurance premiums and a car allowance of not less than $600 per month. Mr Gibson has entered into an appointment letter with the Company dealing with his position as executive director of the Company. Mr Gibson's salary has been included above until the 28th July 2008, the date he retired as executive director of the Company. Mr Gibson continues to hold the position of CEO of Zenergy Power, Inc.

Karen Chandler entered an employment agreement as CFO on the 27th September 2006. Her base salary is currently £93,500. In addition she is entitled to 5% pension contributions. Ms Chandler's salary is included in the table above from 28th July 2008, the date of appointment as executive director.

The services of John Voltz and Tony O'Reilly as non-executive Directors are provided under the terms of appointment letters between the Company and each of them dated 16 August 2006, at an initial fee of £15,000 per annum, the initial fee remains unchanged to 31 December 2008. Each appointment is subject to termination upon three months notice. Identical service contracts were entered into by Christopher Nash and Keith Hodgkinson on their employment.

The services of Michael Fitzgerald as non-executive chairman are provided pursuant to the terms of a consultancy agreement between the Company and Cloverleaf Holdings Limited ('Cloverleaf') dated 16 August 2006. In consideration for procuring the provision of the services of Mr Fitzgerald as chairman, Cloverleaf is entitled to receive a fee of £20,000 per annum, the initial fee remains unchanged to 31 December 2008. The agreement is terminable on three months notice. In addition Mr Fitzgerald has an appointment letter with the Company containing equivalent ancillary provisions to the appointment letters of the other 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.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 proper accounting records that 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 1985. 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.

Under applicable law, the directors are also responsible for preparing a Directors' Report that complies with that law.

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

Independent Auditors' report to the members of Zenergy Power plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of Zenergy Power plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable laws and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 39.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' report includes that information presented in the Company Overview, Chairman's Statement, Chief Executive's Report and Financial Review, that is cross referred from the Business review and future development section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

5 Financial Statements and notes

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

KPMG Audit Plc
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

11th May 2009

Consolidated income statement

for year ended 31 December 2008

	Note	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Revenue	1,4,5	2,028	268
Cost of sales		(1,580)	(221)
Gross profit		448	47
Other operating income	6	842	578
Distribution expenses		(876)	(519)
Administrative expenses		(3,934)	(2,703)
Strategic marketing project	8	(691)	-
Research & development expenses		(3,028)	(2,644)
Loss before one off expenditure, research & development, depreciation & amortisation & equity settled share based payments		(2,478)	(1,586)
Strategic marketing project	8	(691)	-
Research & development expenses		(3,028)	(2,644)
Depreciation & amortisation	12,13	(699)	(603)
Equity settled share-based payment expenses	20	(343)	(408)
Operating loss	1,7	(7,239)	(5,241)
Financial income	10	1,974	295
Financial expenses	10	(47)	(554)
Net financing income/(expenses)		1,927	(259)
Loss before tax		(5,312)	(5,500)
Taxation	11	40	263
Loss for the period attributable to equity holders of the Parent	21	(5,272)	(5,237)
Earnings/(loss) per share (Euros)			
Basic and fully diluted loss per share	22	(0.12)	(0.13)

Consolidated and Company statements of recognised income and expense

for year ended 31 December 2008

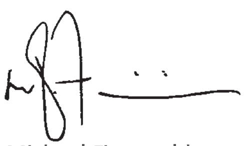
	Note	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000	Company Year ended 31 December 2008 €000	Company Year ended 31 December 2007 €000
Foreign exchange translation differences	21	(2,407)	(338)	(7,229)	-
Net expense recognised directly in equity		(2,407)	(338)	(7,229)	-
Loss for the period		(5,272)	(5,237)	(146)	(1,241)
Total recognised income and expense	21	(7,679)	(5,575)	(7,375)	(1,241)
Total recognised income and expense for the period attributable to the equity holders of the parent		(7,679)	(5,575)	(7,375)	(1,241)

Consolidated and Company balance sheets

at 31 December 2008

	Note	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Non-current assets					
Investment in subsidiaries	14	-	-	18,650	14,468
Property, plant and equipment	12	2,685	1,671	-	-
Goodwill	13	1,341	1,303	-	-
Other intangible assets	13	5,174	3,176	12	16
		9,200	6,150	18,662	14,484
Current assets					
Inventories	16	508	543	-	-
Trade and other receivables	17	1,902	753	922	90
Research & development tax credit receivable	17	-	150	-	-
Cash and cash equivalents	18	6,797	17,746	5,872	17,275
		9,207	19,192	6,794	17,365
Total assets		18,407	25,342	25,456	31,849
Current liabilities					
Trade and other payables	19	(1,978)	(1,966)	(559)	(302)
Non current liabilities					
Deferred tax liabilities	15	(660)	(653)	-	-
Total liabilities		(2,638)	(2,619)	(559)	(302)
Net assets		15,769	22,723	24,897	31,547
Equity attributable to equity holders of the parent					
Share capital	21	649	645	649	645
Share premium	21	32,050	31,672	32,050	31,672
Translation reserve	21	(2,792)	(385)	(7,229)	-
Warrant reserve	21	200	200	200	200
Retained loss	21	(14,338)	(9,409)	(773)	(970)
Total equity attributable to shareholders		15,769	22,723	24,897	31,547

These financial statements were approved by the board of directors on 11th May 2009 and were signed on its behalf by:



Michael Fitzgerald
Chairman

Consolidated and Company cash flow statements

for year ended 31 December 2008

	Note	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000	Company Year ended 31 December 2008 €000	Company Year ended 31 December 2007 €000
Cash flows from operating activities					
Loss for the period		(5,272)	(5,237)	(146)	(1,241)
Adjustments for:					
Depreciation and amortisation	12,13	699	603	1	1
Foreign exchange gains		2,128	12	2,053	-
Loss/(gain) on sale of fixed assets	7	70	(39)	-	-
Financial income	10	(1,974)	(295)	(1,950)	(283)
Financial expenses	10	47	554	14	544
Equity settled share-based payment expenses	20	343	408	40	52
Taxation	11	(40)	(263)	-	-
Operating loss before changes in working capital and provisions		(3,999)	(4,257)	12	(927)
Increase in trade and other receivables		(392)	(167)	(114)	(30)
Decrease/(increase) in stock	19	35	(420)	-	-
Increase in trade and other payables		4	801	257	146
Cash absorbed by operations		(4,352)	(4,043)	155	(811)
Tax received		133	86	-	-
Net cash (outflow)/inflow from operating activities		(4,219)	(3,957)	155	(811)
Cash flows from investing activities					
Interest received		614	237	599	225
Investment in subsidiaries	14	-	-	(8,616)	(5,160)
Proceeds from the sale of fixed assets		-	307	-	-
Acquisition of property, plant and equipment	12	(1,637)	(1,275)	-	-
Development expenditure capitalised and acquisition of other intangible assets	13	(2,168)	(1,426)	-	(17)
Net cash outflow from investing activities		(3,191)	(2,157)	(8,017)	(4,952)
Cash flows from financing activities					
Proceeds from the issue of share capital	21	30	21,739	30	21,738
Equity issued for services	8	352	-	352	-
Net cash inflow from financing activities		382	21,739	382	21,738
Net (decrease)/increase in cash and cash equivalents		(7,028)	15,625	(7,480)	15,975
Cash and cash equivalents at 1 January	18	17,746	2,722	17,275	1,871
Effect of exchange rate fluctuations on cash held		(3,921)	(601)	(3,923)	(571)
Cash and cash equivalents at 31 December	18	6,797	17,746	5,872	17,275

Notes to the financial statements

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 s230 of the Companies Act 1985 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.

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 €5,272,000 in the year ended 31 December 2008 and is forecast to remain loss making in the year to 31 December 2009.

As at 31 December 2008 the Group had cash reserves of €6,797,000 and subsequent to the year end has raised €10,670,000 (£9,500,000) (€10,221,000 (£9,100,000) net of expenses) through a placing which was announced on 29th April 2009.

As a result the directors consider that the Group has adequate funding to enable it to continue to operate for at least 12 months from the date of signing these accounts.

The directors have prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements. In preparing these forecasts the directors have assumed: delivery of existing order book, supplemented with commercial orders for both induction heaters and fault current limiters in line with market expectations. The gross margin assumptions are based on current material costs and standard bills of materials for the products. Personnel and overheads are based on existing levels adjusted for known or expected changes, capital expenditure is based on the business needs to achieve the business plan and is based on third party quotes, assumed assumptions for grants are based on existing grants and the known project plans. Working capital assumptions are based on the Groups current experience, including advance payments from customers along the progress of the contract, factoring in the current bank guarantee requirements. These forecasts show that both before sensitivities, and after sensitivities combined with mitigating factors, the Group can continue to operate within the limits of the funds currently available. The sensitivities mainly relate to changes in the timing of sales and related cash collection. The mitigating factors include reduction in discretionary spend such as development costs which can to some extent be flexed without a long term impact on the programme, capital expenditure and marketing costs, combined with working capital management which will require agreements with third parties.

The directors of the group have reviewed the forecasts, together with the sensitivities and mitigating factors and expect that the group will be able to meet its liabilities as they fall due and therefore consider it appropriate to prepare the financial statements on a going concern basis.

New accounting policies and future developments

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

- IFRIC 11 'Group and Treasury Shares Transactions'

The adoption of this standard has had no 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 affect on the financial statements unless otherwise indicated:

- IFRS 8 'Operating Segments' (mandatory for the year commencing on or after 1 January 2009). Introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the group's 2009 financial statements, will require disclosure of segment information based on the internal reports regularly reviewed by the Chief Operating Decision Maker in order to asses each segment's performance. Under the current reporting standard, the group is presenting the information in the same way as it does to the Chief Operating Decision Maker.
- Revised IAS 1 'Presentation of Financial Statements' (mandatory for the year commencing on or after 1 January 2009). Where previously companies were required to present only one of either a Statement of Recognised Income and Expenses (SORIE) or a Statement of Changes In Equity (SOCIE), the amendments require companies to present both a SOCIE and either a statement of comprehensive income or an income statement accompanied by a statement of other comprehensive income as financial statements (formerly referred to as "primary statements"). Other changes include the requirement to present a statement of financial position (balance sheet) as at the beginning of the comparative period when an entity restates the comparatives following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements; and clarification of disclosure requirements relating to income tax on items recognised in other comprehensive income, dividends, and recycling to the income statement/comprehensive income of gains previously recognised in other comprehensive income.

This will become mandatory for the group's 2009 financial statements. The group and the company do not currently believe the adoption of this amendment will have a significant affect on the consolidated results or financial position.

- Amendments to IFRS 2 'Share based payment – Vesting Conditions and Cancellations' (mandatory for the year commencing on or after 1 January 2009). - The definition of vesting conditions in IFRS 2 has been amended to clarify that vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. Under the amendment, non-vesting conditions are taken into account in measuring the grant date fair value of the share-based payment and there is no true-up of equity-settled arrangements for differences between expected and actual outcomes. Therefore, if all vesting conditions are met, then the entity will recognise the grant date fair value of the equity-settled share-based payment as compensation cost even if the counterparty does not become entitled to the share-based payment due to a failure to meet a non-vesting condition. This will become mandatory for the group's 2009 financial statements. The group and the company do not currently believe the adoption of this amendment will have a significant affect on the consolidated results or financial position.
- Revised IAS 27 'Consolidated and Separate Financial Statements' (mandatory for the year commencing on or after 1 July 2009). - The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. A consequential amendment to IAS 36 states that the receipt of dividend income is deemed to be an indicator of impairment when: the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets (including any goodwill); or the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period that the dividend is declared. The group and the company do not currently believe the adoption of this amendment will have a significant affect on the consolidated results or financial position.

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 ruling at that 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 assets and liabilities of foreign operations, 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 translation reserve. They are released into 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 was deemed to have changed from Euros to Sterling from 1 January 2008 following the Sterling placing in December 2007 resulting in the Company have a predominately Sterling based cash position and cost base. The results of the Company and 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 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 currently 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.

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 the intangible asset will generate future economic benefit, the expenditure attributable to the intangible asset can be measured and reliably, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and the Group can measure reliably the expenditure attributable to the intangible asset during its development. 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 – 10 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. 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 employees become 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 fair value. 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 costs incurred to date compared to the expected 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.

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.

Construction contracts

The directors have determined that the nature of Induction heaters and HTS coil sales meet the definition of a fixed price construction contract and hence account for such sales in accordance with IAS 11 – Construction contracts.

Development rights and capitalised development expenditure

The directors have determined that costs incurred in respect of the Induction Heater, Fault Current Limiter and superconducting coils meet the IAS 38 – Intangible assets, tests 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.

Key estimates and judgements

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).

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 (see Note 5).

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 20).

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 2009 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 15).

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. Foreign exchange 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 23.

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 FCL, superconducting coils for hydro and wind coils and development of 2G wire.

On 29th April 2009 the Company announced a placing raising €10,670,000 (£9,500,000) (€10,221,000 (£9,100,000) net of expenses) by way of placing 7,916,667 new Ordinary Shares at a price of 120p with a number of new and existing institutional investors. The placing enables the Directors to conclude the Group has sufficient funds to continue commercialisation of its products and continue with the strategic product development that enhances the Group's valuation.

The Group does not currently have any external borrowings. The Group has a working capital facility which is currently undrawn, which can be utilised against customer deposits at the rate of €0.50 for every €1 up to a maximum draw down of €0.5 million.

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 and are held 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 put in place to cover up to 12 months currency requirement, based on budgeted cash flows. To the extent necessary, spot purchases are used to cover any shortfall in currency requirements.

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 Credit Suisse, Deutsche Bank 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, particularly in the US, where DOE funding has to be re-applied for on an annual basis there is a potential risk of future funds not being obtained.

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.

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. At the year end the Group has the ability to draw down up to €500,000 at the rate of 50% of every €1 subject to bank guarantee.

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 Segmental reporting

Geographic segments

For management purposes, the Group is currently organised into four geographical regions based on the location of the Group's assets – Germany, USA, Australia and the UK. These geographical regions are the basis on which the Group reports its primary segment information.

Year ended 31 December 2008	Germany €000	USA €000	Australia €000	UK €000	Eliminations €000	Consolidated €000
Revenue						
Sales to external customers	1,918	79	31	-	-	2,028
Transactions with other segments	867	-	-	-	(867)	-
Total segment revenue	2,785	79	31	-	(867)	2,028
Result						
Segment result being loss from operations	(3,369)	(1,447)	(271)	(2,082)	(70)	(7,239)
Finance income	14	4	7	1,950	(1)	1,974
Finance expense	(3)	(30)	-	(14)	-	(47)
Loss before tax	(3,358)	(1,473)	(264)	(146)	(71)	(5,312)
Tax	-	-	16	-	24	40
Loss for the year	(3,358)	(1,473)	(248)	(146)	(47)	(5,272)
Balance sheet						
Segment assets	5,144	2,877	812	25,456	(15,882)	18,407
Segment liabilities	(1,217)	(101)	(101)	(559)	(660)	(2,638)
Net assets/(liabilities)	3,927	2,776	711	24,897	(16,542)	15,769
Other information						
Capital additions	(2,047)	(1,266)	(548)	-	56	(3,805)
Depreciation and amortisation	(426)	(168)	(43)	(1)	(61)	(699)
Other non cash expenses (share option charge)	(147)	(121)	(35)	(40)	-	(343)
Research and development expenses	(2,810)	(121)	(97)	-	-	(3,028)
Strategic marketing project	-	-	-	(691)	-	(691)

Year ended 31 December 2007	Germany €000	USA €000	Australia €000	UK €000	Eliminations €000	Consolidated €000
Revenue						
Sales to external customers	268	-	-	-	-	268
Transactions with other segments	347	-	-	-	(347)	-
	615	-	-	-	(347)	268
Result						
Segment result being loss from operations	(2,283)	(1,454)	(390)	(980)	(134)	(5,241)
Finance income	3	5	4	283	-	295
Finance expense	-	(8)	-	(544)	(2)	(554)
Loss before tax	(2,280)	(1,457)	(386)	(1,241)	(136)	(5,500)
Tax	-	-	236	-	27	263
Loss for the year	(2,280)	(1,457)	(150)	(1,241)	(109)	(5,237)
Balance sheet						
Segment assets	3,527	1,313	611	31,849	(11,958)	25,342
Segment liabilities	(2,636)	(3,146)	(915)	(302)	4,380	(2,619)
Net assets/(liabilities)	891	(1,833)	(304)	31,547	(7,578)	22,723
Other information						
Capital additions	1,237	1,183	334	17	(70)	2,701
Depreciation and amortisation	(362)	(208)	(32)	(1)	-	(603)
Other non cash expenses (share option charge)	(171)	(131)	(54)	(52)	-	(408)
Research and development expenses	(1,802)	(624)	(218)	-	-	(2,644)

Revenue by location of customer

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Germany	1,256	120
Rest of Europe	633	143
Other	139	5
Total revenue	2,028	268

Business segment

The Group has one business segment, being the development and production of high temperature superconducting wires, components and applications. All applications produced by the group contain superconducting coils, manufactured in Germany. From a cost perspective the cost of a coil is typically more a factor of the quantity of wire used rather than the application for which the coil will be used.

5 Revenue

	Group Year ended 31 December 2008 £000	Group Year ended 31 December 2007 £000
Sale of goods	180	268
Construction contract revenue	1,848	-
Total revenues	2,028	268

6 Other operating income

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Government grants	718	520
Other	124	58
	842	578

7 Expenses and auditors' remuneration

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

	Group 2008 €000	Group 2007 €000
Depreciation and amortisation	699	603
(Profit)/loss on disposal of fixed assets	70	(39)
Operating lease rental payments:		
Other	394	328
Research and development expensed as incurred	3,028	2,644

Auditors' remuneration:

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	53	66
Audit of financial statements of subsidiaries pursuant to legislation	35	27
Other services relating to taxation	4	4
All other services	7	18

8 Strategic marketing

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Strategic marketing study	691	-

On the 31st October 2008 the Company contracted Bain & Company to undertake a strategic marketing study for the Group in respect of the induction heater market. The total cost of the project, which was completed in March 2009 was €937,000 (£827,000). The first payment €352,000 (£300,000), was satisfied in shares in accordance with the contract, see Note 20. The payment for the second instalment €339,000 (£293,000) was accrued at 31 December 2008 and is payable in cash. The final payment of €246,000 (£234,000) is also payable in cash.

9 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 2008	Group Year ended 31 December 2007	Company Year ended 31 December 2008	Company Year ended 31 December 2007
Production	14	8	-	-
Development	32	22	-	-
Sales and marketing	7	5	-	-
Admin and finance	14	10	5	4
	67	45	5	4

The aggregate payroll costs of these persons were as follows:

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000	Company Year ended 31 December 2008 €000	Company Year ended 31 December 2007 €000
Wages and salaries	4,296	2,419	242	163
Share based payments (See Note 20)	345	408	40	52
Social security costs	593	354	20	46
Other pension costs	27	43	14	14
				-
	5,261	3,224	316	275

Details of Directors' emoluments and share interests are shown in the Remuneration Report on pages 35-38.

10 Finance income and expense

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000	Company Year ended 31 December 2008 €000	Company Year ended 31 December 2007 €000
Interest income - bank	589	275	574	263
Foreign exchange gain on forward contracts	1,332	20	1,332	20
Forward exchange gains on cash held	42	-	42	-
Other exchange gains	11	-	2	-
Financial income	1,974	295	1,950	283
Foreign exchange loss	(45)	(554)	(14)	(554)
Other interest expense	(2)	-	-	-
Financial expenses	(47)	(554)	(14)	(554)

The foreign exchange gain comprises gains on bank deposits held by the Company in non functional currency, notably Dollars and Euros at the year end which have appreciated against Sterling. Gains on forward contracts, relate to gains on forward contracts realised during the year and gains on forward contacts in place at the year end to fund the working capital requirements of the group in 2009, other exchange gains relate to the gains on accounts payable.

In 2007 the foreign exchange loss predominately relates to the loss on the retranslation of Sterling funds held by the Company to Euros at the closing rate. As the functional currency of the Company has changed from Euros to sterling in 2008, the foreign exchange losses of translating the Company's results from Sterling to Euros for presentation purposes goes to equity.

11 Taxation

Recognised in the income statement

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Current tax income/(expense)		
Current period	-	-
Research and development tax credit	-	150
Adjustments in respect of prior periods	16	86
Deferred tax income		
Origination and reversal of temporary timing differences	24	27
Total tax income	40	263

Reconciliation of effective tax rate

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000
Loss before tax	(5,312)	(5,500)
Tax credit using the Group's effective tax rate of 40% (2007: 37%)	2,125	2,035
Share based payments – deferred tax asset not recognised	(130)	(153)
Effect of tax losses not recognised	(1,955)	(1,619)
Total tax income in the income statement	40	263

12 Property, plant and equipment

Group	Technical plant and equipment €000	Office and business equipment €000	Assets under construction €000	Total €000
Cost				
Balance at 31 December 2006	1,186	259	65	1,510
Additions	633	111	531	1,275
Transfers	386	-	(386)	-
Disposals	(494)	-	-	(494)
Effect of movements in foreign exchange	(35)	(5)	-	(40)
Balance at 31 December 2007	1,676	365	210	2,251
Additions	1,318	177	142	1,637
Transfers	-	-	-	-
Disposals	(92)	(15)	-	(107)
Effect of movements in foreign exchange	21	(22)	-	(1)
Balance at 31 December 2008	2,923	505	352	3,780
Depreciation				
Balance at 31 December 2006	(279)	(76)	-	(355)
Depreciation charge for the year	(388)	(79)	-	(467)
Disposals	226	-	-	226
Effect of movements in foreign exchange	14	2	-	16
Balance at 31 December 2007	(427)	(153)	-	(580)
Depreciation charge for the year	(394)	(151)	-	(545)
Disposals	22	15	-	37
Effect of movements in foreign exchange	(12)	5	-	(7)
Balance at 31 December 2008	(811)	(284)	-	(1,095)
Net book value				
At 31 December 2007	1,249	212	210	1,671
At 31 December 2008	2,112	221	352	2,685

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.

13 Intangible assets

Group	Goodwill €000	Patents, Trademarks and licenses €000	Development rights and capitalised development expenditure €000	€000
Cost				
Balance at 31 December 2006	1,415	855	1,317	3,587
Other acquisitions – internally developed	-	-	1,338	1,338
Other acquisitions – externally purchased	-	88	-	88
Effect of movements in foreign exchange	(112)	(77)	(167)	(356)
Balance at 31 December 2007	1,303	866	2,488	4,657
Other acquisitions – internally developed	-	30	2,138	2,168
Effect of movements in foreign exchange	38	32	(40)	30
Balance at 31 December 2008	1,341	928	4,586	6,855
Amortisation				
Balance at 31 December 2006	-	(46)	(4)	(50)
Amortisation for the year	-	(95)	(41)	(136)
Effect of movements in foreign exchange	-	8	-	8
Balance at 31 December 2007	-	(133)	(45)	(178)
Amortisation for the year	-	(71)	(83)	(154)
Effect of movements in foreign exchange	-	(8)	-	(8)
Balance at 31 December 2008	-	(212)	(128)	(340)
Net book value				
At 31 December 2007	1,303	733	2,443	4,479
At 31 December 2008	1,341	716	4,458	6,515

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 cost of sales.

Goodwill

Goodwill arose on the following acquisitions: Zenergy Power GmbH €170,000 (2007:€170,000), Zenergy Power, Inc. €1,103,000 (2007:€1,051,000) (US$1,535,000) and Zenergy Power Pty Ltd €68,000 (2007:€82,000) (Australian Dollars 136,000). Goodwill is denominated in the currency of the acquired entity.

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 Induction 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. In 2008 €2,138,000 (€2007:€1,338,000) has been capitalised (€3,478,000 (2007:€1,697,000) of internal costs net of €1,340,000 (2007:€359,000) of grants receivable).

Impairment testing

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 as follows: Fault Current Limiter - €1,171,000 (2007:€1,133,000), Superconducting Products including Coils and Induction heater - €170,000 (2007:€170,000). These cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

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. Amortisation has commenced in respect of the small induction heater, which commenced when the product was first available for sale in June 2007. As required by IAS 38 the Group has tested intangible assets not yet in use for impairment. The intangible assets relate to the same cash generating units as the goodwill arising on acquisitions as follows: Fault Current Limiter - €3,506,000 (2007:€1,199,000), Superconducting Products including Coils and Induction heater - €952,000 (2007:€444,000).

The recoverable amount of the cash generating units has been determined based on the value in use, which has been estimated based on discounted future cash flows of the cash generating units. Details of the key assumptions are provided below.

These assumptions are based on the entities budgets for 2009 and 2010 and thereafter assuming increasing unit sales volume (following the initial product launch), of up to a doubling of units per annum thereafter. A discount factor of 15-25% (2007:15-25%) has been applied to estimate the recoverable amount. Unit sales are based on managements expectations based on manufacturing scale up capability, estimated market size and expected customer demand.

Fault Current Limiter

The recoverable amount of the cash generating unit is based on the net present value (NPV) of forecast cash flows in the period to 2014. This period is considered appropriate due to the anticipated commercialisation of the product.

The forecast cash flows used in the calculation are based on the Group's budget for 2009 and 2010 and extrapolated thereafter in line with management's expectation of manufacturing scale up capability, estimated market size and expected customer demand. The sales assumptions used in preparing the budget for 2009 and 2010 are based on management's assessment of expected future contracts taking into account the status of negotiations with potential customers and future opportunities. Cost assumptions are based on past experience adjusted for known changes and expected inflation as appropriate. Cash flows for the period post 2010 are based on the 2010 budget but include the assumption of a significant increase in sales including a year on year doubling at the beginning of the forecast period. Sales price and gross margin has been held constant. The increase in unit sales volume is the key sensitivity; however, the increase in units is considered in line with expected market penetration rates for new technology products of a capital nature.

Cashflows have been discounted to their present value using a discount rate of 25% (2007:25%). This rate has been chosen based on management's assessment of the stage of commercialisation and their view of the relevant discount rate for a similar product. This rate was originally based on the third party valuation performed following the acquisition of Zenergy Power Inc and Zenergy Power Pty Limited in 2006, adjusted as the product has commercialised.

The amount by which the recoverable amount exceeds the carrying amount of goodwill, intangibles and tangible assets is €11.9 million.

HTS Products Including Coils and Induction heater

The key assumptions in determining the value in use are based on the Group's budget for 2009 and 2010, management's approach to determining the key budget assumptions are based on assumptions 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.

The NPV of cash flows to 2014 have been considered. This period is considered appropriate due to the anticipated commercialisation road map of the Group's product portfolio. The significant variables in the key assumptions are unit sales price, gross margin, unit sales per annum and operating costs. The increase in unit sales volume is the key sensitivity; however, the directors are confident the goodwill and intangibles are not impaired. Growth rates used to extrapolate cash flows notably based on an increase in units are considered to be in line with expected market penetration rates for new technology products of a capital nature.

Cashflows have been discounted to their present value using a discount rate of 15% (2007:15%). This rate has been chosen as management consider this rate appropriate in line with commercialisation and the associated technology risk.

The amount by which the recoverable amount exceeds the carrying amount of goodwill, intangibles and tangible assets is €2.9 million.

Company	Patents, Trademarks and licenses €000
Cost	
Balance at 31 December 2006	-
Other acquisitions – externally purchased	17
Balance at 31 December 2007	17
Effect of movements in foreign exchange	(3)
Balance at 31 December 2008	14
Amortisation	
Balance at 31 December 2006	-
Amortisation for the year	(1)
Balance at 31 December 2007	(1)
Amortisation for the year	(1)
Balance at 31 December 2008	(2)
Net book value	
At 31 December 2007	16
At 31 December 2008	12

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

14 Investments in subsidiaries

The Company has the following investments in subsidiaries

	Country of Incorporation	Class of shares held	Ownership 2008	2007
Zenergy Power GmbH (formerly Trithor GmbH)	Germany	Ordinary	100%	100%
Zenergy Power, Inc. (formerly SC Power Systems, Inc.)	USA	Ordinary	100%	100%
Zenergy Power Pty Limited (formerly Australian Superconductors 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 2007	7,664	5,703	1,101	14,468
Funding from Company	6,108	1,893	615	8,616
Share option charge	147	128	32	307
Other intercompany charges/(credits)	(1,078)	1,249	(75)	96
Foreign exchange translation	(2,752)	(1,727)	(358)	(4,837)
Balance at 31 December 2008	10,089	7,246	1,315	18,650

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/(loss) arising when translating the investment in subsidiary from Sterling to the Group's presentational currency of Euros.

No provisions are held against investments in subsidiaries.

15 Deferred tax assets and liabilities

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Intangible assets				
Patents and trademarks	223	237	-	-
Development rights	437	416	-	-
Deferred tax liabilities	660	653	-	-

Movement in deferred tax during the period

	31 December 2007 €000	Recognised in income €000	Recognised in equity €000	31 December 2008 €000
Intangible assets				
Patents and trademarks	237	(24)	10	223
Development rights	416	-	21	437
	653	(24)	31	660

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 2G and High Voltage Fault Current Limiters and the position will be reviewed each year. The Group's unrecognised deferred tax asset is €5,440,000 (2007: €5,014,000) of which €134,000 (2007: €1,153,000) relates to temporary differences on share based payments. The unrecognised deferred tax asset in respect of losses is €5,307,000 (2007: €3,861,000). €398,000 (2007: €384,000) of this asset relates to pre-acquisition losses of subsidiaries, the use of €380,000 (2007: €362,000) of these losses is restricted and unwinds by 2014. The balance of the losses can be carried forward indefinitely.

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 €520,000 (2007: €583,000) of which €3,000 (2007: €123,000) relates to temporary differences on share based payments.

16 Inventories

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Raw materials and consumables	356	143	-	-
Work in progress	152	362	-	-
Finished goods	-	38	-	-
	508	543	-	-

€1,028,000 has been recognised as an expense in the year (cost of sales) (2007: €157,000). No inventory has been written down in either year.

17 Trade and other receivables

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Trade receivables due from non-related parties	93	58	-	-
Receivable in respect of Government funded projects	512	405	-	-
Research and development tax receivable	-	150	-	-
Interest receivable	4	37	4	37
Gain on forward exchange contracts held at fair value	770	20	770	20
Other receivables and prepayments	523	233	148	33
	1,902	903	922	90

18 Cash and cash equivalents

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Bank – current account	873	60	633	2
Bank – deposit account	1,429	1,571	793	1696
Money market deposit	4,495	16,115	4,446	15,577
Cash and cash equivalents per cash flow statement	6,797	17,746	5,872	17,275

Included in the cash balance at 31 December 2008 is €636,000 against which bank guarantees are in place in respect of induction heater orders. €77,000 of this bank guarantee was released on 8th January 2009, the balance of €559,000, will be released on delivery to the customer. Delivery is scheduled Q4 2009.

19 Trade and other payables

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Trade payables due to related parties	-	150	-	150
Trade payable due to non related parties	807	465	121	18
Advance customer payments	181	633	-	-
Advance payments in respect of Government funded projects	125	235	-	-
Non-trade payables and accrued expenses	865	483	438	134
	1,978	1,966	559	302

20 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 does not include 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).

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 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
14 January 2008	6,575	-	10 years
12 February 2008	4,565	-	10 years
3 March 2008	17,750	-	10 years
31 March 2008	95,000	-	10 years
1 May 2008	10,027	-	10 years
16 June 2008	18,273	-	10 years
30 June 2008	13,447	13,447	10 years
1 November 2008	101,500	101,500	10 years
18 December 2008	390,000	390,000	10 years
	657,137	504,947	10 years

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

Group	Year ended 31 December 2008 Number of options	Year ended 31 December 2008 Weighted average exercise price	Year ended 31 December 2007 Number of options	Year ended 31 December 2007 Weighted average exercise price
Outstanding at the beginning of the period	1,346,280	62p	1,320,000	41p
Granted during the period	657,137	134p	126,280	258p
Exercised during the period	(90,409)	25p	-	-
Expired unexercised during the period	(55,008)	22p	(100,000)	30p
Outstanding at the end of the period	1,858,000	89p	1,346,280	62p
Exercisable at the end of the period	708,822	53p	443,117	39p

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

Company	Year ended 31 December 2008 Number of options	Year ended 31 December 2008 Weighted average exercise price	Year ended 31 December 2007 Number of options	Year ended 31 December 2007 Weighted average exercise price
Outstanding at the beginning of the period	250,000	97p	250,000	97p
Granted during the period	504,947	102p	-	-
Exercised during the period	-	-	-	-
Expired unexercised during the period	-	-	-	-
Outstanding at the end of the period	754,947	100p	250,000	97p
Exercisable at the end of the period	140,625	97p	78,124	97p

The options outstanding at the year end have exercise prices in the range of 21p to 292p and a weighted average contractual life of 8.5 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. To date no 'super options' have been granted.

This resulted in a share option charge of €343,000 (Group) and €40,000 (Company) in the year.

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

	Group Year ended 31 December 2008 €000	Group Year ended 31 December 2007 €000	Company Year ended 31 December 2008 €000	Company Year ended 31 December 2007 €000
Equity settled share based payment expense	343	408	40	52

In addition to the share options issued to employees, equity was issued in settlement of services to Bain, see Note 8 and Note 21.

21 Capital and reserves

Reconciliation of movement in capital and reserves

Group	Share capital €000	Share premium €000	Translation reserve €000	Warrant reserve €000	Retained loss €000	Total equity €000
Balance at 1 January 2007	532	10,046	(47)	200	(4,580)	6,151
Total recognised income and expense	-	-	(338)	-	(5,237)	(5,575)
Equity-settled share based payment transactions	-	-	-	-	408	408
Paid in share capital - cash	113	21,626	-	-	-	21,739
Balance at 31 December 2007	645	31,672	(385)	200	(9,409)	22,723
Total recognised income and expense	-	-	(2,407)	-	(5,272)	(7,679)
Equity-settled share based payment transactions	-	-	-	-	343	343
Paid in share capital – cash and services	4	378	-	-	-	382
Balance at 31 December 2008	649	32,050	(2,792)	200	(14,338)	15,769

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

Company	Share capital €000	Share premium €000	Translation reserve €000	Warrant reserve €000	Retained loss €000	Total parent equity €000
Balance at 1 January 2007	532	10,047	-	200	(137)	10,642
Total recognised income and expense	-	-	-	-	(1,241)	(1,241)
Equity-settled share based payment transactions, net of tax	-	-	-	-	408	408
Paid in share capital - Placing	113	21,625	-	-	-	21,738
Balance at 31 December 2007	645	31,672	-	200	(970)	31,547
Total recognised income and expense	-	-	(7,229)	-	(146)	(7,375)
Equity-settled share based payment transactions, net of tax	-	-	-	-	343	343
Paid in share capital- cash and services	4	378	-	-	-	382
Balance at 31 December 2008	649	32,050	(7,229)	200	(773)	24,897

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

Share capital

Ordinary shares in thousands of shares	Year ended 31 December 2008	Year ended 31 December 2007
On issue at start of period	43,948	36,091
Issued for cash	90	7,857
Issued in settlement of services	287	-
On issue at 31 December – fully paid	44,325	43,948

	2008 £000	2008 €000	2007 £000	2007 €000
Authorised				
Ordinary shares of £0.01 each	1,000	1,050	1,000	1,359
Allotted, called up and fully paid				
Ordinary shares of £0.01 each	443	649	439	645
Shares classified in equity		649		645

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 1 May 2007 4,285,746 new ordinary 1p shares were issued, at a price per share of £1.40, raising £5.7 million (net of fees of £0.3 million), which at the exchange rate prevailing on that date was equivalent to €8.4 million (net of fees of €0.4 million).

On 12 December 2007 3,571,484 new ordinary 1p shares were issued, at a price per share of £2.80, raising £9.7 million (net of fees of £0.3 million), which at the exchange rate prevailing on that date was equivalent to €13.3 million (net of fees of €0.5 million).

On 25 January 2008, 73,119 new Ordinary Shares were issued in respect of an exercise of options resulting in proceeds of £17,998 (€24,289).

On 6 May 2008, 6,873 new Ordinary Shares were issued in respect of an exercise of options resulting in proceeds of £1,500 (€1,905).

On 11 June 2008, 10,417 new Ordinary Shares were issued in respect of an exercise of options resulting in proceeds of £3,125 (€3,950).

On 11 December 2008, 287,082 new Ordinary Shares were issued in satisfaction and settlement of fees for services provided by Bain & Company, Inc, £300,000 (€352,000).

In number of shares	Number of shares	Net proceeds €000
On issue at start of year	36,090,582	-
Issued for cash – Placing 1st May 2007	4,285,746	8,426
Issued for cash – Placing 12th December 2007	3,571,484	13,312
On issue at 31 December 2007 – fully paid	43,947,812	21,738
Issued for cash – options exercised	90,409	30
Issued to extinguish fee for services	287,082	352
On issue at 31 December 2008 – fully paid	44,325,303	22,120

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.

22 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the loss attributable to ordinary shareholders of €5,272,000 (Year ended 31 December 2007: €5,237,000) and a weighted average number of Ordinary Shares outstanding during the period of 44,042,000 (Year ended 31 December 2007: 39,198,000), calculated as follows:

Thousands of shares	Year ended 31 December 2008	Year ended 31 December 2007
Issued ordinary shares at start of period	43,948	36,091
Placing – May 2007	-	2,853
Placing – December 2007	-	254
Options exercised	78	-
Shares issued for services	16	-
Weighted average number of ordinary shares at 31 December	44,042	39,198

On 29th April 2009 the Company announced a placing raising £9.5m (€10.6m) (£9.1m (€10.2m) net of expenses) by way of placing 7,916,667 new Ordinary Shares at a price of 120p with a number of new and existing institutional investors.

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 2008	Year ended 31 December 2007
Warrants	160	160
Share options	1,858	1,346
Total potential dilutive instruments	2,018	1,506

23 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 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Cash and cash equivalents				
Bank – current account	873	60	633	2
Bank – deposit account	1,429	1,571	793	1,696
Money market deposit	4,495	16,115	4,446	15,577
Cash and cash equivalents per cash flow statement	6,797	17,746	5,872	17,275
Trade and other receivables				
Trade receivables due from non-related parties	93	58	-	-
Receivable in respect of Government funded projects	512	405	-	-
Research and development tax receivable	-	150	-	-
Interest receivable	4	37	4	37
Gain on forward exchange contracts held at fair value	770	20	770	20
Other receivables and prepayments	523	233	148	33
	1,902	903	922	90

No collateral or security is held in relation to amounts shown within trade and other receivables. 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 no significant concentration of credit risk by customer or geography and the Group considers the possibility of significant loss in the event of non-performance by a commercial counterparty to be unlikely.

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 have never experienced non payment of Government funds.

Exposures to financial counterparties arise from the use of derivative financial instruments, 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.

Liquidity risk

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

Group 2008	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Trade and non trade payables and accruals	1,672	(1,672)	(1,672)	-
Advance payments from customers and government grants*	306	-	-	-
Other forward exchange contracts				
Outflow	-	(2,750)	(2,481)	(269)
Inflow	(770)	3,520	3,160	360
	1,208	(902)	(993)	91

Group 2007	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Trade and non trade payables and accruals	1,098	(1,098)	(1,098)	-
Advance payments from customers and government grants*	868	-	-	-
Other forward exchange contracts				
Outflow	-	(539)	(324)	(215)
Inflow	(20)	559	335	224
	1,946	(1,078)	(1,087)	9

* No cash outflow is expected in respect of advance payments from customers and government grants, the amounts are shown as payables as work to recognise the income was not complete at the balance sheet date.

Company 2008	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Trade and non trade payables and accruals	559	(559)	(559)	-
Other forward exchange contracts				
Outflow	-	(2,750)	(2,481)	(269)
Inflow	(770)	3,520	3,160	360
	(211)	211	120	91

Company 2007	Carrying amount €000	Contractual cash flow €000	6 months or less €000	6 – 12 months €000
Trade payables due to related parties	150	(150)	(150)	-
Trade payable due to non related parties	18	(18)	(18)	-
Non-trade payables and accrued expenses	134	(134)	(134)	-
	302	(302)	(302)	-

Interest rate risk

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

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Variable rate instruments				
Cash and cash equivalents	6,797	17,746	5,872	17,275

The Group and Company invests surplus cash in short term money market or deposit accounts. 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 2007.

Group 2008	Profit or loss 100 basis point increase €000	100 basis point decrease €000	Recognised directly in equity 100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	68	(68)	-	-
Cash flow sensitivity (net)	68	(68)	-	-

Group 2007	Profit or loss 100 basis point increase €000	100 basis point decrease €000	Recognised directly in equity 100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	177	(177)	-	-
Cash flow sensitivity (net)	177	(177)	-	-

Company 2008	Profit or loss 100 basis point increase €000	100 basis point decrease €000	Recognised directly in equity 100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	59	(59)	-	-
Cash flow sensitivity (net)	59	(59)	-	-

Company 2007	Profit or loss 100 basis point increase €000	100 basis point decrease €000	Recognised directly in equity 100 basis point increase €000	100 basis point decrease €000
Variable rate instruments	173	(173)	-	-
Cash flow sensitivity (net)	173	(173)	-	-

Foreign currency risk

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

Group 2008	Euros €000	USD €000	Sterling €000	AS Dollars €000
Trade receivables	780	162	922	39
Trade payables	(944)	(143)	(485)	(101)
Net exposures	(164)	19	437	(62)

Group 2007	Euros €000	USD €000	Sterling €000	AS Dollars €000
Trade receivables	528	113	90	172
Trade payables	(701)	(182)	(153)	(62)
Net exposures	(173)	(69)	(63)	110

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

Company 2008	Euros €000	USD €000	Sterling €000	AS Dollars €000
Trade receivables	-	-	922	-
Trade payables	(28)	(46)	(485)	-
Net exposures	(28)	(46)	437	-

Company 2007	Euros €000	USD €000	Sterling €000	AS Dollars €000
Trade receivables	-	-	90	-
Trade payables	(150)	-	(153)	-
Net exposures	(150)	-	(63)	-

The following significant exchange rates applied during the year:

Euro	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
USD	0.683391	0.730559	0.718442	0.68479
Sterling	1.257792	1.461285	1.05029	1.35883
Australian Dollar	0.577098	0.611723	0.501687	0.60097

The Company's functional currency was deemed to change from Euros to Sterling from 1 January 2008, following the Sterling placing in December 2007. 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 10.

Forward contracts have been taken to hedge the foreign currency requirements of the subsidiary entities to cover forward up to 12 months worth of budgeted cash flows. The Company is exposed to Sterling Euro exchange movements as the majority 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.

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 2008 €000	Fair value 2008 €000	Carrying amount 2007 €000	Fair value 2007 €000
Trade and other receivables	1,132	1,132	883	883
Cash and cash equivalents	6,797	6,797	17,746	17,746
Other forward exchange contract	770	770	20	20
Trade and other payables	(1,978)	(1,978)	(1,966)	(1,966)
	6,721	6,721	16,683	16,683
Unrecognised gain		-		-

Company	Carrying amount 2008 €000	Fair value 2008 €000	Carrying amount 2007 €000	Fair value 2007 €000
Trade and other receivables	151	151	70	70
Cash and cash equivalents	5,872	5,872	17,275	17,275
Other forward exchange contract	770	770	20	20
Trade and other payables	(559)	(559)	(302)	(302)
	6,234	6,234	17,063	17,063
Unrecognised gains		-		-

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2008 €000	Group 2007 €000
Less than one year	435	348
Between one and five years	2,151	832
More than five years	3,552	516
	6,138	1,696

The Company's operating lease commitments included in the table above is €8,000 all payable in less than one year (2007:€Nil).

During the year €394,000 (2007: €328,000) was recognised as an expense in the income statement in respect of operating leases.

€5,519,000 (2007: €1,516,000) of the total lease commitment relates to Zenergy Power GmbH's facility in Rheinbach, Germany. During the year the landlord has commenced an extension of the facility, which Zenergy will occupy by mid 2009, in conjunction with this extension Zenergy have extended the lease agreement from July 2015 to July 2025. Zenergy has an option to purchase the facility at market value.

None of the Group's 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. occupied new premises during the year and have sub leased their previous office at the same price as their rental. The lease expires in May 2009.

25 Capital commitments

During the year ended 31 December 2006, the Group entered into a long term supply contract for materials from October 2006 to March 2009. The contractual commitment at 31 December 2008 is €118,000 (2007: €575,000) All of this commitment is expected to be settled in the following financial year.

26 Contingencies

There were no contingencies at 31 December 2008 (2007:€Nil).

27 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 €6,108,000, Zenergy Power, Inc. €1,893,000 and Zenergy Power Pty Ltd €615,000.

Zenergy Power GmbH has manufactured superconducting magnets and procured wire for Zenergy Power, Inc. during the course of the year for which invoices of €867,000 were raised. Pricing between group companies is on an arms 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 16.2 per cent of the voting shares of the Company. Details of the holdings by Director are set out in the Director's report.

In December 2008, the Company was advised that Cloverleaf Holdings Limited ("Cloverleaf") a company incorporated in the British Virgin Islands and previously controlled by Zenergy's Chairman, Mr Fitzgerald, had been subject to a major restructuring of its assets for inheritance and succession purposes, the consequences of which are that the ownership of Cloverleaf has been transferred to a trust, the beneficiaries of which are the family of Mr Michael Fitzgerald, but not including himself, his wife or his children. As a result, Mr Fitzgerald is no longer deemed to be interested in any Ordinary Shares in Zenergy. Nonetheless, notwithstanding the fact that Cloverleaf is no longer deemed to be controlled by Mr Fitzgerald, in light of the continuing interests of Mr Fitzgerald's wider family, Cloverleaf has confirmed that it will continue to voluntarily comply with Zenergy's share dealing code on an ongoing basis and support Mr Fitzgerald as the Chairman of Zenergy. See also Directors report and Directors remuneration report.

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

John Voltz, non-executive director is an employee of Jane Capital Partners LLC a company in which Jane Linder the spouse of Woody Gibson (CEO of Zenergy Power, Inc.) has a controlling interest.

Christopher Nash, non-executive director was paid €7,000 (£6,000) in consulting fees for other services provided to the Company.

Jane Capital Partners LLC, a company in which Mr Gibson's spouse, Jane Lindner is interested has been reimbursed €6,000 ($9,000) in respect of health insurance arranged on behalf of Woody Gibson.

28 Post balance sheet events

These Financial Statements were authorised for issue on 8th May 2009 by the Audit Committee.

On 29th April 2009 the Company announced a placing raising £9.5m (€10.6m) (£9.1m (€10.2m) net of expenses) by way of placing 7,916,667 new Ordinary Shares at a price of 120p with a number of new and existing institutional investors.

Since the year end the Group has announced, in February 2009 a commercial contract for superconductor hydro power evaluation from RWE AG, followed in March 2009 by the news that the installation of a smart grid device into the U.S. electricity grid had been successfully completed. In April 2009 the Group announced a commercial contract for development of further smart grid device from The Consolidated Edison Company of New York.

6 Shareholder information

Corporate directory

Company registration number:	5509873
ISIN	GB00B19HBR28
Directors:	Michael Fitzgerald - Chairman, Non-executive Director Jens Müller -CEO, Executive Director Karen Chandler – CFO, Executive Director Keith Hodgkinson - Non-executive Director Christopher Nash - Non-executive Director Tony O'Reilly - Non-executive Director John Voltz - Non-executive Director
Company Secretary:	John Bottomley
Registered Office:	One America Square, Crosswall London, EC3N 2SG
Auditors:	KPMG Audit Plc Arlington Business Park, Theale Reading, RG7 4SD
Nominated Advisor and Broker:	Panmure Gordon & Co Moorgate Hall, 155 Moorgate London, EC2M 6XB
Joint Broker:	Mirabaud Securities Limited 21 St. James's Square London, SW1Y 4JP
Registrars:	Capita Registrars Ltd Northern House Woodsome Park, Fenay Bridge Huddersfield, HD8 0LA
Legal advisors to the Company:	Lawrence Graham LLP 4 More London Riverside London, SE1 2AU

6 Shareholder information

Useful information for shareholders

Shareholder enquiries

Shareholders who have questions relating to Zenergy's business or wish to receive further copies of annual or interim reports should contact us via email at andrew.tan@zenergypower.com.

If you have queries about your shareholding, please contact the Company's registrar, Capita Registrars,

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0GA
United Kingdom

Telephone: 0871 664 0300
(Calls costs 10 pence per minute plus network extras)
Overseas callers: +44 (0) 208 639 3399
Fax: +44 (0) 1484 601512

Email: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

Electronic communications

Zenergy encourages shareholders to register for electronic communication, registration can be completed via the shareholder portal, found under Investor RelationsShareholders Services on the company's website (www.zenergypower.com).

Choosing electronic shareholder information means you will receive an email every time any new shareholder information is published – instead of paper documents in the post.

These emails will contain weblinks to our annual and interim reports, documents relating to our annual general meeting and any other shareholder communications. The emails will come from our registrar, Capita Registrars. Shareholders are also able to register any shareholder votes online.

Annual General meeting

The Annual General Meeting of the Company will take place on 16th June 2009 at 11am, at the Company's registered office, One America Square, Crosswall, London, EC3N 2SG.

Analyst Coverage

Panmure Gordon (UK)	Mark Davis
Mirabaud Securities LLP	Kam Bansil
Charles Stanley Securities	Richard Hickinbotham
KBC Peel Hunt Ltd	Andrew Shepherd-Barron
Kepler Capital Markets	Ingo Queiser
Killik Capital	Peter Bate
Matrix Corporate Capital	Dr. Steven Fawkes
Nomura Code Securities	John-Marc Bunce
Ardour Capital Investments, LLC	Walter Nasdeo
Lux Research Power Journal	Oliver Tassinari

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