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Artemis Intelligent Power Limited

Report and Financial Statements

31 December 2012

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COMPANIES HOUSE

Artemis Intelligent Power Limited

Directors

S H Salter
W H S Rampen
W D Cameron
N J Caldwell
U Stein
T Sano
M Umayya
A Fukui
T Yaginuma
P Joly

Secretary

W H S Rampen

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

The Royal Bank of Scotland Plc
42 John Street
Penicuik EH26 8AB

Registered Office

17-21 East Mayfield
Edinburgh
Midlothian EH9 1SE

Principal Place of Business

3 Edgefield Industrial Estate
Loanhead
Midlothian EH20 9TB

Registered No. SC061639

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2012.

Results and dividends

The results for the year ended 31 December 2012 show a loss after taxation of £937,501 (2011 – loss of £2,289,864) as set out in the income statement.

The directors do not recommend the payment of a dividend (2011 – £ nil).

Principal activities and review of the business

The principal activities of Artemis Intelligent Power Limited (the company) in the year under review were those of carrying out scientific and technical research and the pursuit of practical and commercial application of such research.

Since the acquisition of the company by Mitsubishi Power Systems Europe, Limited (MPSE, or the parent company) in 2010, the company has focussed on the application of its patented Digital Displacement Technology to the advancement of offshore wind turbines. At this stage it is anticipated that a prototype for this application will be launched in 2013, with commercialisation of the product in 2015. The development of this application has been in part funded through MPSE under the UK Government's Efficient Offshore Wind Programme (EOWP).

The company's operating loss before tax (the company's only key performance indicator) has decreased by £1.3m in the year. Trading arrangements with the group expanded in the year, and this adversely affected income from third parties. Grant income was also unusually low in 2012, but as the company normally co-finances such grant-funded activity, it helped improve profitability. Substantially lower research and development expenditure has impacted on *Cost of Sales* and lower patent expenditure in the year has also led to improved results. The company continued its investment in resources to meet its new level of business activity, improving staff levels and expanding property facilities, and the expenditure on such has consequently risen in the year.

A significant development in the year was the termination of the exclusivity of an existing licence to utilise the company's technology in the automotive sector, with an effective date of 31 December 2012.

Future developments

The company has plans for further development of its technology to improve energy efficiency in road and rail vehicles, and in various industrial applications. In the longer term, the company will continue development of the technology for use in non-wind renewable energy applications.

Principal risks and uncertainties

The company's principal financial assets are cash and cash equivalents and trade and other receivables.

The company's credit risk is limited, with the majority of business and indebtedness being with its parent company, and other customer relationships being on the basis of long-term contracts.

Liquidity risk

The company's business activities, together with factors likely to affect its future development, performance and position are disclosed in this directors' report. The financial position of the company and its cash flow are presented in the balance sheet and statement of cash flows.

Excess cash is maintained in the current account or short-term deposit account, which carry limited financial risk.

The company is part of the MPSE group which oversees the company's operations and its funding requirements. The MPSE group has considerable financial resources, and therefore management do not consider that there is any particular liquidity risk factor facing the company.

Directors' report

Principal risks and uncertainties (continued)

Foreign currency risk

Sterling is the functional currency within the company. It also uses US Dollar and Euro bank accounts for a small part of its trading, with limited risk.

Operational management

The company is adopting MPSE's rules for internal audit, and has increased awareness of accountability and risk management as a result.

The MPSE group companies (the group) must maintain core operational activities. The group has established rules for internal audit and management are continually developing regular risk assessments by visiting branches and subsidiaries on a regular basis and by carrying out internal audit, instilling an awareness of accountability and risk management. The objective is to ensure sufficient working capital within the group and monitor the management of credit and operational risks at a business unit level on an on-going basis.

Legislative risks

The Company is subject to on-going changes in UK and European Standards and any new directive that may have an impact on the ability of the Company to provide services at a profit.

Events since the balance sheet date

There have been no significant changes to the company's circumstances since the year end.

Directors

The directors who served the company during the year and subsequently were as follows:

S H Salter

W H S Rampen

W D Cameron

N J Caldwell

U Stein

T Sano

M Umaya

A Fukui (appointed 9 March 2012)

T Yaginuma (appointed 13 November 2012)

P Joly (appointed 13 November 2012)

Going concern assessment

The company's business activities and the factors likely to affect its future development, performance and position together with the principal risks it faces are set out in the business review on page 2.

The company has considerable financial resources together with long-term contracts and relationships with a number of customers across different geographic areas. Furthermore, the main customer to the company is ultimately Mitsubishi Heavy Industries Limited (MHI) who is also the major supplier to the group. MHI is the ultimate parent company of the group.

The company directors and the management team regularly review the management financial statements along with forecasts, and as a consequence believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The company directors and the management team have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Dr W H S Rampen
Managing Director

4 July 2013

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

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

Independent auditors' report

to the members of Artemis Intelligent Power Limited

We have audited the financial statements of Artemis Intelligent Power Limited for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report

to the members of Artemis Intelligent Power Limited

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

James Hilditch (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
8 July 2013

Income statement

for the year ended 31 December 2012

		2012	2011
	Notes	£	£
Revenue	3	5,423,716	4,674,890
Cost of Sales		<u>(3,428,153)</u>	<u>(4,010,868)</u>
Gross profit		1,995,563	664,022
Administrative expenses		<u>(3,011,351)</u>	<u>(3,403,586)</u>
Trading loss		(1,015,788)	(2,739,564)
Other operating income		<u>9,910</u>	<u>399,094</u>
Operating loss	4	(1,005,878)	(2,340,470)
Finance revenue	5	2,274	531
Finance costs	6	<u>-</u>	<u>(3,095)</u>
Loss on ordinary activities before taxation		(1,003,604)	(2,343,034)
Income tax credit	9	<u>66,103</u>	<u>53,170</u>
Loss for the financial year	20	<u>(937,501)</u>	<u>(2,289,864)</u>

Statement of comprehensive income

for the year ended 31 December 2012

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £937,501 in the year ended 31 December 2012 (2011 – loss of £2,289,864).

Statement of financial position

at 31 December 2012

		2012	2011
	Notes	£	£
Non-current assets			
Plant and equipment	10	223,400	175,235
Intangible assets	11	1,437,071	1,637,596
Investment	12	7,381	7,381
Deferred tax assets	9(c)	356,853	182,856
		<u>2,024,705</u>	<u>2,003,068</u>
Current assets			
Inventories	13	314,395	102,578
Trade and other receivables	14	1,332,499	2,747,824
Deferred tax assets	9(c)	14,928	126,917
Cash and cash equivalents	15	1,828,021	176,955
		<u>3,489,843</u>	<u>3,154,274</u>
Total assets		<u>5,514,548</u>	<u>5,157,342</u>
Current liabilities			
Trade and other payables	16	(495,532)	(846,730)
Non-current liabilities			
Deferred tax liabilities	9(c)	-	(4,095)
Total liabilities		<u>(495,532)</u>	<u>(850,825)</u>
Net assets		<u>5,019,016</u>	<u>4,306,517</u>
Equity			
Share capital	18	1,862	1,862
Share premium account	20	3,719,768	3,719,768
Retained earnings	20	1,297,386	584,887
Total equity	20	<u>5,019,016</u>	<u>4,306,517</u>

The financial statements were approved by the board on 4 July 2013 and were signed on its behalf by:



Dr W H S Rampen
Managing Director

Statement of cash flows

for the year ended 31 December 2012

		2012	2011
	Notes	£	£
Cash flows from operating activities			
Cash receipts from customers		9,270,942	2,988,088
Cash-settled share-based payments		(1,650,000)	(1,800,000)
Cash paid to suppliers and employees		(5,904,939)	(3,283,023)
Tax refund		41,588	-
Net cash flow from operating activities		<u>1,757,591</u>	<u>(2,094,935)</u>
Cash flows from investing activities			
Purchase of plant and equipment	10	(110,561)	(130,836)
Purchase of intangible assets	11	(8,445)	(1,793,450)
Proceeds from sale of plant and equipment		10,207	103,948
Interest received		2,274	531
Net cash flow from investing activities		<u>(106,525)</u>	<u>(1,819,807)</u>
Cash flows from financing activities			
Proceeds from issue of share capital	20	-	3,700,000
Finance costs		-	(3,095)
Net cash flow from financing activities		<u>-</u>	<u>3,696,905</u>
Net increase/(decrease) in cash and cash equivalents		<u>1,651,066</u>	<u>(217,837)</u>
Cash and cash equivalents at 1 January		176,955	394,792
Cash and cash equivalents at 31 December		<u>1,828,021</u>	<u>176,955</u>
		<u>1,651,066</u>	<u>(217,837)</u>

Notes to the financial statements

at 31 December 2012

1. Authorisation of financial statements of compliance with IFRS

The financial statements of Artemis Intelligent Power Limited for the year ended 31 December 2012 were authorised for issue by the board of the directors on 4 July 2013 and the balance sheet was signed on the board's behalf by Dr W H S Rampen.

Artemis Intelligent Power Limited is a private limited company incorporated and domiciled in Scotland.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the company are set out in note 2.

2. Accounting policies

Basis of preparation

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union for the year ended 31 December 2012.

Going concern

The company has considerable financial resources together with long-term contracts and relationships with a number of customers across different geographic areas.

The company is part of the MPSE group which oversees the company's operations and its funding requirements. The MPSE group has considerable financial resources, and therefore management does not consider that there is any particular liquidity risk factor facing the company.

The company directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured excluding discounts, rebates, and other sales taxes such as VAT.

The following specific recognition criteria must also be met before revenue is recognised:

Rendering of Services

Revenue from the provision of long-term contracts is recognised by reference to the stage of completion. Stage of completion is measured by reference to total actual costs incurred to date as a percentage of total estimated costs for each contract on the basis that the contract outcome can be measured reliably based on the group's past experience in similar contracts.

Royalties

Royalties income is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Notes to the financial statements

at 31 December 2012

2. Accounting policies (continued)

Revenue recognition (continued)

Government grants and contributions

Government grants and contributions in respect of plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Share based payments

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in profit or loss for the period.

Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Judgements and estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

Inventories

Inventories are assets in the form of materials or supplies to be consumed in the rendering of services. Inventories are valued at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as a charge to income for the year. Any reversal of the write-down is recognised in the income statement in the year in which the reversal occurs.

Trade receivables

Trade receivables are carried at original invoice amount, including value added tax, less an estimate made for doubtful receivables based on a review of any outstanding amounts at the year end and on historical performance. Bad debts are written off in the year in which they are identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Available-for-sale financial investments

Available-for-sale financial investments are recorded at fair value.

Notes to the financial statements

at 31 December 2012

2. Accounting policies (continued)

Intangible assets

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation year or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation period for the principal categories of intangible assets is calculated as follows:

Software	–	3-5 years
Licences	–	10 years

Intangible assets are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Plant and equipment

Plant and equipment are stated in the Balance Sheet at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised on a straight-line basis over its useful life, as follows:

Plant and Equipment	–	3 to 5 years
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The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the group financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current income tax

The company is subject to income taxes in the United Kingdom. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for tax issues based on estimates of whether additional taxes will be due, based on its best interpretation of the relevant tax laws. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Notes to the financial statements

at 31 December 2012

2. Accounting policies (continued)

Impairment

The carrying amounts of the company's assets other than inventories, financial assets within the scope of IAS 39 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.

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.

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.

Calculation of recoverable amount – The recoverable amount of assets and cash-generating units is the higher of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment – An assessment is made at each reporting date as to whether there is an indication that a previously recognised impairment loss may no longer exist or may have decreased. If such an indication exists the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. If that is the case the carrying value is increased to its 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.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term.

Changes to Accounting Standards

New and amended standards and interpretations issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for later accounting years and which have not been adopted early. These are:

- IAS 1 presentation of Items of Other Comprehensive Income – Amendments to IAS1 effective for periods beginning on or after 1 July 2012.
- IAS 19 Employee Benefits (Revised) - The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". These amendments are not expected to impact the entity's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Notes to the financial statements

at 31 December 2012

2. Accounting policies (continued)

Changes to Accounting Standards (continued)

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011). As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. However, it is not applicable to the entity.
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the entity's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 Financial Instruments: Classification and Measurement. IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The standard has no effect on the entity's financial statements.
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 does not have any impact on the entity. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 11 Joint Arrangements. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. These amendments will not impact the entity's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the entity's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Notes to the financial statements

at 31 December 2012

2. Accounting policies (continued)

Changes to Accounting Standards (continued)

- IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This has no impact on the entity's financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- Annual Improvements May 2012 – these include improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements in the period of initial application.

Notes to the financial statements

at 31 December 2012

3. Revenue

Revenue is stated net of VAT and represents amounts receivable from sales to the British, European and U.S. markets.

	2012	2011
	£	£
Rendering of services	4,562,965	3,536,861
Royalties income	860,751	1,138,029
	<u>5,423,716</u>	<u>4,674,890</u>

4. Operating loss

This is stated after charging / (crediting):

	2012	2011
	£	£
Auditor's Remuneration	<u>12,600</u>	<u>12,000</u>
Depreciation of owned assets	59,388	46,634
Amortisation of intangible assets	<u>197,360</u>	<u>185,892</u>
Total depreciation and amortisation expense	<u>256,748</u>	<u>232,526</u>
Government grants (note 23)	(9,910)	(398,554)
Operating lease charge	117,349	73,590
Net foreign currency loss/(gain)	18,244	(804)

5. Finance revenue

	2012	2011
	£	£
Bank interest received	2,162	531
Other interest received	112	-
	<u>2,274</u>	<u>531</u>

6. Finance costs

	2012	2011
	£	£
Interest payable to group undertakings	<u>-</u>	<u>(3,095)</u>

Notes to the financial statements

at 31 December 2012

7. Directors' remuneration

	2012	2011
	£	£
Directors' remuneration	246,100	239,139
Social security costs	30,764	29,873
Pension costs	32,922	32,233
Fees	34,209	35,894
	<u>343,995</u>	<u>337,139</u>
Cash-settled share-based payment	<u>1,650,000</u>	<u>1,800,000</u>

As part of the acquisition of Artemis Intelligent Power Limited in 2010, £3,600,000 of the consideration payable to key employees was deferred by the acquirer. The deferred consideration is payable in equal instalments over a two year period and is contingent upon the continuing employment of the key individuals. The second and final instalment of £1,650,000 was paid in November 2012 and was accounted for as a cash-settled share-based payment transaction.

The above amounts for remuneration include the following in respect of the highest paid director:

	2012	2011
	£	£
Remuneration	<u>95,000</u>	<u>94,933</u>

The number of directors as of 31 December 2012 was 10 (2011 – 7).

8. Staff costs

	2012	2011
	£	£
Wages and salaries	1,198,686	1,112,703
Social security costs	121,303	111,330
Pension costs	39,697	31,775
	<u>1,359,686</u>	<u>1,255,808</u>

The monthly average number of employees (including directors) during the year was 48 (2011 – 44), all of whom are engaged in sales, administration and operation.

Notes to the financial statements

at 31 December 2012

9. Taxation

(a) Tax on loss on ordinary activities

The income tax credit is made up as follows:

	2012	2011
	£	£
UK corporation tax on the loss for the year	-	41,588
Deferred tax – current year	(2,110)	26,322
Deferred tax – prior year	80,276	(13,250)
Impact of change in tax rate	(12,063)	(1,490)
Total deferred tax	66,103	11,582
Income tax credit in income statement	66,103	53,170

(b) Reconciliation of the total income tax credit

The income tax credit in the income statement for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are explained below:

	2012	2011
	£	£
Accounting loss before taxation	(1,003,604)	(2,343,034)
Accounting loss before taxation multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	(245,883)	(620,904)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	8,644	1,182
R&D Tax credit	(194,991)	-
Adjustments in respect of prior periods – UK corporation tax	-	(41,588)
Adjustments in respect of prior periods – deferred tax	(80,276)	13,250
Impact of change in tax rate on deferred tax	12,063	1,490
Deferred consideration	404,250	477,000
Group relief not paid	30,090	116,400
Income tax credit in the income statement (note 9(a))	(66,103)	(53,170)

Notes to the financial statements

at 31 December 2012

9. Taxation (continued)

(c) Deferred tax

The deferred tax included in the statement of financial position relates to the following:

	2012	2011
	£	£
Deferred tax liabilities		
Accelerated capital allowances	4,912	(4,095)
	<u>4,912</u>	<u>(4,095)</u>
Deferred tax assets		
Tax losses	366,868	309,773
	<u>366,868</u>	<u>309,773</u>
Disclosed on Statement of financial position		
Deferred tax liabilities	-	(4,095)
Deferred tax assets – current	14,928	126,917
Deferred tax assets – non-current	356,853	182,856
	<u>371,781</u>	<u>305,678</u>

The deferred tax included in the income statement relates to the following:

	2012	2011
	£	£
Deferred tax in the income statement		
Accelerated capital allowances	(9,007)	(28,941)
Other timing differences	(57,096)	17,359
	<u>(66,103)</u>	<u>(11,582)</u>

(d) Factors affecting future tax charges

Deferred tax in respect of UK balances has been recognised at 23%. The Chancellor has announced further reductions to the rate of corporation tax for the coming years; a rate of 20% will be effective from 1 April 2015.

The overall effect of the change from 23% to 20%, if these applied to the company's deferred tax balances at 31 December 2012, would be to reduce the deferred tax asset by £48,000.

Notes to the financial statements

at 31 December 2012

10. Plant and equipment

	<i>Plant and equipment £</i>
Cost:	
At 1 January 2011	312,075
Additions	130,836
Disposals	(153,613)
At 1 January 2012	289,298
Additions	110,561
Disposals	(24,892)
At 31 December 2012	374,967
Depreciation:	
At 1 January 2011	(117,634)
Provided during the year	(46,634)
Disposals	50,205
At 1 January 2012	(114,063)
Provided during the year	(59,388)
Disposals	21,884
At 31 December 2012	(151,567)
Net book value at 31 December 2012	223,400
Net book value at 1 January 2012	175,235
Net book value at 1 January 2011	194,441

The company does not hold any fixed assets under finance leases at the yearend (2011 – £nil).

Notes to the financial statements

at 31 December 2012

11. Intangible assets

	<i>Software</i> £	<i>Licences</i> £	<i>Total</i> £
Cost:			
At 1 January 2011	40,094	-	40,094
Additions	93,450	1,700,000	1,793,450
At 1 January 2012	133,544	1,700,000	1,833,544
Additions	8,445	-	8,445
Disposals	(34,471)	-	(34,471)
At 31 December 2012	107,518	1,700,000	1,807,518
Amortisation:			
At 1 January 2011	(10,056)	-	(10,056)
Provided during the year	(15,892)	(170,000)	(185,892)
At 1 January 2012	(25,948)	(170,000)	(195,948)
Provided during the year	(27,360)	(170,000)	(197,360)
Disposals	22,861	-	22,861
At 31 December 2012	(30,447)	(340,000)	(370,447)
Net book value at 31 December 2012	77,071	1,360,000	1,437,071
Net book value at 1 January 2012	107,596	1,530,000	1,637,596
Net book value at 1 January 2011	30,038	-	30,038

12. Investment

The investment held by the company is a 40.00% interest in New Malone Company Limited.

Management's estimate of the market value of the assets at 31 December 2012 and 31 December 2011, on the basis that the financials of New Malone Company Limited remain dormant, is £7,381. The fair value of the assets is not discounted to present value due to its short duration and size.

Notes to the financial statements

at 31 December 2012

13. Inventories

	2012	2011
	£	£
Work in progress	<u>314,395</u>	<u>102,578</u>

14. Trade and other receivables

	2012	2011
	£	£
Trade receivables	218,266	219,550
Amounts owed by related parties	992,603	2,342,965
Prepayments	67,523	42,909
Accrued income	9,915	100,812
Other debtors	44,192	41,588
	<u>1,332,499</u>	<u>2,747,824</u>

The carrying amounts of the trade and other receivables are all denominated in sterling except for £209,379 denominated in US dollars.

15. Cash and cash equivalents

	2012	2011
	£	£
Cash at bank and in hand	<u>1,828,021</u>	<u>176,955</u>

16. Trade and other payables

	2012	2011
	£	£
Trade payables	264,070	316,297
Other taxes and social security payable	44,733	109,185
Amounts owed to fellow group companies	23,383	1,488
Accruals	138,599	171,125
Other creditors	24,747	248,635
	<u>495,532</u>	<u>846,730</u>

Notes to the financial statements

at 31 December 2012

17. Obligations under operating leases

The company has entered into commercial operating leases on certain properties.

Property lease agreements have duration of 9 years with break options at the end of years 3 and 6, and contain an option for renewal, with such options being exercisable at 6 months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2012	2011
	£	£
Not later than one year	138,590	73,590
After one year but not more than five years	529,360	294,360
After five years	481,860	73,590
	<u>1,149,810</u>	<u>441,540</u>

18. Issued share capital

	2012		2011	
<i>Authorised</i>	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of 1p each	186,225	<u>1,862</u>	186,225	<u>1,862</u>
	2012		2011	
<i>Issued and fully paid</i>	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of 1p each	186,225	1,862	149,225	1,492
Issued during the year	-	-	37,000	370
At 31 December	186,225	<u>1,862</u>	186,225	<u>1,862</u>

19. Financial instruments

The company has, as required by IAS 39 Financial Instruments: Recognition and measurement, reviewed all contracts for embedded derivatives as at 31 December 2012. The book and fair value were £nil (2011 – £nil).

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Notes to the financial statements

at 31 December 2012

19. Financial instruments (continued)

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current liabilities, other and financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments
- Fair value of available-for-sale financial assets is derived from management estimation. This is disclosed in note 12.

An explanation of the company's financial instrument risk management objectives and policies are set out in the director's report on pages 2 to 4.

20. Reconciliation of movements in equity

	<i>Share capital</i>	<i>Share premium account</i>	<i>Retained earnings</i>	<i>Total</i>
	£	£	£	£
At 1 January 2011	1,492	20,138	1,074,751	1,096,381
Loss for the year	–	–	(2,289,864)	(2,289,864)
Additions	370	3,699,630	–	3,700,000
Share based payment	–	–	1,800,000	1,800,000
At 1 January 2012	1,862	3,719,768	584,887	4,306,517
Loss for the year	–	–	(937,501)	(937,501)
Share based payment	–	–	1,650,000	1,650,000
At 31 December 2012	1,862	3,719,768	1,297,386	5,019,016

21. Events since the balance sheet date

There have been no significant changes to the company's circumstances since the year end

22. Related party transactions

Entities with significant influence over the group

Mitsubishi Power Systems Europe, Ltd. owns 100% of the ordinary shares of Artemis Intelligent Power Limited. Mitsubishi Heavy Industries Europe Limited (MHIE) in turn owns 100% of the ordinary shares of Mitsubishi Power Systems Europe, Ltd. ultimately; Mitsubishi Heavy Industries Limited owns 100% of the ordinary shares of Mitsubishi Heavy Industries Europe Limited.

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at arm's length. Outstanding balances with related parties are unsecured, interest free and cash settlement is expected 30 days from the invoice. The company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2012, the company has not made any provision for doubtful debts relating to amounts owed by related parties (2011 – £nil).

Notes to the financial statements

at 31 December 2012

22. Related party transactions (continued)

During the year the company entered into transactions, in the ordinary course of business, with related parties. Transactions entered into, and trading balances outstanding at 31 December with related parties, are as follows:

	<i>Sales to related party</i>	<i>Purchases from related party</i>	<i>Amounts owed by related party</i>	<i>Amounts owed to related party</i>
	£	£	£	£
Related Party 2012	4,434,316	27,871	992,604	23,383
Related Party 2011	3,554,066	—	2,342,965	—

23. Government grants

	2012	2011
	£	£
At 1 January	51,886	154,615
Received during the year	(51,881)	(501,283)
Released to the income statement (note 4)	9,910	398,554
At 31 December	9,915	51,886
Current	9,915	51,886
Non-current	—	—
At 31 December	9,915	51,886

Government grant is receivable from Technology Strategy Board (TSB) for the research and development work related to high efficiency digital hydraulic motor for kinetic energy recovery. There are no unfulfilled conditions or contingencies attached to the grant. The amount of £9,915 (2011 - £51,886) is included within accrued income on the balance sheet.