

Energetix Group plc Group Financial Statements
for the year ended 31 December 2010



Welcome to Energetix

Energetix has two businesses in the Group with cost-effective products to meet the growing global demand for alternative and efficient energy.

With a focus on distributed generation, and energy storage, Energetix businesses are:

Genlec

distributed generation in the home

Pnu Power

compressed air back-up power

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2010 Highlights:

- Profit of £1.6 million (2009 restated: £3.8 million loss), as a result of the deemed disposal of VPhase plc;
- Commercial sales generated turnover of £26,000 from continuing operations (2009 restated: £131,000 continuing);
- Operating losses from continuing operations increased to £3.2 million (2009 restated: £3.0 million) reflecting increased commercial activity within the Group;
- Successful transition of VPhase to a standalone, independently funded commercial venture;
- First units of Genlec's microCHP product, Kingston, are being trialed in staff homes and orders for trial units have already been secured from the UK, mainland Europe and North America;
- CE accreditation of the Kingston boiler to enable field trials;
- Pnu Power achieved accreditation of its Quality Management System to ISO 9001:2008; and
- The Pnu Power product range has been extended to include the high power DC100 product to meet the demand of the rapidly growing Green Data Centre market.

Post year end highlights

- The Group raised £2.3 million net of expenses through a placing in March 2011, to accelerate the commercial development of Genlec and Pnu Power.

Chairman's Statement



Alan J Aubrey
Non-Executive Chairman

“The Group has made a number of significant strategic steps during the period, and the Board is pleased with the progress made across all businesses. The certification of Kingston and subsequent orders is already promising, and the trials in staff homes are progressing well.”

The Company has continued to progress each business to a point where they can operate on an independent basis. The transition of VPhase to a standalone independently funded commercial venture was successfully completed during the year. VPhase is now treated as an associated undertaking of Energetix Group. The Group's remaining share of VPhase's market value as at 31 December 2010 was £7.3 million. We anticipate that this investment has the potential to grow as VPhase increases its commercial activities. This transition also played a significant part in Energetix Group being able to show a profit of £1.6 million for the financial year.

As outlined in my interim statement at the 30 June 2010, progress in bringing new technology developments to commercialisation can be delayed by technical hurdles and take up of a product by large corporate customers can be a slow process. Post the year end, the Group raised £2.3 million net of expenses from the placing of 10,000,000 new shares. The Directors believe that these additional funds will enable the Group to complete the transition of our Pnu Power and Genlec businesses to commercial success.

Whilst the development of our Genlec microCHP product has taken longer than originally anticipated, we are pleased that we now have our first Kingston boilers operating in staff homes, and we are confident that the major technical hurdles have now been overcome. The development of the Genlec product is now predominantly complete with workshop testing demonstrating performance in excess of specification. Sales of demonstration and testing units have commenced, CE certification of the boiler has been obtained and initial units have been installed in employee homes. It is expected that CE certification of the power module will follow in the second quarter of 2011. Genlec will carry on field testing whilst continuing market engagement through multiple channel partners to continue commercial sales and establish a basis for growth from 2012.

We are continuing to work with the major potential customers we have for our Pnu Power product range, and believe that these relationships will deliver orders during the current year. In addition, we are pleased that the Pnu Power range has been extended to include the DC100 product that can now meet the demand of the rapidly growing Green Data Centre market.

Alan J Aubrey
Non-Executive Chairman
22 March 2011



Home installation of the Kingston boiler



Chief Executive's Review

Business review



Adrian C Hutchings

Chief Executive Officer

Chief Executive's Review

The Group has now predominately completed all technology development, with the CE certification of the Genlec power module the only outstanding technology risk. It is anticipated that this will be completed shortly. The Board is pleased with the successful transition of VPhase, and was delighted that we were able to attract Vanda Murray OBE as my replacement as Chairman of the VPhase board. I believe that the ability to attract someone with the experience and credentials of Vanda speaks highly of the growth potential of the VPhase business. It also confirms our belief that it is important to match the right leadership skills with the right stage of commercialisation of each of our businesses. Vanda's highly successful background in sales and marketing, particularly in the building products sector, is an ideal fit with the needs of VPhase.

Genlec Review

The key strategic decision to develop a full microCHP appliance has enabled the Company to rapidly move from the prototype unveiled at our preliminary results presentation in March 2010 to CE approved units being tested in staff homes in January 2011. I would like to thank our Genlec team for their professional efforts and dedication in achieving this result. During the year, we have also worked closely with a major white goods manufacturer who has supported us in the installation of a pilot production line in our facilities at Chester. We have also worked with this manufacturer in the production of the first series of units.



Kingston ergonomic and industrial design

We have taken initial orders for Genlec's new appliance, trade named Kingston, from organisations in the UK, mainland Europe, and North America. We are in discussions with a wide range of companies for the development of commercial routes for the Kingston product as we believe that the greatest uptake of the product will be through multiple market routes.

A key design decision for the Kingston appliance was to develop the power module as a separate component. This decision has delivered several significant benefits in that the wall mounted unit can be installed in two parts, reducing the lift weight, allowing for the power module to be simply removed and replaced for maintenance, and meaning the boiler can be operated independently of the power module. This independent operation could even allow for "microCHP ready" boilers to be sold and power modules fitted at a later date.

During the year we recruited a manufacturing manager from the boiler industry who has undertaken a review of the anticipated volume cost of the Kingston appliance. I am pleased that this review indicates that we should be able to manufacture Kingston appliances for a lower cost than we had originally estimated, and this further underpins our belief that Kingston will be the lowest cost microCHP appliance.

Pnu Power Review

Pnu Power has completed the development and certification of a range of products for the telecommunication, power network, and data centre markets; in particular Pnu Power achieved accreditation of its Quality Management System to ISO 9001:2008.

Since the end of the year, Pnu Power has announced that it has developed and demonstrated a high powered system designed specifically for the power and reliability critical data centre market.

The new product, named DC100, has been successfully demonstrated to a number of industry experts, consulting engineers and potential customers from the data centre market.

The investment in greener data centres is predicted to experience rapid growth over the next five years, increasing from \$7.5 billion in global revenue to \$41.4 billion by 2015, representing 28% of the total data centre market (source: Pike Research, August 2010). Analysis indicates that power and cooling infrastructure solutions



will be the largest portion of the green data centre market opportunity, representing 46% of revenue over the next five years, providing strong economic and regulatory drivers for the development of battery free solutions like Pnu Power.

DC100's flexible back-up time, high efficiency and low maintenance are key benefits of the design. Internal estimates suggest that a typical 2MW data centre could save more than £1.75 million of electricity over its 20 year life by installing the Pnu Power DC100 solution rather than a typical rotary system, and also reduce total CO₂ emissions by more than 90% over that period.

To date the Pnu Power product range has been sold into the telecommunications and grid switching markets with systems in the 2kW to 20kW range.

The DC100 is a 100kW module and represents a significant step forward in power output. These modules can be linked together to create systems of up to 2MW of backup power with no material effect to performance. This new product uses the same robust technology as the smaller systems.

Pnu Power has been successful in achieving repeat trial sales in each of these markets; we now need to move out of the trial sales phase and into full volume commercial sales. From our experience of this transition with VPhase, it is our intention to recruit the necessary senior sales and marketing leadership for Pnu Power to take the business forward. Part of the recent fund raise will be used to undertake this recruitment and transition.

Market and Policy Framework

On 1 April 2010, the Government's Feed in Tariff ("FIT") became law. Under the terms of the legislation, the Government spelt out how microgeneration products would benefit from financial incentives to grow the small scale, low carbon electricity generation sector in the UK. The FIT comprises of three financial benefits to the owner of the microgeneration device such as a Genlec's microCHP. The first benefit is the generation tariff which gives the device owner a quarterly payment based on the measured kWh of generation from the device; secondly the electricity generated can be used at no cost to the consumer, avoiding purchasing that amount across the meter and therefore reducing their energy bill. Finally any amount of electricity generated and not consumed in the house is exported and receives a small export tariff.

Energetix was actively involved in the dialogue and lobbying in advance of the publishing of the FIT by the Department of Energy and Climate Change, through its engagement with the Heating and Hotwater Industry Council and the Combined Heat and Power Association. This involvement continues as we monitor and seek to influence the developing regulatory and incentive landscape.

Since the new Coalition Government came to power in May 2010, it has conducted a comprehensive spending review, published in October 2010 by HM Treasury. In this major review of Government spending it stated that, "the efficiency of the Feed in Tariffs will be improved at the next formal review, rebalancing them in favour of more cost effective carbon abatement technologies". This review was announced in February 2011 and will take place during the course of 2011, with a fast track review of solar farms which were not anticipated by the Government and are a threat to a balanced incentive programme for microgeneration. The high tariff under the FIT given to solar PV reflects the estimated 40 to 50 year payback without the FIT compared to 5 to 10 years for microCHP, although due to the inherent low cost of the Genlec technology the payback for our Kingston appliance could be as low as two years. This factor should bode well given the Treasury's drive towards supporting more cost effective solutions.

Energetix is also currently monitoring the development of the Green Deal, which will replace the energy efficiency obligations which power suppliers have under Carbon Emissions Reduction Target (CERT), to be introduced in 2012. The principle is that bill payers will be able to get energy efficiency improvements without having to pay upfront cash, with capital supplied to the bill payer through the product supplier, with the loan attached to the property and paid off through energy savings. Energetix is again involved through its industry associations in understanding how this opportunity will play out in the industry.

Following the significant progress made in 2010 and the recent successful fundraising, the Group is well positioned to capitalise upon the many opportunities that lie ahead in 2011.

Adrian C Hutchings
Chief Executive Officer
22 March 2011

Finance Review

Business review



Richard H Smith
Chief Financial Officer

Key highlights

Commercial sales continued generating turnover of £26,000 from continuing operations (2009 restated: £131,000).

Operating losses from continuing operations increased to £3,216,000 (2009 restated: £3,017,000) reflecting increased commercial activity within the Group.

Continued tight financial control resulting in cash reserves of £1,379,000 at the year end (2009: £5,657,000).

Operating results

	2010 £'000	Restated 2009 £'000
Revenue	26	131
Gross (loss)/profit	(33)	5
Operating loss-continuing operations	(3,216)	(3,017)
Profit/(loss) for the year	1,627	(3,847)
Profit/(loss) attributable to equity shareholders	2,294	(3,350)
Cash reserves 31 December	1,379	5,657*

*2009 cash reserves have not been restated.

Revenue

Revenue from continuing operations was £105,000 lower than 2009 at £26,000 (2009 restated: £131,000). This reduction is due to lower income from both Energetix (Pnu) Power Limited and Energetix Genlec Limited. The order book for Kingston subsequent to the year end has increased to c.£100,000.

Overheads

Overheads after capitalisation of intangible expenditure (excluding depreciation and amortisation) of £2,315,000 were incurred in the year (2009 restated: £2,277,000), an increase of £38,000. Following the deemed disposal of VPhase plc, Energetix Group plc recognises its share of the former subsidiary's loss and this amounted to £166,000 (2009: £Nil).

Depreciation of fixed assets and intangible amortisation

Depreciation of property, plant and equipment from continuing operations totalled £141,000 (2009: £181,000) on continuing operations.

Amortisation of intangible assets from continuing operations increased during the year as Pnu Power charged a full year of amortisation that began in 2009. This has resulted in an increase in the amortisation charge of £163,000 to £727,000 (2009 restated: £564,000).

Deemed disposal of subsidiary

During the year, the Chairman and Chief Executive of VPhase plc each subscribed for new ordinary shares in VPhase plc which resulted in a deemed gain to Energetix Group plc of £19,000. In addition, the Group also recognised a further deemed gain following the placing in VPhase plc amounting to £5,971,000 giving a total gain on deemed disposals of £5,990,000. Following the deemed disposals in VPhase plc, the Group retains 42.86% of the issued share capital of VPhase plc which is now considered an associated undertaking.

Finance costs/income

Interest earned on money held on deposit for continuing operations totalled £19,000 (2009 restated: £34,000). The fair value adjustment of long term borrowings attributable to interest rate risk has resulted in a charge of £148,000 during the period (2009: £48,000 charge).

Loss before tax

The loss before tax from continuing operations of £3,511,000 (2009 restated: £3,013,000) has increased from last year's reported loss largely due to the reduced contribution from sales, increased amortisation and recognition of the loss in the associated undertaking.

Tax

During the year, the Group received a tax credit of £458,000 (2009 restated: £130,000) in relation to research and development expenditure in 2008. We are now preparing claims for 2009 although, in accordance with the Group's accounting policies, no further amounts have been accrued for subsequent accounting periods as the amount expected to be recovered cannot be reliably measured.

Loss per share

The loss per share, basic and diluted, from continuing operations was 5.54 pence (2009 restated: 5.23 pence).

Profit/(loss) for the year and profit/(loss) attributable to equity shareholders

Profit for the year of £1,627,000 (2009: £3,847,000 loss) is stated after taking account of £667,000 (2009: £497,000) of losses in VPhase plc which are not attributable to equity holders of Energetix Group plc. Profit attributable to equity holders of Energetix Group plc amounts to £2,294,000 (2009: £3,350,000 loss).

Investment in property, plant and equipment

During the year £42,000 (2009 restated: £61,000) was invested in property, plant and equipment for continuing operations and is consistent with the Group's business model of outsourcing manufacturing operations to minimise capital investment requirements.

Investment in intangible assets

Investment in intangible assets during 2010 amounted to £1,070,000 (2009 restated: £1,217,000). This investment is the internally generated product development costs capitalised in accordance with IAS 38. Further details are contained in note 14.

Cash and cash equivalents

At 31 December 2010, the Group had cash and cash equivalent reserves of £1,379,000. On 14 March 2011, the Group raised a further £2,300,000 net of expenses following the placing of 10,000,000 new ordinary shares of 5 pence each at 25 pence per share.

Richard H Smith

Chief Financial Officer
22 March 2011



Board of Directors



Alan J Aubrey

Non-Executive Chairman

Alan is the CEO of IP Group plc, a FTSE 500 company that specialises in investing in and building technology businesses based on intellectual property originating from Universities and other research intensive institutions. He is the Non-Executive Chairman of Proactis Holdings plc, an AIM listed software company, based in York. He is a Non-Executive Director and investor in Syntopix Group plc, a Bradford based, AIM listed company that is developing new therapeutics for dermatology markets and a Non-Executive Director and investor in Avacta Group plc, a York based AIM listed company that has developed a number of products in the area of chemical and biological detection. Previously, Alan was the founder and CEO of Techtran Group Limited, a business that was sold to IP Group plc in 2005. From 1995 to 2000 Alan was a partner in KPMG where he specialised in providing corporate finance advice and raising money for fast growing technology businesses. Alan holds a BA in Economics and an MBA with Distinction from the University of Bradford and is a fellow of the Institute of Chartered Accountants of England and Wales. In addition, Alan is a Non-Executive Board member of the Department for Innovation, Universities and Skills.

Adrian C Hutchings

Chief Executive Officer

Prior to founding Energetix Group in 1997, Adrian was the Managing Director of International Energy Systems Ltd (IES), a subsidiary of BNFL which developed, manufactured, and marketed a high technology flywheel for storing electrical energy, for the UPS and distributed generation markets. Before this, Adrian was a Commercial Manager with BNFL New Business Ventures. His role was identifying technologies and business opportunities based on internal intellectual property, for non-nuclear applications, as part of a diversification programme. Prior to this he was the Project Manager for a £50 million capital, £500 million life cycle, design and construction project for a major facility at the Sellafield site. Adrian has a degree in Chemical Engineering. On 7 July 2010, Adrian resigned from the Board of VPhase plc.

Richard H Smith

Chief Financial Officer

A Fellow of the Chartered Institute of Management Accountants Rick also has an MBA from Warwick University. Prior to his appointment as CEO of VPhase plc, he was CFO of both VPhase plc and Energetix Group plc. He was previously FD for Ultraframe (UK) Limited, 2001-2004, and MD in 2004. Previous roles include the FD of Norcros Adhesives Limited, 1997-2001, which comprised subsidiary, joint venture and licensee operations in the UK, Middle East and India, the FD of International Energy Systems Limited, 1995 – 1997 and prior to this the FC of a division of Robinson Healthcare, a division of Robinson Limited.

Dr Henry J Cialone

Non-Executive Director

Dr Henry Cialone is President and CEO of Edison Welding Institute (EWI), North America's leading independent materials joining technology organisation and an Ohio Edison Centre. Henry became a Non-Executive Director on 14 March 2008. Prior to joining EWI in 2005, Henry was an executive at Battelle Memorial Institute, where he led the commercial energy business and served on the governing board of the National Renewable Energy Laboratory. Henry is a member of the National Coal Council and the Miami University Research Advisory Council; a Trustee of the Midwest Research Institute in Kansas City; and a Non-Executive Director of the NanoSteel Company, a venture-backed spinout from Idaho National Laboratory. Henry received his BS degree in Materials Engineering from Brown University (Brown), and his MS and PhD degrees in Materials Science, also from Brown, where his area of specialisation was hydrogen enhanced fracture.

Neil S Bright

Group Operations Director

Neil Bright joined Energetix Group from Exide Technologies, one of the world's largest producers of lead-acid batteries, where he was President of the Group's global Industrial Energy Division from 2000 to 2006. He was responsible for a US\$800m turnover division, managing industrial battery sales, manufacturing and logistics operations throughout Europe, the Middle East and Asia Pacific within a global telecommunications, UPS, and materials handling market worth US\$3 billion. Neil has lived and worked in Singapore, Cairo, Paris and Madrid in this industry, and is an acknowledged global expert on industrial batteries and stored power systems and their applications. Neil has an honours degree in Economics from the University of Manchester and a post-graduate Diploma in Marketing.

Corporate Responsibility

Overview

As our Company grows we are developing policies and procedures to ensure that we manage our growth responsibly.

As a Company we are committed to ensuring that our business is conducted to the highest ethical and professional standards and recognise that trust and reputation are key elements in our business and we make every effort to protect them.

Employees

Our reputation is dependent on the skill and professionalism of everyone within our business and we aim to achieve sustainable growth through attracting, developing and retaining skilled and motivated people. We promote equality in all areas of our operations.

The Group is committed to the highest standards of Health and Safety in all areas of our business, to minimise the risks to our employees, our customers and the general public.

Intellectual capital is a key strength of the Group and we encourage our staff to continuously develop their skills. We offer sponsorship for qualifications and allow study leave for exams.

Environment

As we develop our business operations we are building in environmentally friendly device processes and standards from the beginning. Our products are focused on delivering energy savings that reduce our customers' costs and their carbon footprint.

We work with our suppliers to ensure that their environmental approach is consistent with our own.

We recognise that we use significant amounts of energy within our operations, including supply chain, manufacture and distribution. On this basis we aim to reduce the amount of energy we use by improving the efficiency of existing buildings and processes and by seeking less environmentally harmful alternatives.

Suppliers

We regard suppliers as partners and seek to work closely with them to achieve our objectives. We buy from suppliers within the EU and use reputable sources.

We work with our suppliers to ensure that they meet our own standards of Corporate Responsibility.

Group Directors' Report

for the year ended 31 December 2010

The Directors present their report and the audited Financial Statements for the year ended 31 December 2010.

Basis of preparation of the Financial Statements

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In accordance with IFRS, the Financial Statements reflect the results of Energetix Group plc and its subsidiaries for the year ended 31 December 2010 and for the corresponding period in 2009. Further details are provided in note 2 to the Financial Statements.

Principal activities

Energetix Group plc is focused on the creation of shareholder value through the provision of home energy efficiency products and services and the supply of clean energy products for reliable back-up power.

Results and dividends

The profit for the year, after taxation, amounted to £1,627,000 (2009 restated: loss £3,847,000). The Directors do not recommend the payment of a dividend.

Review of business and future developments

The business has continued to develop its Genlec and Pnu Power products and the Directors are pleased to report that Genlec's CE approved Kingston units have been installed in staff homes and Pnu Power has developed and demonstrated a high power system designed specifically for the data centre market.

A more detailed appraisal of business developments is given in the Chairman's Statement and Chief Executive's Review and Financial Review on pages 2 to 7.

Risk review

The Directors have monitored the progress of the overall Group strategy and a review of the Key Performance Indicators (KPIs) is included below:

Key performance indicator	Progress
Revenue	Product revenue fell from £131,000 in 2009 to £26,000 in 2010. Post the year end, the Genlec order book currently stands at c.£100,000 and Pnu Power's new high powered DC100 unit has attracted considerable interest from potential partners and customers.
Product margins	A gross loss was shown in 2010 as the Group sold heavily discounted products to customers with the potential to provide significant future volumes. It is anticipated that future product sales will be made at a profit.
Warranty claims	The Group has experienced no warranty claims or issues.
Research and development costs	Technology is core to the Group's success and management are committed to providing the necessary resources to achieve our stated aims. Expenditure in Genlec was £988,000 (2009: £1,075,000) as the Kingston unit was progressed to staff home trials and in Pnu Power £82,000 (2009: £142,000) was expended in the development of the new high powered DC100 unit.
Administrative expenses	Overheads excluding depreciation and amortisation from continuing operations have increased by just 1.7% as the Board have exercised tight cash control.
Capital expenditure	Capital expenditure of £42,000 was incurred in the year (2009: restated £61,000). Energetix is not a capital intensive business and, in line with this philosophy, the Group will seek to outsource its manufacturing activities.
Cash management	The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while minimising costs and liquidity risk.
Creation of shareholder value	Through the key performance indicators outlined above, the Group is ideally positioned to capitalise upon the significant opportunities that lie ahead and, ultimately, create substantial shareholder value.

The key business risks affecting the Group are set out below:

Funding requirements

Following the placing of 10,000,000 new ordinary shares passed at the General Meeting 14 March 2011, the Group has sufficient financial resources to continue to operate for the foreseeable future.

Strength of the Group's bankers

The Group has reviewed and updated its treasury policy, and, in accordance with this, funds are only lodged with UK based financial institutions with an 'A' rating or better.

Failure of suppliers of essential goods and services

Wherever practical the Group seeks to dual source its key components and services. Each supplier is assessed and where necessary strategies to manage and protect supply to the Group are put in place.

Value creation

To provide long term shareholder value through the commercial growth of our two businesses leading to growing earnings per share. We aim to do this with our cost effective products designed to meet the growing global demand for alternative energy technologies.

The Group has a focus on distributed generation and energy storage, our businesses are:

- Genlec – distributed generation in the home; and
- Pnu Power – compressed air back-up power

The Group will also seek to realise value from its investment in VPhase plc through increases in the VPhase share price and will receive dividends or sell down its interest as appropriate.

Attraction and retention of key employees

The Group depends on its Directors and other key employees and whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed.

The Group has attempted to reduce this risk by offering competitive remuneration packages including the opportunity to participate in a share option scheme and investment in training, development and succession planning.

The Group has established the Energetix Group plc Save as You Earn scheme in which all employees at the date of commencement of the scheme were invited to participate.

Intellectual property

A significant part of the Group's future depends on its intellectual property for future development and growth. If intellectual property is inadequately protected, the Group's future success could become adversely affected.

The Group continues to invest in the protection and expansion of its intellectual property portfolio. In addition, the Group has established internal procedures and controls to capture new intellectual property, to prevent unauthorised disclosure to third parties and protect the Group's rights when dealing with supply chain partners.

Market acceptance

The Group's technologies are either incorporated into the products or processes of third parties, sold via distribution channels to the end consumer or supplied directly to industrial users. There can be no assurance that such products or processes will achieve commercial success or be an attractive alternative to conventional products or processes. If a mass market for any product or process fails to develop or develops more slowly than anticipated, the Group may fail to achieve profitability in respect of the technology associated with such product or process.

The Group's strategy of developing and producing products from existing components enabling lower costs for early products plus seeking specific channel partnerships which cover defined market applications and geographical focus, is designed to facilitate adoption of the products and to drive mass market uptake.

Research and development

The Group undertakes a significant amount of research and development to address opportunities in the alternative energy market. In 2010, the Group incurred research and development costs of £1,158,000 (2009 restated: £1,456,000) of which £1,070,000 (2009 restated: £1,393,000) has been capitalised in accordance with IAS38 'Intangible Assets'. See note 14 for an analysis of capitalised development costs.

Directors

The Directors who held office in the year are shown below:

A J Aubrey, Non-Executive Chairman
A C Hutchings, Chief Executive Officer
R H Smith, Chief Financial Officer
N S Bright, Operations Director
Dr H J Cialone, Non-Executive Director

Employees

Throughout the year, Directors of the Group provide relevant information to employees and engage in consultation with them to ensure that their views are considered.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled every effort is given to retrain them in order that their employment with the Group may continue.

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

Financial risk management objectives and policies

Other than the proceeds from the issue of shares, the Group uses various financial instruments that include loans, cash and various items, such as trade receivables and trade payables arising directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

Group Directors' Report continued

for the year ended 31 December 2010

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Directors review and agree policies for managing risk and these risk management policies have remained unchanged from previous years.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash balances of £1,379,000 as at 31 December 2010 (2009 £5,657,000). The maturity of borrowings is set out in note 20 to the Group Financial Statements.

Following the incorporation of Energetix Technologies Inc. in 2008, the Directors have assessed the Group's currency risk. Presently, the Directors do not believe that the Group's currency risk requires hedging, however this situation will be monitored and amended if appropriate.

Credit risk

The Group's principal financial asset is cash. Although the credit risk associated with cash is limited, the Group's treasury policy remains the same as in the year and is explained in more detail in note 24.1.

Supplier payment policy

It is the Group's policy, in respect of all suppliers, to agree payment terms in advance of the supply of goods and services and to adhere to those payment terms. Trade payables of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 30 days (2009: 37 days) and for the Company represent 60 days (2009: 102 days).

Going concern

Having made reasonable enquiries, the Directors are of the opinion that the Group has sufficient resources to continue in operational existence for the foreseeable future and hence these Financial Statements have been prepared on a going concern basis. Further details are disclosed within note 2.2 to the Financial Statements.

Major shareholdings

As at 21 March 2011 the Company had been notified of the following interests in 3% or more of the Company's issued share capital, pursuant to the Disclosure and Transparency rules of the Financial Services Authority:

	%
Aviva plc	9.86
Blackrock Investment Management	7.85
Ignis Investment Services Limited	6.09
Robert Quested	5.19
Invesco Limited	4.14
Gartmore Investments Limited	4.09

Corporate Governance Statement

The Directors are committed to maintaining high standards of Corporate Governance. Under the rules of the London Stock Exchange Aim Market, the Group is not required to comply with the Combined Code. Nevertheless, the Group has taken steps to comply in so far as it can be applied practically and appropriately given the size of the Group and the nature of its operations. This statement sets out how the Board has applied the principles of good corporate governance in its management of the business in the period ended 31 December 2010, relevant to the Group's size and complexity.

Board of Directors

During the period under review the Board comprised three Executive and two Non-Executive Directors. Biographies of the Directors are provided on page 8 and set out the broad range of commercial, technical and financial expertise possessed by Board members. The combination of skills and talents ensures that strategic focus and sound commercial stewardship is available to the Group. The Non-Executive Directors are highly experienced, exercise independent judgment on issues arising and are able to challenge constructively the decisions of the Executive Directors.

The roles of Chairman and Chief Executive are separate ensuring an appropriate division of responsibilities at the head of the Group.

All Directors are subject to election by shareholders and re-election thereafter is by rotation at intervals of not more than three years.

All Directors are offered an opportunity to request information and training relevant to their legal and other duties as a Director. They are also given written rules and guidelines setting out their responsibilities within an AIM listed Company. All Directors are able to take independent legal and professional advice, if required, at the expense of the Company. Directors have access at all times to the services of the Company Secretary who is responsible to the Board for ensuring that all agreed policies and procedures are followed and all relevant rules and guidelines are complied with.

Meetings of the Board

The Board, which meets regularly, at least ten times per year, has overall responsibility for the strategic direction and management of the business. All key decisions affecting the Group are considered by the Board as a whole. The annual Group budget and business plan, trading and cash flow forecasts, major items of capital expenditure and any other significant strategic actions all require Board approval.

Board Meetings are subject to a formal agenda and reports are tabled on the performance of each of the Group's businesses. Monthly management accounts, that compare actual results with budget, are subject to detailed review. Other strategic and commercial issues are considered as required. Board decisions are communicated on a timely basis to management to ensure that operational implementation occurs without delay.

Audit Committee

The members of the Audit Committee as at 31 December 2010 were A J Aubrey (Chairman), and Dr H J Cialone. Executive Directors are permitted to attend meetings at the discretion of the Chairman of the Committee. The Committee meets at least twice a year and there is an opportunity for any meeting to be in private between the Non-Executive Directors and the Company's auditors to consider any matter they wish to bring to the attention of the Committee.

The terms of reference and areas of delegated responsibility of the Audit Committee are in the consideration and approval of the following matters:

- monitoring the quality and effectiveness of the internal control environment, including the risk management procedures followed by the Group;
- reviewing the Group's accounting policies and ensuring compliance with relevant accounting standards;
- reviewing the Group's reporting and accounting procedures;
- ensuring that the financial performance of the business is properly measured and reported on;
- recommending the reappointment of the auditors and the level of their remuneration;
- considering reports from the auditors on the outcome of the audit process and ensuring that any recommendations arising are communicated to the Board and implemented on a timely basis;
- reviewing the Board's statement on internal control in the Annual Report; and
- ensuring compliance with the relevant requirements of the AIM Rules for Companies.

Remuneration Committee

The members of the Remuneration Committee as at 31 December 2010 were Dr H J Cialone (Chairman) and A J Aubrey. The Committee meets at least once a year and at such other times as its Chairman shall require and its terms of reference and areas of delegated responsibility are:

- determining the terms and conditions of service of all Directors including their remuneration and the granting of share options;
- seeking professional advice, as required, in order to ensure that the Group's remuneration arrangements are both competitive and appropriate to its scale and complexity by reference to other similar businesses; and
- ensuring that the Group complies with the relevant requirements of the AIM Rules for Companies.

Members of the Committee are not involved in any decisions in meetings at which their own remuneration is discussed.

Communication with shareholders

The Board is committed to constructive dialogue with its shareholders. The Company uses the AGM as an opportunity to communicate with its shareholders. The AGM will be held at 12 noon on 20 May 2011 at the Company's registered office: Castlefield House, Liverpool Road, Castlefield, Manchester M3 4SB.

The Group's website (www.energetixgroup.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, information on the Group's subsidiaries and details of all recent Group announcements.

Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication. The Board is also responsible for ensuring that assets are safeguarded and risk is identified as early as practicably possible. As noted, the Audit Committee has a significant role in this area. The internal control systems established are designed to manage rather than completely eliminate risk and can only provide reasonable but not absolute assurance against misstatement or loss.

The Group does not currently have an internal audit function and this is kept under review as the Group progresses from the technology development phase to the commercial supply phase.

The Board reviews the effectiveness of the systems of internal control and its reporting procedures and augments and develops these procedures as required to ensure that an appropriate control framework is maintained at all times.

The principal control mechanisms deployed by the Group are:

- Board approval for all strategic and commercially significant transactions;
- detailed scrutiny of the monthly management accounts with all material variances investigated;
- executive review and monitoring of key decision-making processes at subsidiary board level;
- Board reports on business performance and commercial developments;
- periodic risk assessments at each business involving senior executive management;
- standard accounting controls and reporting procedures; and
- regular liaison with the Group's auditors and other professionals as required.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and for the parent Company in accordance with United Kingdom Generally Accepted Accounting Practice and applicable laws. Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

Group Directors' Report continued for the year ended 31 December 2010

- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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.

In so far as each of the Directors are aware:

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

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

Auditors

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 489 of the Companies Act 2006.

On behalf of the Board

Adrian C Hutchings

Chief Executive Officer
22 March 2011

Group Directors' Remuneration Report

for the year ended 31 December 2010

This report to shareholders for the year ended 31 December 2010 sets out the Company's Remuneration policies as required by the AIM rules. This report is presented to disclose the key policies under which the Executive and Non-Executive Directors are remunerated and details of share interests of the Directors.

Composition and role of the Remuneration Committee

Membership of the Remuneration Committee during the year consisted wholly of independent Non-Executive Directors:

Henry J Cialone (Chairman)
Alan J Aubrey

The Committee met twice in 2010.

The Committee is responsible for determining on behalf of the Board, an appropriate remuneration policy for the Executive Directors and for designing a remuneration framework for them that is consistent with that policy. The Committee also monitors remuneration practice amongst other senior executives and determines the Chairman's fee level and that of the other Non-Executive Directors in consultation with the Chief Executive. No member of the Committee participates in discussions concerning their own remuneration.

Remuneration structure for Executive Directors

Overview

The Remuneration Committee is committed to maintaining high standards of corporate governance and has taken steps to comply with best practice in so far as it can be applied practically given the size of the Company and the nature of its operations.

Remuneration policy

The Committee aims to ensure that the total remuneration for the Executive Directors is soundly based, internally consistent, market competitive and aligned with the interests of shareholders. No Director takes part in decisions regarding their personal remuneration.

To design a balanced package for the Executive Directors and senior management the Committee considers:

- the individual's experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality, while avoiding remunerating those Directors more than is necessary;
- the link between the individual's remuneration package and the Group's long term performance; and
- to provide employment related benefits including the provision of life assurance and medical insurance.

Basic salary

Salaries are reviewed annually and are benchmarked against businesses of a similar size and stage of development. The review process is undertaken having regard to the development of the Group and the contribution that individuals will continue to make as well as the need to retain and motivate individuals. In this respect the Remuneration Committee draws on findings of external salary surveys and undertakes its own research.

Benefits

Directors are provided with life assurance for themselves and private medical insurance for themselves and their families.

Performance related pay

Directors can earn a cash bonus of up to one times their annual basic salary payable against meeting personal and business targets as set out by the Committee at the beginning of each year.

Share options

Share options are granted at the closing mid-market value of the Company's ordinary shares on the day prior to grant. The vesting criteria can be that the shares vest after three years or such other time period as the Committee may decide or against specific business and or market performance criteria.

Service contracts

Each Executive Director has a service contract with the Group which contains details regarding remuneration, restrictions and disciplinary matters. Executive Directors are appointed by the Group on contracts terminable on not more than 6 months notice.

Non-Executive Directors

The fees of the Chairman are determined by the Committee and the fees of the Non-Executive Directors by the Board following a recommendation from the Chairman. The Chairman and Non-Executive Directors are not involved in any discussions or decisions about their own remuneration.

The annual fee levels as at 31 December 2010 were

Chairman	£15,000
Non-Executive Director	£18,000

Non-Executive Directors are not eligible to participate in any of the Group's incentive schemes other than by way of share options.

Group Directors' Remuneration Report continued

for the year ended 31 December 2010

Directors' emoluments for the year ended 31 December 2010 (audited)

	Energetix Group plc				VPhase plc*			Total remuneration £
	Salary/fees £	Benefits £	Share-based payments £	Total £	Salary/fees £	Share-based payments £	Total £	
Executive								
Adrian Hutchings	157,000	1,000	–	158,000	16,000	–	16,000	174,000
Neil Bright	140,000	2,000	70,000	212,000	–	–	–	212,000
Richard Smith	73,000	1,000	–	74,000	47,000	–	47,000	121,000
Non-Executive								
Alan Aubrey	15,000	–	–	15,000	–	–	–	15,000
Henry Cialone	18,000	–	–	18,000	–	–	–	18,000
	403,000	4,000	70,000	477,000	63,000	–	63,000	540,000

*Remuneration from VPhase plc is included until it ceased to be a subsidiary.

Directors' emoluments for the year ended 31 December 2009 (audited)

	Energetix Group plc				VPhase plc			Total re- muneration £
	Salary/fees £	Benefits £	Share-based payments £	Total £	Salary/fees £	Share-based payments £	Total £	
Executive								
Adrian Hutchings	176,000	1,000	–	177,000	31,000	–	31,000	208,000
Neil Bright	168,000	2,000	6,000	176,000	–	–	–	176,000
Richard Smith	144,000	1,000	–	145,000	25,000	–	25,000	170,000
Non-Executive								
Alan Aubrey	15,000	–	–	15,000	–	–	–	15,000
Henry Cialone	18,000	–	7,000	25,000	–	–	–	25,000
	521,000	4,000	13,000	538,000	56,000	–	56,000	594,000

Directors' interest in Share options (audited)

	As at 1 January 2010	Granted during 2010	As at 31 December 2010	Weighted average exercise price (£)	Exercise period
Neil Bright (1)	225,000	930,000	1,155,000	0.497	8 years 2 months
Henry Cialone (2)	412,500	–	412,500	1.055	8 years 0 months

(1) 225,000 options have no performance criteria attached. 930,000 options may be exercised at any time in the ten year period following their grant and vest equally in three tranches, subject to certain commercial performance criteria being met. In addition all the options may be exercised if the market capitalisation of the Group exceeds £100 million for a sustained period of three months within twelve months of the date of grant or for a sustained period of one month thereafter until the tenth anniversary of their grant.

(2) No performance criteria are attached.

Directors' interest in shares (unaudited) are as follows:

		As at 1 January 2010	As at 31 December 2010
Adrian Hutchings	Ordinary shares of £0.05 each	11,267,965	11,267,965
Richard Smith	Ordinary shares of £0.05 each	1,740,377	1,740,377
Alan Aubrey	Ordinary shares of £0.05 each	1,074,486	1,074,486

Independent Auditor's Report

to the Members of Energetix Group plc

We have audited the financial statements of Energetix Group plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Changes in Equity, the Group Statement of Financial Position and the Group Statement of Cash Flows, Parent Company Balance Sheet, and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors

As explained more fully in the Statement of Directors' responsibilities set out on pages 13 and 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 Group Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Joanne Kearns

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

22 March 2011

Group Income Statement

for the year ended 31 December 2010

		Year ended 31 December 2010 £'000	Restated Year ended 31 December 2009 £'000
	Note		
Continuing operations			
Revenue	3	26	131
Cost of sales		(59)	(126)
Gross (loss)/profit		(33)	5
Administrative expenses		(3,183)	(3,022)
Operating loss		(3,216)	(3,017)
Share of loss from equity accounted investments	16	(166)	–
Finance costs	5	(148)	(48)
Finance income	5	19	34
Other gains	6	–	18
Loss before income tax from continuing operations	4	(3,511)	(3,013)
Income tax	10	458	130
Loss for the year from continuing operations		(3,053)	(2,883)
Discontinued operations			
Gain on deemed disposal of VPhase plc	25	5,990	12
Profit/(loss) from discontinued operations	21	(1,310)	(976)
Total profit/(loss) from discontinued operations		4,680	(964)
Profit/(loss) for the year		1,627	(3,847)
Attributable to:			
Equity holders of the Company		2,294	(3,350)
Non-controlling interest		(667)	(497)
		1,627	(3,847)
Basic earnings/(loss) per share:			
From continuing operations	12	(5.54)p	(5.23)p
From discontinued operations	12	8.49p	(1.75)p
Total	12	2.95p	(6.98)p
Diluted earnings/(loss) per share:			
From continuing operations	12	(5.54)p	(5.23)p
From discontinued operations	12	8.33p	(1.75)p
Total	12	2.89p	(6.98)p

The Group has no items to be recognised in the “Group statement of comprehensive income” and consequently this statement has not been shown.

The notes on pages 22 to 48 are an integral part of these Group Financial Statements.

Group Statement of Changes in Equity

for the year ended 31 December 2010

	Attributable to Equity Holder of the Company							Non-controlling interest £'000	Total equity £'000
	Share capital £'000	Share premium £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Warrant reserve £'000	Other reserves £'000	Total shareholders equity £'000		
Balance at 1 January 2009	2,756	15,198	(1,401)	(821)	591	150	16,473	1,512	17,985
Share issued:									
– 4 June 2009	1	15	–	–	–	–	16	–	16
– 6 August 2009	1	15	–	–	–	–	16	–	16
Lapse of share-based payments	–	–	68	–	–	(68)	–	–	–
Share-based payments	–	–	–	–	–	11	11	–	11
Other share-based payments	–	–	–	–	–	(16)	(16)	–	(16)
Lapse of warrants	–	–	256	–	(256)	–	–	–	–
Deemed disposal in VPhase plc (note 27)	–	–	–	–	–	–	–	13	13
Share buy-back	–	–	(43)	–	–	–	(43)	–	(43)
Transactions with owners	2,758	15,228	(1,120)	(821)	335	77	16,457	1,525	17,982
Loss for the year and total comprehensive income	–	–	(3,350)	–	–	–	(3,350)	(497)	(3,847)
Balance at 31 December 2009	2,758	15,228	(4,470)	(821)	335	77	13,107	1,028	14,135
Deemed disposal in VPhase plc (note 27)	–	–	–	–	–	–	–	(361)	(361)
Lapse of warrants	–	–	230	–	(230)	–	–	–	–
Warrants held by former subsidiary	–	–	105	–	(105)	–	–	–	–
Share-based payments	–	–	–	–	–	137	137	–	137
Transactions with owners	2,758	15,228	(4,135)	(821)	–	214	13,244	667	13,911
Profit/(loss) for the year and total comprehensive income	–	–	2,294	–	–	–	2,294	(667)	1,627
Balance at 31 December 2010	2,758	15,228	(1,841)	(821)	–	214	15,538	–	15,538

Total recognised income and expense recognised directly to equity amounts to £Nil (2009: £Nil).

Reverse acquisition reserve

The reverse acquisition reserve relates to the reverse acquisition between Energetix (Europe) Limited and Energetix Group plc on 8 August 2006.

Warrant reserve

On 15 August 2006 Energetix Group plc ('the Company') granted 1,350,000 warrants to its then broker and Nominated Advisor in relation to the flotation which lapsed during the year. On 1 August 2007, as part of the agreed placing costs, the Company granted 500,000 warrants to its then joint broker. The fair value of warrants is calculated using the Black-Scholes model at the time of grant and is charged to the share premium account. In 2008 warrants were issued by VPhase plc in settlement of part of its costs for placing shares in May 2008. At 31 December 2010, all warrants had lapsed.

Other reserves

Other reserves comprise of share-based payments for the cost of options granted to employees and the Company Secretary.

Non-Controlling interest

As at 31 December 2009, a non-controlling interest existed due to the Group owning less than 100% of VPhase plc. Following the Group's deemed disposal of VPhase plc during the year, no non-controlling interest is recognised as at 31 December 2010, see note 27.

The notes on pages 22 to 48 are an integral part of these Group Financial Statements.

Group Statement of Financial Position

as at 31 December 2010

	Note	As at 31 December 2010 £'000	As at 31 December 2009 £'000
ASSETS			
Non-current assets			
Goodwill	13	–	311
Other intangible assets	14	9,837	9,865
Property, plant and equipment	15	117	284
Investments in Associates	16	6,711	–
		16,665	10,460
Current assets			
Inventories	17	22	375
Trade and other receivables	18	334	272
Cash and cash equivalents	19	1,379	5,657
		1,735	6,304
Total assets		18,400	16,764
LIABILITIES			
Non-current liabilities			
Borrowings	20	1,821	1,600
		1,821	1,600
Current liabilities			
Borrowings	20	12	85
Trade and other payables	22	1,029	944
		1,041	1,029
Total liabilities		2,862	2,629
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	26	2,758	2,758
Share premium		15,228	15,228
Retained earnings		(1,841)	(4,470)
Reverse acquisition reserve		(821)	(821)
Warrant reserve		–	335
Other reserves		214	77
Total shareholders' equity		15,538	13,107
Non-controlling interest	27	–	1,028
Total equity		15,538	14,135
Total equity and liabilities		18,400	16,764

The notes on pages 22 to 48 are an integral part of these Group Financial Statements.

These Financial Statements were approved by the Board of Directors and authorised for issue on 22 March 2011 and were signed on its behalf by:

Adrian C Hutchings

Chief Executive Officer

Company number: 5819555

Group Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 £'000	Restated 2009 £'000
Cash flows from operating activities			
Cash consumed by operations	28	(3,158)	(3,804)
Taxation			
Tax received		458	130
Cash flows from taxation (discontinued)		-	5
		458	135
Cash flows from investing activities			
Expenditure on intangible assets	14	(1,070)	(1,217)
Purchases of property, plant and equipment	15	(42)	(61)
Interest received		19	34
Cash disposed on deemed disposal of subsidiary		(2,390)	-
Cash flows from investing activities (discontinued)		(1)	(180)
		(3,484)	(1,424)
Cash flows from financing activities			
Cash flows from financing activities (discontinued)		1,906	-
Repayment of financial liabilities	20	-	(232)
Share buy-back		-	(43)
		1,906	(275)
Net increase/(decrease) in cash and cash equivalents		(4,278)	(5,368)
Cash and cash equivalents at the beginning of the year		5,657	11,025
Cash and cash equivalents at the end of the year	19	1,379	5,657

The notes on pages 22 to 48 are an integral part of these Group Financial Statements.

Notes to the Group Financial Statements

for the year ended 31 December 2010

1. General information

Energetix Group plc ('the Company') and its subsidiaries (together 'the Group') develop products that provide solutions to certain identified problems in the alternative energy market. The addresses of its registered office and principal place of business are disclosed on page 56 of the Group Financial Statements. Energetix Group plc is a limited Company incorporated in England and Wales.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Group Financial Statements are set out below.

2.1 Standards and Interpretations effective in the current period

Adoption of new accounting policies

The Group has adopted the following revisions and amendments to IFRSs issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2010:

- IAS 27 Consolidated and separate financial statements (Revised 2008).

The effect on current, prior or future periods arising from first time adoption of this new requirement in respect of presentation, recognition and measurement are as follows:

- IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. These changes are applied prospectively. During the current period, the Group had no transactions with non-controlling interests. The disposal of the investment in VPhase plc (see note 25) was not affected by the adoption of IAS 27R.

There are no new interpretations, revisions or amendments to IFRS issued by the International Accounting Standards Board which are relevant and effective for the Group's financial statements for the annual period beginning 1 January 2010.

2.2 Basis of preparation

The Group Financial Statements of Energetix Group plc have been prepared in accordance with IFRS. The Group Financial Statements have been prepared under the historical cost convention, except that they have been modified to include the revaluation of certain non-current liabilities (note 20).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk are set out in the Group Directors' Report on pages 10 to 14. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 6 and 7.

In February 2011, the Group placed 10,000,000 new ordinary shares of 5p each at a price of 25p per share to raise gross proceeds of £2,500,000. A special resolution was passed on 14 March 2011 and the net proceeds were received on 15 March 2011.

The Group has sufficient financial resources and, together with contractual arrangements with certain economic partners in different geographical areas and industries, this provides a sound platform for launching the Group's products and generating future sales. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Group's forecasts and projections, which have been prepared for the period to 31 December 2013 and taking account of reasonably possible changes in performance, show that the Group should be able to operate within the level of its current cash resources.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group Financial Statements.

2.3 Critical accounting estimates and judgments

The preparation of the Group Financial Statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group Financial Statements are disclosed overleaf.

2. Summary of significant accounting policies *continued*

Critical accounting estimates

Research and development activities

Management have reviewed the Group's research and development activities and have made estimates and judgments on the amount of development expenditure it is appropriate to capitalise. The criteria which management have to make judgments about are set out in note 2.13.

Impairment of intangible assets

Management have conducted an impairment review of intangible assets and have to make judgments as to the likelihood of them generating future cash flow, the period over which those cash flows will be received and what costs are attributable against them. The recoverable amount is determined using the value in use calculation. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows. In support of the assumptions, management uses a variety of sources including third party published reports and knowledge from discussions with partners and potential partners in both the supply and distribution channels as set out in note 14.

Discount rate on intangible assets and financial liabilities

Management have exercised judgment in selecting the appropriate discount rate for application against intangible assets and have selected 10.0% (2009: 11.60%) to represent the best estimate of the current cost of capital to the Group, see note 14.

Share-based incentive arrangements and warrants

Share-based incentive arrangements are provided to management and certain employees. These are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions and the simulation model for options with market vesting conditions attached. Where arrangements have both conditions, management apply judgement to the likelihood of each condition. Management have to exercise judgment over the likely exercise period, interest rate and share price volatility. Management uses various sources of information including its own share price performance, or where there is insufficient history the performance of comparable listed entities, experience from the historical exercise of options and published data on bank base rates.

In August 2010, the Group established the Energetix Save as You Earn (SAYE) scheme open to all employees. In September 2010, the Group established individual Company Share Ownership Plan (CSOP) for a number of senior employees.

Taxation

Management have not provided for deferred tax in relation to unrelieved tax losses as the recoverability is currently uncertain.

Critical accounting judgments

Control over VPhase plc

At 31 December 2009, the Group held 49.09% of the ordinary share capital of VPhase plc and consolidated the results of the subsidiary on the basis that it controlled the financial and operating policies of VPhase plc through Board members. In addition, the Group retained control over 53.3% of the voting rights of the ordinary shares in VPhase plc as a result of retaining the voting rights over shares held by an Employee Benefit Trust.

In July 2010, Adrian Hutchings, the Chief Executive Officer of Energetix Group plc, resigned as Executive Chairman of VPhase plc. Following the placing in October 2010, the Group's direct holding in VPhase plc fell to 42.86% and, at the same time, Energetix Group plc lost control of the voting rights over the shares held in an Employee Benefit Trust. Consequently, from the end of October 2010, Energetix Group plc was no longer deemed to control VPhase plc. At this point, VPhase plc was no longer considered a subsidiary of the Group but an associated company and has been accounted for in accordance with IAS 28.

Disposal of VPhase plc

Following the deemed disposal in VPhase plc, the Group retains 42.86% of the issued share capital of VPhase plc and is no longer considered to control it. Consequently, VPhase plc is no longer considered a subsidiary but an associated company as the Group can demonstrate significant influence over the operational and financial policies of the entity by virtue of its shareholding. Accordingly, the comparatives of the income statement and cash flow have been restated as discontinued activities.

Previous deemed disposals (which did not result in a loss of control) have been accounted for under the 'Parent Company concept' as management deemed this to be the most appropriate basis of consolidation. Under this method where a part disposal of a subsidiary occurs and the relevant entity remains a subsidiary, the non-controlling interest will increase by the carrying amount of the net identifiable assets that are now attributable to the non-controlling interest due to the decrease in the Group's interest. Accordingly, any gain or loss is recognised as the difference between the proceeds of the disposal and the portion of the carrying amount of the net assets that have been disposed of, including goodwill. This accounting policy differs from the 'entity concept', whereby any gain or loss recognised on the sale of the subsidiary would be reported within equity. In addition, non-controlling interest would not be deducted in arriving at the profit or loss for the financial year and would be shown as equity in accordance with IAS 1.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

Financial liabilities

Management have considered the terms of agreement with Battelle Memorial Institute and consider the obligation for future repayments based on a percentage of mainstream sales to be a non-financial item. Due to the instrument containing an embedded derivative, the Group has designated the entire instrument as fair value through profit and loss (FVTPL), see note 20.

Amortisation of development assets

Development costs capitalised, which form part of the Group's intangible assets, are amortised on a straight-line basis over a period not exceeding 15 years starting from the point that those products resulting from the development activity commence mainstream sales. Sales of prototype products by Energetix Genlec Limited are deemed to still be in the development phase and accordingly no amortisation has been charged to the Group Income Statement for this subsidiary. Management deemed that mainstream sales commenced in June 2009 for Energetix (Pnu) Power Limited and, consequently, amortisation of these development costs began from this date.

2.4 Basis of consolidation

Consolidation model

The Group Financial Statements also incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities ('Parent Company concept').

Subsidiaries

The results of subsidiaries acquired or disposed of during the year are included in the Group Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Other than the deemed disposal of VPhase plc as set out in note 25, no acquisitions or disposals took place during the year.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Inter-Company

Inter-Company transactions, balances and unrealised gains on transactions between Group companies are eliminated in full. Accounting policies of the subsidiaries have been established to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. In accordance with IAS 27 losses applicable to non-controlling interests, whereby the minority does not have a binding obligation to cover the losses, have been fully provided.

Non-controlling interests in the net assets (excluding goodwill) of Group subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

Following the Group's disposal of VPhase plc during the year, no non-controlling interest is recognised as at 31 December 2010.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the Income Statement in the period for which they become receivable.

Goodwill

Goodwill arose on the reverse acquisition of VPhase Smart Energy Limited (formerly Energetix Voltage Control Limited) into VPhase plc (formerly Flightstore group plc), being the difference between the cost of the business combination and the fair value of VPhase plc's identifiable assets and liabilities at the acquisition date.

Following the Group's disposal of VPhase plc during the year, no goodwill is recognised as at 31 December 2010.

2. Summary of significant accounting policies *continued*

2.5 Intangible assets

The carrying values of intangible assets are tested for impairment at least annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intellectual property costs are included at cost and amortised on a straight-line basis over their useful economic lives from the date of acquisition over a period not exceeding 20 years or the remaining life of the patent if shorter. Amortisation is charged to administrative expenses.

Development costs capitalised (note 2.13), which form part of the Group's intangible assets, are amortised on a straight-line basis over a period not exceeding 15 years starting from the point that those products resulting from the development activity, commence mainstream sales.

Sales of prototype products by Energetix Genlec Limited are deemed to still be in the development phase and accordingly no amortisation has been charged to the Group Income Statement for this subsidiary. Management deem that mainstream sales commenced in June 2009 for Energetix (Pnu) Power Limited and, consequently, amortisation of development costs incurred until this date began from this point. During 2010, further development costs have been capitalised in relation to the 100kW telecoms unit as detailed in note 14.

Amortisation charges are recognised in the Group Income Statement within administrative expenses.

An impairment loss is recognised in the Group Income Statement within administrative expenses for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Intangible assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. The impairment review of intangible assets is analysed in note 14.

2.6 Property, plant and equipment

Leasehold improvements are stated at historical cost less depreciation. Depreciation is calculated using the straight-line method and is charged over the remaining period of the lease as follows:

– Leasehold improvements	4 years
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Plant and equipment is stated at historical cost less depreciation. Depreciation of assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

– Plant and equipment	3 years
– Furniture, fittings and equipment	3 years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued. Gains and losses on disposal are determined by comparing net proceeds with the carrying amount. These are included in the Group Income Statement.

2.7 Financial assets

Financial assets are classified into the following specified category: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivables are measured initially at fair value and thereafter at amortised cost using the effective interest method, less any impairment. Interest income is applied by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments through the expected life of the financial asset/liability, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is applied by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each Balance Sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition of the financial asset, the estimated cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Group Income Statement.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first-in, first-out cost formula. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits together with other short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.10 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Other financial liabilities

Other financial liabilities including borrowings as detailed in note 20 are recognised and valued at fair value through profit and loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.12 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities excluding VAT and trade discounts. Revenue is recognised as follows:

Sales of goods

Revenue from the sale of goods will be recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is when the goods have been delivered to, or collected by the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is when the goods have been delivered to, or collected by the buyer;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the asset to the net carrying amount of the financial asset.

2. Summary of significant accounting policies continued

Other income

Other income includes movements on financial liabilities designated at fair value through profit and loss.

2.13 Research and development

Research costs are charged against income as incurred. Certain development costs are capitalised as intangible assets when they meet the criteria discussed below. Such intangible assets are amortised on a straight-line basis from the point at which the asset is ready for use over the period of the expected benefit, and are reviewed for impairment at each Balance Sheet date or when events or changes in circumstances indicate that the carrying value may not be recoverable. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising expenditure as an asset are:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- that the Group has available to it adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- that the Group can reliably measure the expenditure attributable to the intangible asset during its development.

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee (other than Directors) costs incurred on technical development, testing and certification, materials consumed and any relevant third party costs. However, until completion of the development project, the assets are subject to impairment testing.

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the information available at each statement of financial position date which includes progress with field trials, testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors.

2.14 Operating leases

The Group's buildings and fixtures and fittings leases are regarded as operating leases and the payments made under them are charged to the Income Statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

2.15 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Group Income Statement because it excludes/includes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

2.16 Deferred tax

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities that are recognised are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Balance Sheet date.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Group Income Statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

2.17 Employee benefits

Share-based payments

The Group issues equity-settled payments to certain employees (including Directors). During the year, the Group established the Energetix Save as You Earn (SAYE) scheme open to all employees and individual Company Share Ownership Plans (CSOP) for a number of senior employees.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and the simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to 'other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and where appropriate share premium account.

Bonus plans

The Group operates discretionary staff bonus schemes for its employees and Directors paid in cash. The maximum annual bonus payable under the scheme is 100% of the relevant employee's basic annual salary (plus social security costs). Payments in excess of 10% of an employee's annual basic salary can be settled by the allocation of equity at the Company's discretion.

2.18 Other share-based payments

Warrants relating to the Company's placing and admission to AIM have been provided to certain third parties. Warrants are valued at the date of grant using the Black-Scholes option pricing model and are charged to share premium with a corresponding credit to 'warrant reserve'.

As at 31 December 2010, all outstanding warrants had lapsed.

2.19 Adopted IFRS not yet applied

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3R, clarify presentations of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Group's financial statements.

2. Summary of significant accounting policies *continued* **IFRS 9 Financial Instruments (effective from 1 January 2013)**

The IASB aims to replace IAS 39 Financial Instruments : Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapter dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

2.20 Foreign currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's currency reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

2.21 Operating segments

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products provided by the Group:

- products for distributed generation and load shifting, these are the microCHP products from Genlec; and
- products for power quality and reliability, these comprise the compressed air battery products of Pnu Power.

From 1 January 2011, the Group will no longer report the position and performance of products for energy efficiency (comprising the voltage control devices of VPhase) in its financial statements.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that development costs meeting the criteria of IAS 38 are not capitalised in subsidiary financial statements, see note 3 for a reconciliation of the segmental information to the primary statements.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

3. Segmental information

The Group's operating segments have been identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker as set out in note 2.21. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

The segment results for the year ended 31 December 2010 are as follows:

	Distributed generation and load shifting £'000	Power quality and reliability £'000	Other segments £'000	Total continuing £'000	Discontinued operations £'000	Total £'000
Revenue						
From external customers	–	26	–	26	212	238
Segment revenues	–	26	–	26	212	238
Operating loss	(1,922)	(1,092)	(175)	(3,189)	(1,312)	(4,501)
Finance Income	–	–	–	–	2	2
Other Income/costs	(286)	–	–	(286)	–	(286)
Discounts allowed	–	–	–	–	–	–
Loss before income tax	(2,208)	(1,092)	(175)	(3,475)	(1,310)	(4,785)
Income tax credit	293	165	–	458	–	458
Loss for the year	(1,915)	(927)	(175)	(3,017)	(1,310)	(4,327)
Depreciation/Amortisation (excluding Intangible assets)	(372)	(56)	–	(428)	(27)	(455)
Other non cash movements	(286)	–	–	(286)	–	(286)

Two minor operating segments, for which quantities thresholds have not been met, are currently combined above under 'Other segments'.

The discontinued operations segment relates to the energy efficiency service line which was disposed of during the year.

The segment results for the year ended 31 December 2009 are as follows:

Restated	Distributed generation and load shifting £'000	Power quality and reliability £'000	Other segments £'000	Total continuing £'000	Discontinued operations £'000	Total £'000
Revenue						
From external customers	44	87	–	131	124	255
Segment revenues	44	87	–	131	124	255
Operating loss	(1,930)	(1,015)	(846)	(3,791)	(992)	(4,783)
Finance Income	–	–	–	–	11	11
Other income	92	–	–	92	–	92
Discounts allowed	–	–	18	18	–	18
Loss before income tax	(1,838)	(1,015)	(828)	(3,681)	(981)	(4,662)
Income tax expense	78	52	–	130	5	135
Loss for the year	(1,760)	(963)	(828)	(3,551)	(976)	(4,527)
Depreciation/Amortisation (excluding Intangible assets)	(373)	(81)	(7)	(461)	(26)	(487)
Other non cash movements	92	–	–	92	–	92

3. Segmental information continued

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

	Distributed generation and load shifting £'000	Power quality and reliability £'000	Other segments £'000	Total continuing £'000	Discontinued operations £'000	Total £'000
Assets	8,784	2,099	3,948	14,831	9,864	24,695
Liabilities	(12,914)	(6,490)	(2,028)	(21,432)	(6,368)	(27,800)
Capital expenditure						
– Tangible	38	39	–	77	47	124
– Intangible	4,169	2,046	–	6,215	360	6,575

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Distributed generation and load shifting £'000	Power quality and reliability £'000	Other segments £'000	Total continuing £'000	Discontinued operations £'000	Total £'000
Assets	8,069	2,561	9,849	20,479	3,337	23,816
Liabilities	(11,308)	(5,128)	(4,563)	(20,999)	(3,638)	(24,637)
Capital expenditure						
– Tangible	55	98	3	156	61	217
– Intangible	3,181	1,964	–	5,145	398	5,543

The totals presented for the Group's operating segments reconcile to the entity's key financial figures from continuing operations as presented in its financial statements as follows:

	2010 £'000	2009 Restated £'000
Revenue from continuing operations		
Total segment revenues from continuing operations	26	131
Group revenues from continuing operations	26	131
Loss from continuing operations		
Segment operating loss from continuing operations	(3,189)	(3,791)
Other expenses not allocated	(1,097)	(619)
Research and development costs (note 14)	1,070	1,393
Group operating loss from continuing operations	(3,216)	(3,017)
Net finance (costs)/income from continuing operations	(129)	(14)
Other gains	–	18
Share of loss of associated company	(166)	–
Group loss before tax	(3,511)	(3,013)
Assets		
Total segment assets	24,695	23,816
Consolidation	(14,828)	(18,095)
Group headquarters	8,533	11,043
Group assets	18,400	16,764

Other expenses not allocated represent unallocated group costs and amortisation of intangible assets.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

3. Segmental information continued

Revenue from external customers can be summarised as follows:

	2010 £'000	2009 £'000
Sale of distributed generation and load shifting products	–	44
Sale of power quality and reliability products	26	87
Sale of energy efficiency products	212	124
	238	255
Attributable to:		
Continuing	26	131
Discontinued	212	124
Total	238	255

Geographic analysis of revenue:

	2010 £'000	2009 £'000
UK	212	188
Europe	12	20
USA	14	47
	238	255

All Group non-current assets are located within the UK.

The table below shows customers that constituted in excess of 10% of Group revenues from continuing operations:

Customer A, power quality and reliability products, £12,000 or 46%

Customer B, power quality and reliability products, £14,000 or 54%

Management note that as the commercial operations of each segment develop this concentration will diminish.

4. Loss before income tax

Loss before income tax is stated after charging/(crediting):

	2010 £'000	2009 £'000
Amortisation (note 14)	817	591
Depreciation (note 15)	175	207
Inventories recognised as an expense	–	148
Employee benefit expense (note 8)	2,754	2,458
Other share-based payment credit	–	(16)
Research costs (not capitalised)	88	63
Grant income received	(36)	(122)
Operating lease rentals:		
– buildings	116	116
Audit remuneration:		
– fees payable to Company auditor for the audit of Parent Company and Group Financial Statements	19	14
– subsidiary companies	16	12
Non-audit services:		
– tax services	42	45
– other services pursuant to legislation	3	3
Foreign exchange differences	1	4

The Group has not received any other forms of government assistance during the year, other than the government grant income as noted above. There are no unfulfilled conditions attached to government grants recognised in the year.

5. Net finance income/(costs)

	2010 £'000	2009 £'000
Loans and receivables (including cash and cash equivalents)	19	45
Fair value adjustment of long term borrowings attributable to interest rate risk (note 20)	(148)	(48)
	(129)	(3)
Attributable to:		
Continuing operations	(130)	(14)
Discontinuing operations	1	11
	(129)	(3)

6. Other gains

Other gains result from:

	2010 £'000	2009 £'000
Discounts allowed for settlement of loan notes	-	18
	-	18

7. Directors' remuneration

	2010 £'000	2009 £'000
Directors' emoluments		
Aggregate emoluments	470	581

Highest paid Director

The above includes remuneration of the highest paid Director as follows:

	2010 £'000	2009 £'000
Aggregate emoluments	174	208

8. Employee benefit expense

	2010 £'000	2009 £'000
Wages and salaries	2,394	2,172
Social security costs	223	227
Share options granted to Directors	70	13
Share options granted to employees	67	46
	2,754	2,458

The analysis above includes employee benefits capitalised in the development asset totalling £615,000 (2009: £655,000).

Attributable to:

	2010 £'000	2009 £'000
Continuing operations	2,175	2,117
Discontinued operations	580	341
Total	2,755	2,458

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

8. Employee benefit expense continued

Average number of persons employed:

	2010 No	2009 No
Finance, administration and management	31	18
Research and development	14	23
Total	45	41
Attributable to:		
Continuing operations	32	33
Discontinued operations	13	8
Total	45	41

9. Share-based payments

The Company established, in June 2006, two share option schemes in relation to ordinary shares, namely the Energetix Unapproved Share Option Scheme 2006 and the Energetix Enterprise Management Incentive Scheme 2006.

In August 2010, the Group established the Energetix Save as You Earn (SAYE) scheme open to all employees.

In September 2010, the Company established individual Company Share Ownership Plans (CSOPs) for a number of senior employees.

The Group grants options over the ordinary shares of the Company at not less than the market value of the Company's ordinary shares on the date of grant with the exception of the SAYE scheme due to the timing difference between making the offer and issuing the option.

The vesting period is generally three to four years. If the option remains unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	2010 No.	2010 Weighted average		2009 No.	2009 Weighted average	
		Exercise price (pence)	Remaining contractual life		Exercise price (pence)	Remaining contractual life
Number of outstanding share options at 1 January	709,789	86.8	8 years 8 months	607,500	50.7	7 years 11 months
Granted during the year	1,721,716	37.4	9 years 9 months	484,789	96.0	9 years 5 months
Lapsed during the year	-	-	-	(382,500)	41.1	-
Number of outstanding share options at 31 December	2,431,505	51.8	8 years 9 months	709,789	86.8	8 years 8 months

As at 31 December 2010, 709,789 share options were capable of being exercised (2009: 206,250) with a weighted average exercise price of 86.8 pence (2009: 105.5 pence).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and the simulation model for options with market vesting conditions, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'other reserves'. This resulted in a fair value charge of £137,000 (2009: £11,000) and a corresponding credit to other reserves.

9. Share-based payments continued

Assumptions

The following assumptions are used to determine the fair value of share options at the respective date of grant:

Date of grant	Exercise price (pence)	Ordinary shares under option	Share price at date of grant (pence)	Expected volatility	Interest rate	Life of option (years)	Expected dividends	Vesting requirements
23 April 2007	67.0	225,000	67.0	45.7%	5.75%	3	Nil	1
21 January 2009	105.5	412,500	39.5	38.7%	4.50%	1	Nil	1
7 September 2009	41.5	72,289	41.5	42.7%	4.50%	3	Nil	1
31 August 2010	23.0	608,862	29.5	40.8%	4.50%	3	Nil	1
29 September 2010	43.8	182,854	43.8	38.7%	4.50%	3	Nil	1
22 November 2010	45.5	930,000	39.3	41.5%	4.50%	3	Nil	2

- No performance criteria are attached and may be exercised until the tenth anniversary following their grant.
- The options may be exercised at any time in the ten year period following their grant and vest equally in three tranches, subject to certain commercial performance criteria being met. In addition all the options may be exercised if the market capitalisation of the Group exceeds £100 million for a sustained period of three months within twelve months of the date of grant or for a sustained period of one month thereafter until the tenth anniversary of their grant.

The middle market price of ordinary shares on 31 December 2010 was 37.3 (2009: 49.5) pence. The high and low market prices during the year were 52.0 (2009: 57.0) pence and 20.0 (2009: 27.0) pence respectively.

Expected volatility is derived from observation of the volatility of the Company's shares.

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

National insurance is payable on gains made by employees on exercise of share options granted to them.

10. Income tax

	2010 £'000	Restated 2009 £'000
Current tax		
Prior year adjustment	(458)	(130)

The prior year adjustment originates from a tax credit received in cash arising from research and development activities during the financial year ended 31 December 2008 undertaken in Energetix Genlec Limited £293,000 (2009: £78,000) and Energetix Pnu Power Limited £165,000 (2009: £52,000). In 2009, £5,000 was received in VPhase Smart Energy Limited formerly (Energetix Voltage Control Limited).

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the Group entities as follows:

	2010 £'000	Restated 2009 £'000
Loss before income tax	(3,511)	(3,013)
Loss before income tax multiplied by rate of corporation tax in the UK of 28.0% (2009: 28.0%)	(983)	(844)
Adjustment for tax rate differences	108	-
Adjustment for non-deductible expenses	172	11
Movement in deferred tax not provided	703	833
Adjustment in respect of prior periods	(458)	(130)
Current tax	(458)	(130)

Unrelieved tax losses of £15,936,000 (2009: £16,891,000) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

11. Deferred tax

The unprovided deferred taxation is calculated at a tax rate of 28% (2009: 28%) and is set out below:

	2010 £'000	2009 £'000
Accelerated capital allowances	(132)	(59)
Share-based payments	(23)	(62)
Other short term temporary differences	1,511	1,480
Trade losses	(4,303)	(4,729)
	(2,947)	(3,370)

12. Loss per ordinary share

The earnings per ordinary share is based on the profit of £1,627,000 (2009 restated: loss of £3,847,000) and 55,155,008 (2009: 55,138,105) ordinary shares of 5 pence each are being the weighted average number of shares in issue during the year. The diluted earnings per ordinary share include the effects of all potentially dilutive ordinary shares, which increases the weighted average number of shares to 56,214,267.

All shares have been included in the computation based on the weighted average number of days since issuance.

	Year ended 31 December 2010	Restated Year ended 31 December 2009
Profit/(loss) for the year (£'000)	1,627	(3,847)
Weighted average number of ordinary shares in issue	55,155,008	55,138,105
Basic earnings/(loss) per share (pence)	2.95	(6.98)
Diluted earnings/(loss) per share (pence)	2.89	(6.98)
Attributable to:		
Continuing operations		
Profit/(loss) attributable to equity holders of the Company (£'000)	(3,053)	(2,883)
Weighted average number of ordinary shares in issue	55,155,008	55,138,105
Basic loss per share (pence)	(5.54)	(5.23)
Diluted loss per share (pence)	(5.54)	(5.23)
Discontinued operations		
Profit/(loss) attributable to equity holders of the Company (£'000)	4,680	(964)
Weighted average number of ordinary shares in issue	55,155,008	55,138,105
Basic earnings/(loss) per share (pence)	8.49	(1.75)
Diluted earnings/(loss) per share (pence)	8.33	(1.75)

13. Goodwill

	Goodwill £'000
Year ended 31 December 2009	
Opening and closing net book value	311
Year ended 31 December 2010	
Opening net book value	311
Accumulated impairment	–
Deemed disposal (note 25)	(311)
Closing net book value	–
At 31 December 2009	
Cost and closing net book value	311

Goodwill arose on 25 September 2007 from the reverse acquisition of VPhase Smart Energy Limited formerly (Energetix Voltage Control Limited) into VPhase plc (formerly Flightstore Group plc) amounting to £311,000, being the difference between the cost of the business combination and the fair value of VPhase plc's identifiable assets and liabilities at the acquisition date.

Following the placing of 100,000,000 shares in VPhase plc, it is no longer a subsidiary of the Group and the goodwill has been eliminated (see note 25).

14. Other intangible assets

	micro-chp		Compressed air battery			Voltage Management	
	Intellectual property	Research and development asset	Total	Research and development asset	Total (Continuing operations)	Research and development asset (Discontinued operations)	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Year ended 31 December 2009							
Opening net book value	4,913	2,106	7,019	1,822	8,841	222	9,063
Additions	–	1,075	1,075	142	1,217	176	1,393
Amortisation	(336)	–	(336)	(228)	(564)	(27)	(591)
Closing net book value	4,577	3,181	7,758	1,736	9,494	371	9,865
Year ended 31 December 2010							
Opening net book value	4,577	3,181	7,758	1,736	9,494	371	9,865
Additions	–	988	988	82	1,070	–	1,070
Amortisation	(336)	–	(336)	(391)	(727)	(90)	(817)
Deemed disposal	–	–	–	–	–	(281)	(281)
Closing net book value	4,241	4,169	8,410	1,427	9,837	–	9,837
At 31 December 2010							
Cost	5,787	4,169	9,956	2,046	12,002	398	12,400
Accumulated amortisation	(1,546)	–	(1,546)	(619)	(2,165)	(117)	(2,282)
Deemed Disposal	–	–	–	–	–	(281)	(281)
Closing net book value	4,241	4,169	8,410	1,427	9,837	–	9,837
At 31 December 2009							
Cost	5,787	3,181	8,968	1,964	10,932	398	11,330
Accumulated amortisation	(1,210)	–	(1,210)	(228)	(1,438)	(27)	(1,465)
Closing net book value	4,577	3,181	7,758	1,736	9,494	371	9,865

All additions during the year arise from internal development. In addition, of the above amortisation £90,000 relates to discontinued activities (2009: £27,000).

Intangibles include internally generated product development costs capitalised in accordance with IAS 38 and purchased intellectual property held at cost less amortisation following the disposal of Energetix Micropower Limited as detailed below.

Intellectual property

On 16 April 2004, the Group disposed of its 60% investment in Energetix Micropower Limited to a third party for an initial consideration of £1,031,400 on completion of the transaction, deferred consideration of £4,200,000, of which £900,000 was due as at 16 April 2006, and contingent consideration of £600,000 (based upon the sale of 60,000 units by the acquirer). The deferred consideration was discounted at 6.75% from the date of disposal to the anticipated settlement date. Initially the discount was recorded as financing costs of £846,000.

On 16 April 2006, the third party indicated that they would not be paying the Group the deferred consideration for Energetix Micropower Limited that was originally sold in April 2004. The terms of the original Sale and Purchase Agreement contained clauses that anticipated this eventuality and accordingly resulted in the return of the intellectual property into a new subsidiary of the Group (Energyboost Limited (now Energetix Genlec Limited)) formed for the purpose.

The agreement also made provision for the original partner to Energetix Micropower Limited to participate in the new subsidiary with their original 40% equity holding.

The Group agreed that its original partner in this venture received a £3,000,000 preference debt in the new subsidiary in lieu of any entitlement to equity. The preference debt has been discounted at 6.75% from the date of assuming the preference debt until the anticipated settlement date. This preference debt will be paid out of the future earnings of the new subsidiary.

In accordance with IAS 38 the intellectual property has been capitalised at the discounted value of the deferred consideration foregone plus the value of debt assumed by the Company.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

14. Other intangible assets continued

	£'000
Current receivable foregone as at 16 April 2006	900
Discounted value of deferred consideration foregone	2,378
Discounted value of preference debt given for 40% of the equity	2,509
Value of intellectual property included in intangible assets	5,787

The remaining amortisation period of the intellectual property is 13 years.

Capitalised product development costs

The Group currently has internally generated intangible assets from development of its microCHP module and compressed air battery. Following the deemed disposal in VPhase plc during the year, the internally generated asset from the smart voltage management unit is no longer consolidated into these financial statements. All other development work has been written off as incurred where the criteria for recognition as an asset are not met.

Development costs are capitalised by the Group until the commencement of mainstream sales. Management determined that such sales began in Energetix (Pnu) Power Limited in June 2009 and, consequently, capitalisation of development costs ceased and amortisation of the carrying amount of the development assets within these businesses began this month. Development costs continue to be capitalised under IFRS for Energetix Genlec Limited as mainstream sales are yet to commence.

Following the commencement of mainstream sales in Pnu Power, development costs relating to products in existence at 1 January 2010 that are now being sold are expensed to the Income Statement and no longer capitalised. Subsequent to the commencement of mainstream sales, Energetix (Pnu) Power Limited incurred £48,000 of development costs that have been expensed to the Income Statement in relation to these products.

Additions may be analysed as follows:

	2010 £'000	2009 Restated £'000
Research and development capitalised during the year	1,070	1,217

Impairment review

In accordance with IAS 36, the Group has undertaken an impairment review by cash generating unit. The Group determines that the following cash generating units exist and that their individual costs of capital are:

Technology	Cash generating unit	Cost of capital	Total intangible carrying value £
Micro-CHP	Energetix Genlec Limited	10.0%	8,410,000
Compressed air battery	Energetix (Pnu) Power Limited	10.0%	1,427,000

Following a review of each business, the Directors do not believe that the carrying value in any of the Group's cash generating units is impaired and, hence, no charge has been made.

Key assumptions

All assumptions are applicable to both cash generating units. In determining value in use, forecasts have been prepared for the five years following the Balance Sheet date. These forecasts were constructed with the most recently prepared forecasts and prudent extrapolations beyond the forecast period.

Revenues were computed using:

- signed commercial agreements;
- memoranda of understanding with commercial partners; and
- management's expectations following discussion with various potential customers.

Costs have been calculated using existing cost bases adjusted for achievement of the above revenues.

Growth rates contained within the forecasts are based on management's expectations following discussions with potential customers and increase by various rates throughout the forecasted period. The forecasted value in use period is five years and is based on the approved forecasts for the period to 31 December 2013 and reasonably possible extrapolations thereon for the following two years.

14. Other intangible assets continued

The sales growth rate used beyond the forecast period in all businesses is in excess of GDP. Management asserts that such a growth rate is appropriate as the products of each CGU are novel and once customer adoption begins in earnest, a growth rate significantly in excess of UK GDP is to be expected.

Cost of capital

The Capital Asset Pricing Model (CAPM) has been used to arrive at the costs of capital stated above.

The components of this calculation were determined as follows:

Risk-free rate: lower range of UK Gilts as provided by the website of the Debt Management Office website (<http://www.dmo.gov.uk/>).

Market-return rate: taken as the annual return on the 'Industrial Engineering' and 'Electronics and Electrical Equipment' sectors within AIM for each year from 2 January 2004 to 31 December 2010.

Beta: taken from MoneyAM (<http://www.moneyam.com>).

Management note that the cost of capital may increase substantially across all companies before any material impact is noted.

Effect of reasonably possible changes

Management have undertaken scenario analyses, including a reduction in sales forecasts which would result in the value in use being less than the carrying value of each of the cash generating units. Under such a scenario, the carrying value of the intangible would be impaired and would require writing down. Management stress that this merely represents one modelled scenario and they do not believe any impairment is required.

15. Property, plant and equipment

	Leasehold improvement £'000	Plant and equipment £'000	Furniture fittings and equipment £'000	Total £'000
Year ended 31 December 2009				
Opening net book value	65	230	120	415
Additions	3	34	39	76
Depreciation charge	(25)	(108)	(74)	(207)
Closing net book value	43	156	85	284
Year ended 31 December 2010				
Opening net book value	43	156	85	284
Additions	9	20	27	56
Depreciation charge	(21)	(92)	(62)	(175)
Deemed disposal	–	(40)	(8)	(48)
Closing net book value	31	44	42	117
At 31 December 2010				
Cost	96	381	275	752
Accumulated depreciation	(65)	(297)	(225)	(587)
Deemed disposal	–	(40)	(8)	(48)
Closing net book value	31	44	42	117
At 31 December 2009				
Cost	88	361	229	678
Accumulated depreciation	(45)	(205)	(144)	(394)
Closing net book value	43	156	85	284

Of the above additions £14,000 (2009: £15,000) and depreciation £34,000 (2009: £26,000) relates to discontinued activities respectively.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

16. Investments in Associates

	2010 £'000	2009 £'000
Carrying value		
Value of investment at date of deemed disposal (note 25)	6,877	–
Share of loss from equity accounted investments	(166)	–
At 31 December	6,711	–
Included in:		
Non-current assets	6,711	–

Following the deemed disposal in VPhase plc, the Group retains 42.86% of the issued share capital of VPhase plc which is now considered an Associated company as the Group exerts significant influence over the company by virtue of its shareholding.

The carrying value at date of disposal has been calculated based on 343,855,009 shares held in VPhase plc at a share price of £0.02 at the date of disposal.

Summarised financial information relating to the associated undertaking is as follows:

	2010 £'000	2009 £'000
For the year ended/as at 31 December		
Revenue	266	124
Operating loss	(1,713)	(992)
Assets	3,118	2,670
Liabilities	(349)	(266)
Total equity	2,769	2,404

17. Inventories

	2010 £'000	2009 £'000
Raw materials	22	175
Finished goods	–	200
	22	375
Attributable to:		
Continuing operations	22	–
Discontinued operations	–	375

The cost of inventories recognised as an expense during the period in respect of continuing operations was £Nil (2009: £148,000).

18. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	98	70
Amounts owed by Associated companies	65	–
Prepayments and accrued income	83	90
Other receivables	88	112
	334	272

The average credit period on sales of goods is 152 days (2009: 103 days). No interest is charged on trade receivables.

Before accepting any new customer, the Group uses published credit information to assess the potential customer's credit quality and defines credit limits by customer.

Included in the Group's trade receivables balance are receivables with a carrying amount of £64,000 (2009: £Nil) which are past due at the reporting date. None of the other receivables are past due.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is significant given the low numbers of customers that the Group has although the quantum is not material. The Directors have made a credit provision of £64,000 at 31 December 2010 (2009: £Nil). The movement in the credit provision represents £64,000 of impairment losses recognised during the year.

The Group does not hold any collateral as security.

19. Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and in hand	1,379	5,657

20. Financial liabilities – Borrowings

	2010 £'000	2009 £'000
Current		
Financial liabilities designated at fair value through profit and loss (FVTPL)	12	85
	12	85
Non-current		
Financial liabilities designated at fair value through profit and loss (FVTPL)	1,821	1,600
	1,821	1,600

The maturity of non-current borrowings is as follows:

	2010 £'000	2009 £'000
Between 1 and 2 years	347	265
Between 2 and 5 years	1,474	1,335
	1,821	1,600

In July 2006, Energetix (Europe) Limited and Energetix Genlec Limited entered into an arrangement with Battelle Memorial Institute (Battelle) under which Battelle agreed to waive all rights to subscribe for 40% of the share capital of Energetix Genlec Limited in exchange for a £3,000,000 preference debt in Energetix Genlec Limited. The preference debt has been discounted at 10.0% (2009: 11.6%) from the date of assuming the preference debt until anticipated settlement date giving rise to a non-current liability of £1,821,000 (2009: £1,600,000) and a current liability of £12,000 (2009: £85,000). The terms are that it is not interest bearing, that £500,000 was repaid over the two years ending August 2008 and that the balance will be repaid by (i) an amount equal to 10% of any licence fees paid to Energetix Genlec Limited by any third party and (ii) 2% of amounts received by Energetix Genlec Limited in respect of all mainstream sales. The obligation for future repayments based on a percentage of mainstream sales is considered an embedded derivative. During the year, £Nil (2009: £Nil) was repaid and the discounting of future repayments at 10.0% (2009: 11.6%) has resulted in a £148,000 increase (2009: £48,000 increase) to the carrying value of the liability. The amount contractually repayable at 31 December 2010 was £2,500,000 (2009: £2,500,000).

Financial liabilities are recognised when the Group becomes party to the contractual agreement of the instrument. All interest related charges and changes in an instrument's fair value are reported in the Group Income Statement and are shown within finance income.

There are no other borrowing facilities or arrangements in place for the Group as at 31 December 2010 and 31 December 2009.

The change in value of the financial liability is derived from the level of mainstream sales expected to be obtained and, as such, is not attributable to changes in the credit risk of the liability.

21. Discontinued operations

The results of VPhase plc and its subsidiaries until the date of disposal, 31 October 2010, have been treated as discontinued operations. Consequently, the comparatives of the income statement and cash flow have been restated. The results of these operations have been summarised below:

	2010 £'000	2009 £'000
Loss for the year from discontinued operations		
Revenue	212	124
Cost of sales	(139)	(96)
Gross profit	73	28
Expenses	(1,385)	(1,020)
Finance income	2	11
Loss before tax	(1,310)	(981)
Tax	-	5
Loss for the year from discontinued operations	(1,310)	(976)

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

21. Discontinued operations continued

Cash flow from discontinued operations

	2010 £'000	2009 £'000
Net cash flow from operating activities	(1,192)	(1,351)
Net cash flow from investing activities	(1)	(180)
Net cash flow from financing activities	1,906	–
Net cash flows from tax	–	5
Net cash flows	713	(1,526)

22. Trade and other payables

	2010 £'000	2009 £'000
Trade payables	360	352
Amounts owed to Associated companies	178	–
Social security and other taxes	60	158
Accrued expenses	431	434
	1,029	944

23. Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2010 £'000	2009 £'000
Short-term benefits	523	645
Share-based payments	70	13
	593	658

The remuneration of Directors is determined by the remuneration committee having regard to performance of individuals and market trends detailed in the Remuneration Report on pages 15 and 16.

24. Financial instruments

24.1 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2009 and seeks to minimise costs and liquidity risk. At the beginning of 2009, in light of bank failures the Group adopted a new treasury policy which sets out to optimise the value from surplus cash balances giving priority to security then to liquidity and then to yield; and to preserve the principal value of the investment by investing surplus funds only with institutions of a high credit standing.

The capital structure of the Group consists of debt, which includes borrowings of £1,833,000 (2009: £1,685,000) as disclosed in note 20, cash and cash equivalents of £1,379,000 (2009 restated: £5,657,000) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 26 and in the Group Statement of Changes in Equity.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may in future adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets and reduce debt.

24.2 Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the Financial Statements.

24.3 Categories of financial instruments

	2010 £'000	2009 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,630	5,839
Financial liabilities		
Designated at fair value through profit and loss	1,833	1,685
Amortised cost	969	786

The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

Currently, the Group does not undertake a significant number of transactions denominated in foreign currencies. Nevertheless, the Directors are aware of the benefits of hedging currency transactions and will implement such procedures when the number and/or scale of such transactions makes such a course of action appropriate.

For commentary on market risk, interest rate risk, credit risk, currency risk and liquidity risk please see note 2 and the financial risk management objectives and policies disclosed in the Group Directors' Report on pages 10 to 14.

Furthermore, as detailed in note 20, there exists the obligation for future payments based on a percentage of mainstream sales by Energetix Genlec Limited against the preference debt. The maximum outstanding against this debt is capped at £2,500,000 (2009: £2,500,000). Payments are dependent upon mainstream sales with a consequent inflow of funds to the Group. Given the cash resources available to the Group, the Directors maintain that the liquidity risk inherent in this contingent liability can be adequately managed.

Contractual undiscounted cash flows in respect of financial liabilities (or outflows in respect of financial assets) are as follows:

	0 – 60 days 2010 £'000	61 days – 6 months 2010 £'000	7 months – 12 months 2010 £'000	13 months – 2 years 2010 £'000	Greater than 2 years up to 5 years 2010 £'000	Total 2010 £'000
As at 31 December 2010						
Trade and other payables	969	–	–	–	–	969
Total excluding derivatives	969	–	–	–	–	969
Financial liability held at FVTPL	–	–	13	420	2,067	2,500
	969	–	13	420	2,067	3,469

	0 – 60 days 2009 £'000	61 days – 6 months 2009 £'000	7 months – 12 months 2009 £'000	13 months – 2 years 2009 £'000	Greater than 2 years up to 5 years 2009 £'000	Total 2009 £'000
As at 31 December 2009						
Trade and other payables	786	–	–	–	–	786
Total excluding derivatives	786	–	–	–	–	786
Financial liability held at FVTPL	–	–	95	330	2,075	2,500
	786	–	95	330	2,075	3,286

24.4 Fair value hierarchy

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

24. Financial instruments continued

The financial liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2010	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities					
Designated at fair value through profit and loss	20	–	–	1,833	1,833
Net fair value		–	–	1,833	1,833

31 December 2009	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities					
Designated at fair value through profit and loss	20	–	–	1,685	1,685
Net fair value		–	–	1,685	1,685

There have been no transfers between levels during the period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Fair value measurement in Level 3

The Group's financial liabilities classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

31 December 2010	Financial liabilities at fair value through profit and loss £'000	Total £'000
Opening balance	1,685	1,685
Loss recognised in profit and loss for the period and presented in 'net finance costs/income'	148	148
Closing balance	1,833	1,833

The Group measures its fair value liability using a discounted cash flow model based on future sales. The Group has determined the applicable discount rate as set out in note 14.

The Group has determined future sales used in the model from agreed forecasts and, where such forecasts are not available, prudent extrapolations of such forecasts. Using alternative forecasts changes the fair value of the investment as follows:

Alternative sales forecast	Fair value at 31 December 2010 £'000	Change in fair value £'000
£0.5m reduction in 2011	1,829	4
£2.0m reduction in 2012	1,821	12
£4.0m reduction in 2013	1,788	45

Given the above management believe that the fair value presented in these Group Financial Statements is appropriate.

24.5 Liquidity risk

Liquidity risk is the risk arising from the Group not being able to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets. The Group does not have instruments that include accelerated repayment terms (for example in the event of a downgrade in credit rating).

24. Financial instruments continued

A contractual maturity analysis is included in note 24.3.

The Directors maintain that given the cash resources available to the Group, the liquidity risk inherent in the above may be adequately managed.

24.6 Interest rate sensitivity

The following table illustrates the sensitivity of the loss for the year and equity to a reasonably possible change in interest rates of 1% (2009: 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on an observation of current market conditions. The calculations are based on the Group's cash and cash equivalents held at the Balance Sheet date. All other variables are held constant:

	2010 £'000		2009 £'000	
	+1%	-1%	+1%	-1%
Loss for the year	14	(14)	83	(83)
Equity	14	(14)	83	(83)

25. Deemed disposals

On 7 July 2010, VPhase plc, an AIM listed former subsidiary, issued 1,680,672 new ordinary shares to the Chairman and Chief Executive Officer of VPhase plc at 2.38 pence per share. On 28 October 2010, VPhase plc placed 100,000,000 new ordinary shares at 2.00 pence per share. Energetix Group plc subscribed for no shares reducing its interest in VPhase plc from 49.09% to 42.86% and, consequently, VPhase plc is no longer controlled by Energetix Group plc. However, the Directors assert that, through its substantial shareholding, significant influence is exerted over VPhase plc and, as such, VPhase plc is no longer treated as a subsidiary but as an associated undertaking.

The reductions in the Group's interest in VPhase plc constituted deemed disposals at Group level and resulted in a gain to the Group as calculated below.

Deemed disposal 1

7 July 2010	2010		
	Group £'000	Minority Interest £'000	Total £'000
Fair value of consideration	40	–	40
Share of net assets disposed of	(21)	21	–
Gain on disposal	19	21	40

This deemed disposal did not result in VPhase no longer being treated as a subsidiary.

Deemed disposal 2

Placing of 100,000,000 shares 28 October 2010	£'000
Fair value of Energetix Group plc's shares in VPhase plc (note 16)	6,877
De-recognition of non-controlling interest	382
Write off of goodwill relating to VPhase plc (note 13)	(311)
De-recognition of previously consolidated assets of VPhase plc	(977)
Gain on deemed disposal	5,971

Following the deemed disposal in VPhase plc, the Group held 42.86% of the ordinary share capital of VPhase plc.

Total gains are therefore summarised as follows:

	2010 £'000	2009 £'000
Gain resulting from deemed disposal that arises on settlement of fees with equity	–	12
Gain resulting from deemed disposal on issue of new VPhase plc shares to VPhase Executive Directors	19	–
Gain resulting from placing of 100,000,000 new shares in VPhase plc	5,971	–
Total gain from deemed disposals	5,990	12

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

26. Share capital and reserves

26.1 Share capital

	31 December 2010		31 December 2009	
	Number of shares No.	Share capital £'000	Number of shares No.	Share capital £'000
Authorised				
Ordinary shares of 5p each	100,000,000	5,000	100,000,000	5,000
Issued and fully paid				
As at 1 January	55,155,008	2,758	55,122,958	2,756
Shares issued 10 June 2009	–	–	16,025	1
Shares issued 12 August 2009	–	–	16,025	1
As at 31 December	55,155,008	2,758	55,155,008	2,758

Issue of shares

No shares in Energetix Group plc have been issued in 2010.

26.2 Warrants

On 1 August 2007, as part of the agreed placing costs of the Company with its then broker, the Company granted 500,000 warrants with an exercise price of 120 pence to its then joint broker. These warrants were capable of being exercised over the three year period from the date of grant and lapsed during the year.

	Number of warrants	Weighted average exercise price (pence)	Weighted average remaining contractual life
At 1 January 2010	500,000	120	7 months
Lapsed	(500,000)	–	–
At 31 December 2010	–	–	–

No warrants were outstanding or capable of exercise at 31 December 2010 (2009: 500,000).

Lapses of £230,000 (2009: £256,000) resulted in a charge to warrant reserve and a credit to retained earnings.

In addition, warrants that were issued in part settlement of fees for the placing of 70,000,000 shares in VPhase plc in 2008 have been de-recognised in the consolidated statements of Energetix Group plc resulting in a charge to warrant reserve and credit to retained earnings of £105,000.

27. Non-controlling interest

As a result of the Group losing control of its former subsidiary, VPhase plc, the Group no longer recognises any non-controlling interest. The non-controlling interest at the beginning and end of the year are as follows:

	2010 £'000	2009 £'000
Balance at beginning of year	1,028	1,512
Share of loss for the year (until disposal of subsidiary in 2010)	(667)	(497)
Partial disposal of Energetix Voltage Control Limited (now VPhase Smart Energy Limited) (note 25)	21	13
De-recognition of remaining non-controlling interest 31 October 2010 (note 25)	(382)	–
Balance at end of year	–	1,028

28. Cash consumed by operations

	2010 £'000	2009 restated £'000
Continuing operations		
Loss before income tax	(3,511)	(3,013)
Adjustments for:		
– Loss attributable to Associate	166	–
– Depreciation	141	181
– Amortisation	727	564
– Finance income	(19)	(34)
– Other costs	148	48
– Share-based payments	137	11
Other share-based payments	–	16
– Deemed fair value of consideration on deemed disposal	–	25
– Discount on settlement of Axiomlab liability	–	(18)
Changes in working capital:		
– Increase in inventories	(22)	–
– (Increase)/decrease in trade and other receivables	(176)	185
– Decrease/(increase) in trade and other payables	443	(344)
Cash consumed by continuing operations	(1,966)	(2,379)
Discontinued operations		
Loss before income tax	(1,310)	(976)
Adjustments for:		
– Depreciation	34	26
– Amortisation	90	27
– Finance income	(2)	(11)
Changes in working capital:		
– Increase in inventories	(2)	(375)
– Increase in trade and other receivables	(88)	(42)
– Decrease/(increase) in trade and other payables	86	(69)
– Income tax	–	(5)
Cash consumed by discontinued operations	(1,192)	(1,425)
Total cash consumed by operations	(3,158)	(3,804)

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

29. Operating lease commitments – minimum lease payments

The Group leases various offices and light industrial units under cancellable operating lease agreements. The leases have varying terms and durations however all have the option to be determined on either six or twelve months notice from either the Company or the landlord.

The future aggregate minimum lease payments are:

	2010 £'000	2009 £'000
	Buildings	Buildings
Within one year	77	96
2 – 5 years	26	103

No sublease payments or contingent rent payments were made or received, neither do the Group's operating lease agreements contain any contingent rent clauses, renewal or purchase options or escalation clauses.

30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

From 1 November 2010, VPhase plc ceased to be a subsidiary of the Group and became an associated undertaking. Prior to this, Energetix Group plc charged management fees of £212,000 (2009: £218,000 full year) to VPhase plc. From 1 November 2010 to 31 December 2010, Energetix Group plc charged management fees of £28,000 for services provided to VPhase plc which was offset by a £4,000 charge for the services of the VPhase plc Chief Executive Officer, Richard Smith, as Chief Financial Officer of Energetix Group plc. At 31 December 2010, the net amount owed by Energetix Group plc and its subsidiaries to VPhase plc was £113,000 representing VAT repayable on purchases resulting from historic VAT grouping arrangements. From October 2010, VPhase plc established its own VAT grouping.

Company Balance Sheet

as at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	33	40	67
Investments	34	3,304	3,241
		3,344	3,308
Current assets			
Debtors	35	3,849	3,776
Cash at bank and in hand		1,339	3,957
		5,188	7,733
Creditors: amounts falling due within one year	36	(4,161)	(4,119)
Net current assets		1,027	3,614
Total assets less current liabilities		4,371	6,922
Net assets		4,371	6,922
Capital and reserves			
Called up share capital	38	2,758	2,758
Share premium account	39	15,228	15,228
Warrant reserve		–	230
Other reserves	41	214	77
Profit and loss account	42	(13,829)	(11,371)
Shareholders' funds	43	4,371	6,922

The notes on pages 50 to 55 are an integral part of the Company's Financial Statements.

These Financial Statements were approved by the Board of Directors and authorised for issue on 22 March 2011 and were signed on its behalf by:

Adrian C Hutchings

Chief Executive Officer

Company number 5819555

Notes to the Company Balance Sheet

31. Principal accounting policies – UK GAAP

Basis of preparation

The Financial Statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice).

The principal accounting policies of the Company have remained unchanged from the previous year and are set out below.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of -all tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

- | | |
|--------------------------|-------------------------|
| – Leasehold improvements | remainder of lease term |
| – Plant and machinery | 3 years |

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the Company are treated as operating leases. Rentals under operating leases are charged against profits on a straight-line basis over the period of the lease.

Investments

Investments are stated at cost, less amounts provided for permanent diminution in value.

Current tax

The current tax charge is based on the profit for the year and is measured at the amounts to be paid based on the tax rates and laws substantively enacted by the Balance Sheet date. Current and deferred tax is recognised in the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception; deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Equity-settled share-based payments

The Company issues equity-settled payments to certain employees (including Directors). During the year, the Company established the Energetix Save as You Earn (SAYE) scheme open to all employees and individual Company Share Ownership Plans (CSOPs) for a number of senior employees.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and the simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and where appropriate share premium account.

31. Principal accounting policies – UK GAAP continued

Other share-based payments

Warrants relating to the Company's placing and admission to AIM have been provided to certain third parties for services rendered. Warrants are valued at the date of grant using the Black-Scholes option pricing model and are charged to share premium with a corresponding credit to 'warrant reserve'.

Estimation techniques

The Company has conducted an impairment review of investments and as such has had to make judgements as to the likelihood of them generating future cash flows, the period over which those cash flows will be received and what costs are attributable against them. The recoverable amount is determined using the value in the calculation. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows. In support of the assumptions, management uses a variety of sources including third party published reports and knowledge from discussions with partners and potential partners in both the supply and distribution channels.

32. Share-based payments

The Company established, in June 2006, two share option schemes in relation to ordinary shares, namely the Energetix Unapproved Share Option Scheme 2006 and the Energetix Enterprise Management Incentive Scheme 2006.

In August 2010, the Group established the Energetix Save as You Earn (SAYE) scheme open to all employees.

In September 2010, the Company established individual Company Share Ownership Plans (CSOPs) for a number of senior employees.

The Group grants options over the ordinary shares of the Company at not less than the market value of the Company's ordinary shares on the date of grant with the exception of the SAYE scheme due to the timing difference between making the offer and issuing the option.

The vesting period is generally three to four years. If the option remains unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	2010 No.	2010 Weighted average		2009 No.	2009 Weighted average	
		Exercise price (pence)	Remaining contractual life		Exercise price (pence)	Remaining contractual life
Number of outstanding share options at 1 January	709,789	86.8	8 years 8 months	607,500	50.7	7 years 11 months
Granted during the year	1,721,716	37.4	9 years 9 months	484,789	96.0	9 years 5 months
Lapsed during the year	–	–	–	(382,500)	41.1	–
Number of outstanding share options at 31 December	2,431,505	51.8	8 years 9 months	709,789	86.8	8 years 8 months

As at 31 December 2010, 709,789 share options were capable of being exercised (2009: 206,250) with a weighted average exercise price of 86.8 pence (2009: 105.5 pence).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and the simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'other reserves'. This resulted in a fair value charge of £137,000 (2009: £11,000) and a corresponding credit to other reserves.

Notes to the Company Balance Sheet continued

32. Share-based payments continued

Assumptions

The following assumptions are used to determine the fair value of share options at the respective date of grant:

Date of grant	Exercise price (pence)	Ordinary shares under option	Share price at date of grant (pence)	Expected volatility	Interest rate	Life of option (years)	Expected dividends	Vesting requirements
23 April 2007	67.0	225,000	67.0	45.7%	5.75%	3	Nil	1
21 January 2009	105.5	412,500	39.5	38.7%	4.50%	1	Nil	1
7 September 2009	41.5	72,289	41.5	42.7%	4.50%	3	Nil	1
31 August 2010	23.0	608,862	29.5	40.8%	4.50%	3	Nil	1
29 September 2010	43.8	182,854	43.8	38.7%	4.50%	3	Nil	1
22 November 2010	45.5	930,000	39.3	41.5%	4.50%	3	Nil	2

- No performance criteria are attached and may be exercised until the tenth anniversary following their grant.
- The options may be exercised at any time in the ten year period following their grant and vest equally in three tranches, subject to certain commercial performance criteria being met. In addition all the options may be exercised if the market capitalisation of the Group exceeds £100 million for a sustained period of three months within twelve months of the date of grant or for a sustained period of one month thereafter until the tenth anniversary of their grant.

The middle market price of ordinary shares on 31 December 2010 was 37.3 (2009: 49.5) pence. The high and low market prices during the year were 52.0 (2009: 57.0) pence and 20.0 (2009: 27.0) pence respectively.

Expected volatility is derived from observation of the volatility of the Company's shares.

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

National insurance is payable on gains made by employees on exercise of share options granted to them.

33. Tangible fixed assets

	Leasehold improvements £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2010	55	126	181
Additions	1	15	16
At 31 December 2010	56	141	197
Depreciation			
At 1 January 2010	26	88	114
Charge for the period	12	31	43
As at 31 December 2010	38	119	157
Net Book Value			
As at 31 December 2010	18	22	40
As at 31 December 2009	29	38	67

34. Investments

	2010 £'000	2009 £'000
Cost:		
At 1 January	3,554	3,511
Additions	63	43
As at 31 December	3,617	3,554
Provisions:		
At 1 January	(313)	(313)
As at 31 December	(313)	(313)
Net book amount:		
As at 31 December	3,304	3,241

34. Investments continued

The investments comprise:

	Percentage held	Nominal Value (pence each)	Ordinary Shares	Preferred Ordinary	A Ordinary
Thermetica Limited ^a	100%	10	7,670	2,330	–
Energetix (Pnu) Power Limited ^a	99%	1	9,900	–	–
Energetix Laser Technologies Limited	60%	10	–	–	601
VPhase plc ^a	42.86%	0.25	343,855,008	–	–
VPhase Smart Energy Limited (formerly Energetix Voltage Control Limited ^b)	42.86%	1	7,346	–	–
Energetix (Europe) Limited ^a	100%	1	23,719	–	–
Energetix Genlec Limited ^a	100%	1	10,000	–	–
Energetix (Nominees) Limited ^a	100%	100	1	–	–
Energetix Technologies Inc. ^a	100%	100	1	–	–

a. Directly owned subsidiaries.

b. Directly owned subsidiary of VPhase plc.

All companies are registered in England and Wales with the exception of Energetix Technologies Inc. which is registered in Delaware, United States, and at the Balance Sheet date had the following shares in issue:

	Nominal Value (pence each)	Ordinary Shares	Preferred Ordinary	A Ordinary	B Ordinary	C Ordinary
Thermetica Limited	10	7,670	2,330	–	–	–
Energetix (Pnu) Power Limited	1	10,000	–	–	–	–
Energetix Laser Technologies Limited	10	–	–	601	249	150
VPhase plc	0.25	802,210,361	–	–	–	–
VPhase Smart Energy Limited (formerly Energetix Voltage Control Limited)	1	7,346	–	–	–	–
Energetix (Europe) Limited	1	23,719	–	–	–	–
Energetix Genlec Limited	1	10,000	–	–	–	–
Energetix (Nominees) Limited	100	1	–	–	–	–
Energetix Technologies Inc.	100	1	–	–	–	–

At 31 December 2010 and 2009 the companies had the following capital and reserves:

	2010		2009	
	Capital and Reserves £'000	Profit/(Loss) £'000	Capital and Reserves £'000	Profit/(Loss) £'000
Thermetica Limited	(310)	(1)	(309)	(1)
Energetix (Pnu) Power Limited	(5,383)	(877)	(4,531)	(963)
Energetix Laser Technologies Limited	(65)	–	(65)	–
Energetix (Europe) Limited	(2,295)	(253)	2,548	(247)
Energetix Genlec Limited	(8,299)	(1,915)	(6,421)	(1,759)
Energetix Technologies Inc.	(434)	(50)	(384)	(173)
Energetix (Nominees) Limited	–	–	–	–

35. Debtors

	2010 £'000	2009 £'000
Amounts owed by related parties	63	–
Amounts owed by subsidiary undertakings	3,737	3,729
Other debtors	19	15
Prepayments and accrued income	30	32
	3,849	3,776

Notes to the Company Balance Sheet continued

36. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	78	50
Amounts owed to subsidiary undertakings	3,824	3,867
Social security and other taxes	51	140
Accruals	208	62
	4,161	4,119

37. Deferred taxation

The unprovided deferred taxation asset calculated at a tax rate of 28% (2009: 28%) is set out below:

	2010 £'000	2009 £'000
Accelerated capital allowances	(40)	(14)
Trade losses	(656)	(552)
	(696)	(566)

Unrelieved tax losses of £2,431,000 (2009: £1,973,000) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

38. Share capital

	31 December 2010		31 December 2009	
	Number of shares No.	Share capital £'000	Number of shares No.	Share capital £'000
Authorised				
Ordinary shares of 5p each	100,000,000	5,000	100,000,000	5,000
Issued and fully paid				
As at 1 January	55,155,008	2,758	55,122,958	2,756
Shares issued 10 June 2009	-	-	16,025	1
Shares issued 12 August 2009	-	-	16,025	1
As at 31 December	55,155,008	2,758	55,155,008	2,758

No shares in Energetix Group plc have been issued in 2010.

39. Share premium account

	2010 £'000	2009 £'000
At 1 January	15,228	15,198
Shares issued in consideration for services received	-	30
At 31 December	15,228	15,228

40. Warrant reserve

On 1 August 2007, as part of the agreed placing costs of the Company with its then broker, the Company granted 500,000 warrants with an exercise price of 120 pence to its then joint broker. These warrants were capable of being exercised over the three year period from the date of grant and lapsed during the year.

	Number of warrants	Weighted average exercise price (pence)	Weighted average remaining contractual life
At 1 January 2010	500,000	120	7 months
Lapsed	(500,000)	-	-
At 31 December 2010	-	-	-

No warrants were outstanding or capable of exercise at 31 December 2010 (2009: 500,000).

Lapses of £230,000 (2009: £256,000) resulted in a charge to warrant reserve and a credit to retained earnings.

In addition, warrants that were issued in part settlement of fees for the placing of 70,000,000 shares in VPhase plc in 2008 have been de-recognised in the consolidated statements of Energetix Group plc resulting in a charge to warrant reserve and credit to retained earnings of £105,000.

41. Other reserves

	2010 £'000	2009 £'000
At 1 January	77	150
Lapsed share-based payments	-	(68)
Share-based payments	137	11
Other share-based payments	-	(16)
At 31 December	214	77

42. Profit and loss account

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these Financial Statements. The Parent Company's loss for the year was £2,688,000 (2009: £3,605,000).

	2010 £'000	2009 £'000
At 1 January	(11,371)	(8,090)
Options lapsed in the year	-	68
Warrants lapsed in the year	230	256
Loss for the year	(2,688)	(3,605)
At 31 December	(13,829)	(11,371)

43. Shareholders' funds

	2010 £'000	2009 £'000
Loss for the year	(2,688)	(3,605)
Shares issued in the year	-	16
Share-based payments	137	11
Decrease in shareholders' funds	(2,551)	(3,578)
Shareholders' funds at 1 January	6,922	10,500
Shareholders' funds at 31 December	4,371	6,922

44. Leasing commitments

The Company has no commitments under cancellable operating leases.

45. Related party transactions

From 1 November 2010, VPhase plc ceased to be a subsidiary of the Group and became an associated undertaking. Prior to this, Energetix Group plc charged management fees of £212,000 (2009: £218,000 full year) to VPhase plc. From 1 November 2010 to 31 December 2010, Energetix Group plc charged management fees of £28,000 for services provided to VPhase plc which was offset by a £4,000 charge for the services of the VPhase plc Chief Executive Officer, Richard Smith, as Chief Financial Officer of Energetix Group plc. At 31 December 2010, the net amount owing from VPhase plc to the Company was £63,000 (2009: amount owing to VPhase plc from the Company, £20,000).

Directors, Secretary and Advisors to the Group

Company registration number

5819555

Registered office

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Principal place of business

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Directors

A J Aubrey (Non-Executive Chairman)
A C Hutchings (Chief Executive Officer)
R H Smith (Chief Financial Officer)
N S Bright (Operations Director)
Dr H J Cialone (Non-Executive Director)

Company Secretary

P M Barry

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