



2 0 0 9 **ANNUAL REPORT**

Clipper Windpower Plc



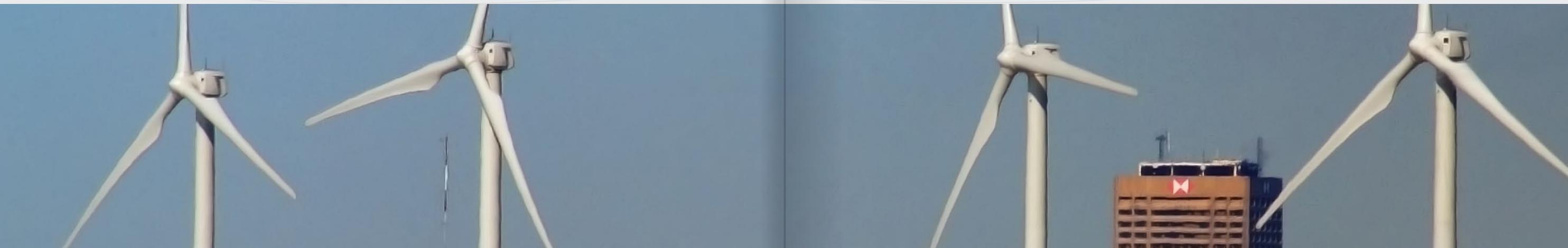


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*Clipper Windpower Plc (the "Company") and subsidiaries (together, the "Group," "Clipper" or "Clipper Windpower") are engaged in wind energy technology, turbine manufacturing, and wind project development. The Group designs advanced wind turbines, manufactures its 2.5 MW Liberty wind turbine, and actively develops wind power generating projects in the Americas and Europe. Clipper's registered office is 2nd Floor, 50 Gresham Street, London EC2V 7AY, United Kingdom and its operating headquarters are located in Carpinteria, California, USA. The Company's 330,000 square foot manufacturing and assembly facility for land-based wind turbines is located in Cedar Rapids, Iowa; its development center for offshore wind turbine development is located in Blyth, U.K. Shares in Clipper Windpower Plc are traded on AIM of the London Stock Exchange and the Company's ticker symbol is CWP.*





#### STATEMENT BY THE CHAIRMAN

An analyst recently described the past five years of Clipper's history as "one of the most ambitious industrial startups in recent times." Come to think of it, he may be right.

In Clipper's history, we have experienced a number of existential challenges. First, we entered the mature and highly competitive wind industry, one dominated by global competitors with significantly more resources than we have. We then introduced revolutionary new drivetrain technology in a step change larger turbine. Customers understood and valued the advantages of the technology, and orders were taken. We began to create large, sophisticated industrial manufacturing capacity...from scratch. A global supply chain was formed, wind turbines were manufactured, and over 500 Clipper Liberty 2.5 MW turbines have been deployed to customer sites around the U.S. Unfortunately—but not unpredictably for the launch of a large, complex power generation machine—we encountered some start up problems, mostly caused by component quality issues in the supply chain. This led to two significant and expensive remediation programs that have cost us dearly over the last two years. But we have worked with our customers to remediate the issues and bring the Clipper turbine performance to levels of our competitors' mature technology. At the same time, we have strengthened the supply chain and bolstered internal quality processes. Along the way, a 10,000-megawatt wind resource portfolio was accumulated and we started driving the next generation technology. As challenges go, did I mention a global economic recession of generational proportions?

That is a recap of the Clipper story over the past few years. Now we look forward with the visibility and the resources to move beyond that arduous, early growth phase to become a major wind turbine manufacturer with technology recognized for its innovation and competitive advantages.

Significantly, in the fourth quarter of 2009, United Technologies Corporation ("UTC"), a leading global, high technology company, and Clipper began exploring the merits of a strategic relationship. As we engaged with the senior management and engineers of UTC's legendary aerospace companies—the leadership that is now delivering Pratt & Whitney's revolutionary geared turbofan engine technology, Hamilton Sundstrand's systems for Boeing's 787 Dreamliner, and Sikorsky's leading technology helicopters—it became clear that we had found the right partner. By joining forces with UTC, Clipper could attain levels of excellence and scale otherwise beyond reach. In January 2010, through an investment of \$270 million in new and existing ordinary shares, UTC became Clipper's largest shareholder.

#### **2009 in Review**

Clipper continued to progress despite the extraordinary challenges the economy and debt markets have presented to our customers and the wind market overall. During the last year and a half, the significant volatility in the energy and global financial markets has created a challenging operating environment for the wind energy industry and for Clipper. Since September 2008, this volatility has sharply reduced commodity prices,

credit availability, equity values and, most significantly for Clipper, caused a substantial drop in the U.S. for new orders for wind turbines, particularly attributable to the credit market collapse and resultant lack of project and tax equity financing for wind project development.

In many instances, these market conditions have caused Clipper's customers to delay wind projects from 2009 into 2010 and beyond, thus delaying the

delivery of turbines and the receipts of progress payments. During the year, Clipper worked closely with its customers to negotiate the deferral of deliveries while successfully minimizing the cash flow impact on the Group with improved payment terms. Clipper also took aggressive actions to conserve cash by cutting operating expenses and manufacturing overhead costs, reducing inventories and restructuring supplier contracts. Notwithstanding these actions, the Company's liquidity and capital resources were strained in 2009 by the combined effects of the external market forces described



above and by the operating losses sustained by the Company, primarily as a result of significant remediation program costs and deferral of customer shipments.

Despite these obstacles, the Group achieved full year 2009 revenue of \$743.5 million primarily from sales of 259 turbines (647.5 megawatts ("MW")) compared to \$737.3 million from sales of 248 turbines (620 MW) in 2008. Net loss in 2009 was \$241.4 million compared to a net loss of \$313.3 million in 2008.

The negotiated deferral of shipments of 130 turbines from 2009 to 2010 and 2011, mainly due to unavailability of customer project financing, reduced 2009 revenue by approximately \$400 million and reduced gross margin by an estimated \$110 million. These shipment deferrals, combined with increased costs for the now completed blade skin remediation program and warranty provisions, were the principal contributors to operating losses for 2009. The loss for 2009 included \$124.0 million of provisions for remediation related and other non-recurring expenses, compared to \$235.0 million in 2008.

The Company ended the 2009 fiscal year with a cash balance of \$49.9 million (\$61.8 million, including \$11.9 million of restricted cash). In January 2010, Clipper completed the previously announced sale of shares to UTC, realizing \$206.2 million in gross cash proceeds for approximately 84.3 million new ordinary equity shares. The increased liquidity will support the Company's working capital requirements and growth initiatives.



### United Technologies Strategic Investment

In 2009, Clipper undertook a competitive process to raise capital and align with a strategic partner. This resulted in a \$270 million investment by UTC for a 49.5% equity stake in Clipper. UTC purchased approximately 84.3 million new ordinary shares in Clipper at a subscription price of £1.50 per share, representing a stake of approximately 39% of the issued and outstanding share capital of the Company. In addition, UTC acquired directly from shareholders approximately 21.8 million ordinary shares of the Company at a price per share of £1.80, increasing their stake to the 49.5% level.

UTC is a diversified company that provides a broad range of high-technology products and services to the global aerospace and commercial building industries. Particularly relevant to Clipper's wind turbine technology and manufacturing is UTC's Hamilton Sundstrand aerospace and industrial systems, Pratt & Whitney engines, and Sikorsky helicopters. These UTC companies have engineering and manufacturing resources highly complementary to Clipper's needs. To accelerate this alignment and maximize synergies, working groups have already been established with UTC, along with the addition of five Board of Director members drawn from relevant UTC management leadership.

### Delivering on 2009 Objectives

During 2009, the Company established, as a top operational priority, "to prove the Liberty Turbine Design and Operational Advantages," with three principal targets:



**1) Turbine Availability to Exceed Industry Averages**

Turbine fleet availability has been steadily rising as remediation programs have been completed and was 95% at the end of February 2010, a level considered to be well above average for new technology and early stage turbine production and deployment. Clipper's goal for the second half of 2010 is to exceed 97% availability. Clipper's entire fleet consists of 476 Liberty turbines, representing over 1,100 MW of installed capacity with over 3.1 million operating hours at 17 generating sites across the U.S.

**2) Liberty Turbine Project Financing**

With the financing markets beginning to recover, the wind sector has begun to see encouraging activity. Initial progress on Liberty turbine financing took place in 2009 when Clipper turbines were a significant part of a \$191.0 million financing package established by First Wind, a Clipper customer since 2007. Further progress came in March 2010 when First Wind received a conditional commitment from the U.S. Department of Energy ("DOE") for a \$117.0 million loan guarantee to finance the construction



of its planned 30 MW Kahuku wind project in Hawaii using twelve 2.5 MW Clipper Liberty turbines. Under Title XVII of the Energy Policy Act of 2005, the project is considered innovative for its inclusion of the Liberty turbine combined with energy storage.

In addition, the Export-Import Bank of the United States ("Ex-Im Bank") has provided an \$80.7 million direct loan for 27 (67.5 MW) Clipper Liberty turbines for an EDF Energies Nouvelles wind project in Mexico. This transaction marks Ex-Im Bank's first project financing for wind power and Clipper's first international project. Recently in the Ex-Im Bank's Annual Banking Conference, keynoted by President Obama, the Clipper transaction was recognized as the Ex-Im Bank 2010 "deal of the year" and the largest U.S. wind turbine sale in Latin America.

Given the recent difficult credit market conditions, the above transactions indicate growing acceptance and confidence in the Liberty turbine by more financial institutions, an important driver of Clipper's future sales growth. Clipper expects additional project financings to complete in 2010.

### 3) Blade Remediation - Completed

In September 2008, Clipper identified a number of defects on the skins of blades of its turbines primarily caused by a deficient manufacturing process at the blade supplier. This defect in the manufacturing process was swiftly corrected in October 2008 for all subsequent blade production. Concurrently, Clipper launched a program

to inspect and remediate the nearly 1,200 blades that had previously been placed in service or held in inventory. Clipper completed this extensive remediation program in January 2010 and has received a very complimentary response from customers.

### Technology advancement: Britannia

The European offshore wind market is becoming one of the most exciting sectors in the global renewable energy industry. The UK government has been a global leader in policy support for offshore wind power development and strong proponent of Clipper's project to develop the 10 MW Britannia turbine. In 2009, the Group's UK subsidiary received further UK Government support with the award of a £4.4 million grant by the UK Department of Energy and Climate Change (DECC) for its blade development activities and another grant of £2.5 million for the development of the gearbox.

Clipper has entered into a long-term lease for a blade production facility on the Tyne River in Newcastle, UK; the groundbreaking ceremony for the blade plant was led by Prime Minister Gordon Brown. The facility will produce blades for the 10 MW turbine for testing in 2011, and follow on with commercial blade production once turbine manufacturing is initiated, with site expansion potential to produce 300 blades per year.

The Britannia Project development base is in Blyth, UK, adjacent to the NaREC (New and Renewable Energy Centre) state-of-the-art Wind Energy Test Facility for blades and drivetrains, and strategically located to serve prime offshore project zones.



The Britannia design processes have yielded significant new technology and patent filings. These technology advances create opportunities for product line expansion and extend Clipper's technology lead in the class of very large offshore turbines, a market expected to exceed 50,000 MW in Europe. These technology innovations also play back to the next generation land-based turbine Clipper is now evaluating.

Clipper has seen considerable interest from offshore wind development participants

seeking to observe at an early stage, the engineering and testing of the Britannia turbine. The objective of these participants is to perform early technical due diligence necessary for reserving future turbine production and committing to turbine purchases during Britannia's move through development, testing, and certification. Accordingly, Clipper has initiated Britannia turbine purchase proposals with several utilities active in European offshore wind project development. It is Clipper's intent to establish customers for the Britannia turbine during the development period, targeting orders for 2012 and beyond.





#### **Wind Projects Launched**

Clipper is engaged in negotiations with a number of parties interested in purchasing turbines and wind project sites from its 1,000 MW of advanced stage development projects within its 9,000 MW wind resource portfolio. Project activities in 2009 include:

#### **Titan Project Phase I Implemented**

In October 2008, Clipper completed a 50/50 joint venture agreement with BP Wind Energy ("BP") in respect of the 5,050 MW Titan Wind Project in South Dakota. The Titan Wind Project is expected to be built in multiple phases. Phase One, which is wholly owned by BP, was completed during 2009 using ten Clipper Liberty turbines (25 MW). BP and Clipper are joint development partners for the remaining 5,025 MW of the Titan Wind Project. The Titan Wind Project, if built out to its full capacity, has the potential to be the largest wind project in the U.S. The joint venture includes a Master Turbine Sale Agreement for the potential supply of a further 2,020 Clipper Liberty turbines to the project as it is built out.

#### **70 MW Criterion Project**

The Company recently announced an agreement to sell its 70 MW Criterion wind development project, coupled with a 28 Liberty turbine order for 2010 delivery.

#### **Clipper 2010 Outlook and Objectives**

Clipper's market focus has been on the U.S. and recently preparing for the emergence of European offshore market with the development of Clipper's 10 MW

offshore turbine. In 2010, Clipper will also initiate marketing and sales activities in selected foreign markets for the 2.5 MW Liberty turbine.

#### **Sector Development – the U.S.: Short term still slow**

The American Wind Energy Association ("AWEA") recently published its 2009 report showing that 9.9 gigawatts ("GW") of new wind capacity was added in 2009 in the U.S., surpassing previous records. The total installation was heavily weighted in the fourth quarter, further indicating signs of recovery in the U.S. wind sector. North America was again the strongest growth market globally. While positive, the Company believes that most of the 2009 installations were completions of projects that commenced or were committed to in 2008 and earlier, and that relatively few new projects or turbine orders were added in 2009 for future year deliveries. Customers were generally reluctant to commit to new projects or place new turbine orders in the uncertain energy and capital markets that prevailed in 2009.

#### **Medium to Long-Term View Intact**

Earlier in 2009, the U.S. Congress passed the American Reinvestment and Recovery Act ("ARRA" or "Stimulus Bill") which included significant legislation to support growth of renewables consistent with the Obama Administration's goals of doubling power from renewables over three years and achieving 20% of the U.S.'s power from renewables by 2020. The Stimulus Bill included the extension of the Production Tax Credit ("PTC") until 2012; an option for project owners to choose between 30% Investment Tax Credit ("ITC") or the PTC; and the option to convert the ITC into a bonus payment

in projects where construction is due to start soon, and which will be connected to the grid by 2013.

Implementation of these federal programs has been disappointingly slower than expected. As a result, the U.S. wind industry was effectively on hold until the second half of 2009, when over \$1 billion in grants were awarded, thus enabling the new ITC 'refundable' tax credit plan to have a positive impact on the U.S. wind industry.

#### Clipper Outlook

In 2010, the Company expects to deliver within the range of 140 (350 MW) to 180 (450 MW) Liberty turbines of its currently contracted order book and to benefit from higher pricing and lower component costs relative to 2009. Lower sales prices in 2009 were largely the result of legacy introductory turbine pricing. Currently, average 2010 Liberty turbine sales prices represent more than a 10 percent increase compared to 2009. Turbine costs at year-end 2009 were slightly lower than costs at year-end 2008. New orders in 2010 are expected to be, on average, at marginally lower pricing.

Of the 140 to 180 projected turbine deliveries for 2010, approximately two-thirds are projected to be delivered and recognized as sales in the second half of the year. If the higher end of the delivery range is achieved, the Company projects that it will record operating losses in the first half of 2010 and positive operating income in the second half, leading to approximately break even results for the full year.

#### Strengthened Focus on Clipper's Vision and Strategy

During 2010, Clipper's strategic objectives will again support Clipper's longer-term vision toward becoming one of the leading turbine manufacturers in the U.S. and internationally – recognized by wind energy customers as a leader in innovative technology for delivering customer value. The strategic relationship with UTC significantly supports this vision. The transaction provided needed capital and, through synergies associated with UTC's aerospace business units, Clipper should also benefit from a wealth of strong technical and operational support.

#### Supporting this vision are four key long-term strategic objectives:

- 1) Position Clipper as a Tier One turbine supplier;
- 2) Strengthen the Group's future through technology-leading product development together with improved processes operationally and commercially;
- 3) Initiate marketing and sales for the Liberty turbine in selected foreign markets; and
- 4) Grow revenue and profit, achieving costs in line with or better than industry benchmarks.

Clipper is well positioned in the manufacturing sector of the wind industry with its proprietary and proven 2.5 MW turbine technology. Technology development activities continue to advance the Liberty turbine platform, and are providing the basis for the next generation land-based turbine. Development of the Britannia Project is also on track for component testing in 2011 and 2012. This product will provide a major new market opportunity for Clipper and is directed to the anticipated upsurge in the European offshore market. We are confident that these projects will be enhanced with collaboration of UTC technological expertise.





I strongly believe that with strengthened financial resources, and the determination that drives the Clipper organization, the Group will continue to make substantial advances in wind power innovation and commercialization.

#### **Management and Board Changes**

As announced on March 8, 2010, Douglas Pertz resigned as President and CEO and Board Director. The full Clipper Board offers a sincere expression of appreciation to Doug for his tireless efforts over the past 18 months. From the time he assumed the CEO role, he faced challenging economic and industry conditions and we recognize his contribution to Clipper's success and wish him the best in all his future activities.

The Board of Directors (the "Board") has selected Mauricio F. Quintana, aged 42, to be President and CEO and a member of the Board. Mr. Quintana most recently was Director, Corporate Strategy and Development with UTC. He has terminated all employment ties with UTC to accept the Clipper positions. We welcome Mauricio and his passion for the Clipper opportunity and its technology drive. He has been pivotal in UTC's assessment of Clipper's technologies, markets and its operations, which resulted in their \$270 million investment in January 2010. Mauricio brings a keen insight to the tasks of building Clipper's business in both the onshore and offshore markets. Mauricio's appointment offers added advantages as the Clipper/UTC technology and operational paths align and Clipper moves toward major global markets.

The Board has also voted to appoint Michael E. Keane, aged 54, our Senior Vice President and CFO since September 2008, to the Board. Mike has provided outstanding leadership to the

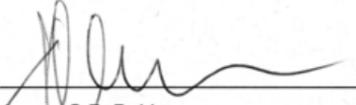
Company over the past 18 months and contributed greatly to the successful capital raise. His selection as a Director recognizes his significant contributions and value to the Clipper organization.

As of January 12, 2010, on the completion of the UTC transaction, Kenneth C. Brown, Joseph G. Michels and Finn M. Hansen resigned from the Board. The Board would also like to extend its deep appreciation to each of these individuals for their significant contributions to the Company over their years of Board service. Their insights and perspectives have been valuable to Clipper's progress and will be missed.

In addition, Ronald E. Bruehlman, Peter Christman, An-Ping Hsieh, Robert Leduc and Dr. J. Michael McQuade (all of whom were nominated by UTC in accordance with the terms of the Subscription Agreement between Clipper and UTC) have been appointed to the Board as non-executive directors effective January 12, 2010.

With these changes, the Clipper Board now consists of 12 directors, five of whom have been nominated by UTC. I will continue as Chairman of the Board, and Sidney Tassin, Clipper's first institutional investor and Board member since 2002, will serve as Lead Director.

I welcome each of our new Directors to the Board. I have every confidence that with their assistance and that of my other colleagues, Clipper is ushering in a new phase of growth with the potential for rising to the highest levels of the wind industry.



James G.P. Dehlsen  
Chairman of the Board of Directors



## FINANCIAL REVIEW

The results for the Group for 2009 and the comparative year have been stated in accordance with International Financial Reporting Standards ("IFRS").

### Summary Financial Results

2009 was the third year of production and the second year of recognizing substantial revenue from sales of Clipper's Liberty 2.5 MW wind turbines. Revenue in 2009 was \$743.5 million primarily from sales of 259 turbines compared to \$737.3 million from sales of 248 turbines in 2008. Net loss in 2009 was \$241.4 million or \$1.86 loss per share compared to \$313.2 million or \$2.56 loss per share in 2008. The loss in 2009 includes \$124.0 million of provisions for remediation related and other unusual expenses, compared to \$235.0 million in 2008. The Group's 2009 result was negatively impacted by the additional provisions associated with the aforementioned remediation program and negotiated deferrals of customer orders.

### INCOME STATEMENT

#### Revenue

Revenue for the year-ended December 31, 2009 was \$743.5 million primarily from delivery and installation of 259 2.5 MW Liberty turbines compared to \$737.3 million from delivery and installation of 248 turbines in 2008. In 2009, revenue was negatively impacted by negotiated deferrals of 130 turbine deliveries from 2009 to 2010 and 2011, principally due to lack of available customer project funding.



### Gross loss

Gross loss for the year-ended December 31, 2009 was \$163.0 million compared to \$250.8 million in 2008. The gross loss includes provisions for remediation expenses of \$124.0 million compared to \$222.0 million in 2008 in addition to a \$14.0 million adjustment of standard warranty provisions in 2009. Work relating to a non-structural blade skin defect identified in the third quarter of 2008 was substantially completed in 2009 with full completion reached in January 2010. The blade supplier's manufacturing process, which was identified as the primary cause of the defect, was corrected in October of 2008 with no new cases identified from subsequent production.

### Project development expenses

Project development expenses, which primarily include costs associated with identification of potential wind project sites, securing land rights, and pursuing various permits and studies, decreased from \$15.7 million in 2008 to \$12.4 million in 2009. The decrease is primarily due to a higher proportion of development costs being capitalized into projects ready for sale in 2009 (\$5.0 million) versus 2008 (\$1.5 million). As of December 31, 2009, the Company has a development portfolio approximating 9,000 MW.

### Research and Development Expenses

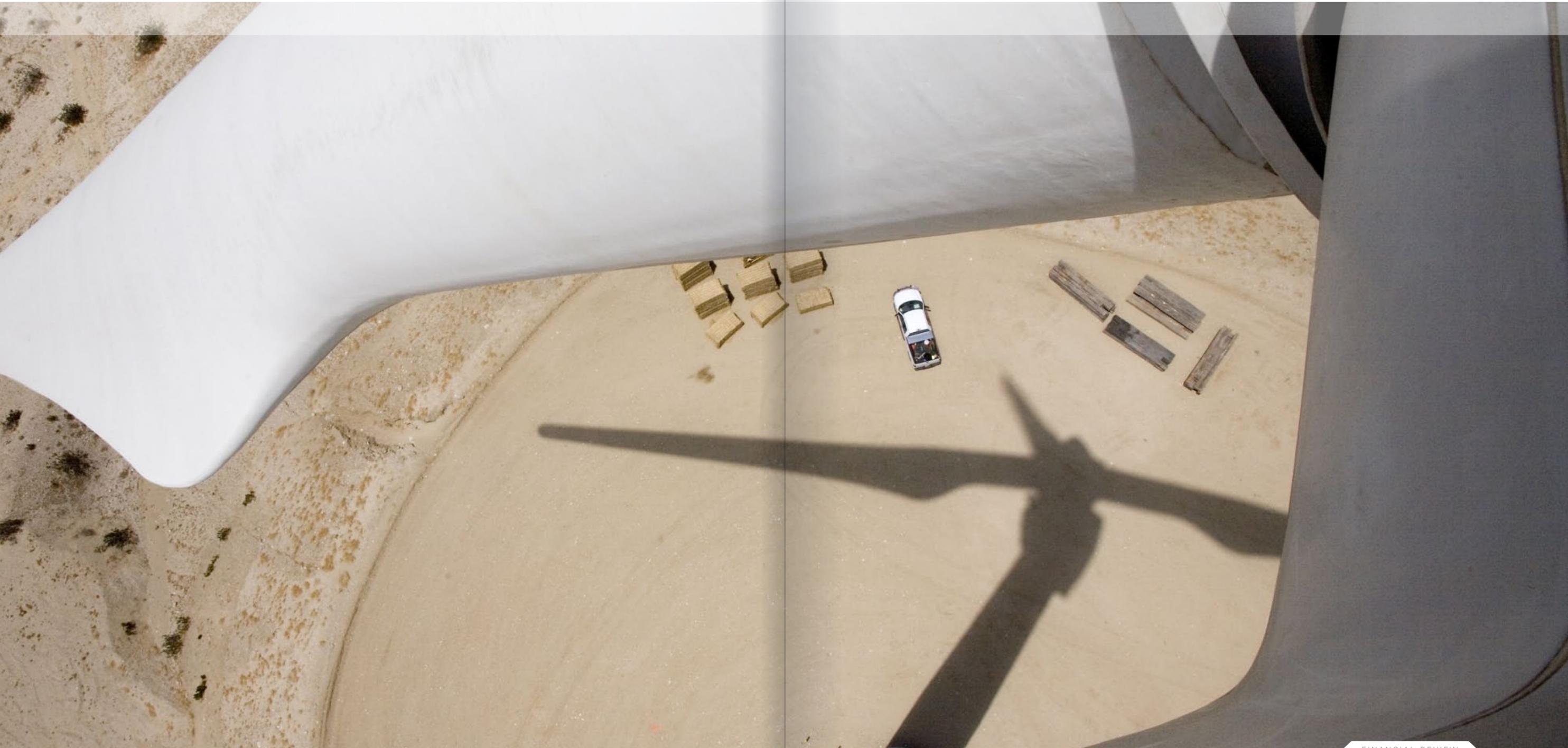
Research and development expenses, which include engineering costs for both advanced technology activities such as the 10 MW Britannia Project in Blyth, U.K. and support of ongoing operations, increased from \$21.1 million in 2008 to \$24.5 million in 2009. The increase primarily reflects additional staffing in 2009 for these initiatives.

**Administrative expenses**

Administrative expenses decreased from \$55.9 million in 2008 to \$36.5 million in 2009, primarily due to a non-recurring litigation provision in the prior year for \$13.0 million with the remaining decrease primarily due to year over year cost and headcount reductions.

**Share of profit / loss from joint ventures**

Share of profit or loss from joint ventures decreased from a profit of \$0.6 million in 2008 to a loss of \$3.1 million in 2009. These amounts relate primarily to the Group's share of the operating profits and losses in Titan.





#### **Profit / loss from sale of Group interests**

Profit from sale of Group interests decreased from \$30.9 million in 2008 to a loss of \$2.8 million in 2009. The 2008 result was primarily from sale of a 50% interest in an early stage development project referred to as the Titan Wind Project, which is located in South Dakota and has the potential to become a 5,050 MW wind facility. The 2009 loss was primarily from the sale of the remaining 15% interest in Silver Star I.

#### **BALANCE SHEET**

##### **Non-current assets**

Non-current assets decreased from \$79.0 million at the end of 2008 to \$55.0 million at the end of 2009, primarily due to the sale of the remaining 15% interest in Silver Star I, a project that was categorized as available for sale in 2008. Most of the remaining decrease was due to a maturing of a long-term trade receivable to current trade receivables for \$6.0 million.

##### **Inventories**

Inventories decreased from \$557.4 million at the end of 2008 to \$167.8 million at the end of 2009 primarily due to fewer projects in process at year-end 2009 and improved inventory management. In 2008, there were three projects in process at year-end compared to one at year-end 2009.



##### **Trade and other receivables**

Trade receivables decreased from \$97.9 million at the end of 2008 to \$48.8 million at the end of 2009 due to fewer projects in process at year-end 2009 as compared to 2008 as well as the completion of remediation activities at most customer sites.

##### **Cash**

Cash and cash equivalents decreased from \$209.0 million at the end of 2008 to \$49.9 million at the end of 2009. The decrease is primarily a result of negative cash flow from operations of \$170.5 million, partly offset by a \$20.0 million loan from a customer.

##### **Deferred revenue**

Deferred revenue (i.e., customer deposits), decreased from \$802.5 million at the end of 2008 to \$433.9 million at the end of 2009, reflecting the increased completion of projects from the backlog at the end of 2008 and less deposits from new and existing orders.

##### **Debt**

On May 13, 2009, the Group entered into an arrangement for a \$20.0 million secured loan funded by a customer associated with the deferral of certain 2009 committed turbine deliveries into 2010 and 2011. The secured loan was expected to mature upon delivery of certain turbines in early 2011. See Note 28 to the consolidated financial statements for further details concerning a technical default of the loan terms.

## CASH FLOWS

Cash outflows from operating activities increased from \$102.3 million in 2008 to \$170.5 million in 2009 despite a \$71.9 million improvement in operating results. The unfavorable change in operating cash flow was mostly as a result of receiving less deposits on new customer orders, partially offset by improvements in working capital.

On January 12, 2010, Clipper received \$206.2 million in gross proceeds as part of the UTC transaction discussed in the Chairman's Statement and Note 38 to the financial

statements. Clipper's January month end 2010 bank cash balance was \$231.8 million. The increased liquidity will support the Company's working capital and growth initiatives.

Despite the negative 2009 cash flow, and as highlighted in the Directors' Report, the Directors have a reasonable expectation that the Group has and will continue to have adequate resources to ensure that future liquidity will be sufficiently positive to enable the Group to continue to operate as a going concern for the foreseeable future.



## CORPORATE GOVERNANCE STATEMENT

**Compliance**

As an AIM listed company, Clipper is not required to follow the provisions of the Combined Code on Corporate Governance that was issued in 2008 by the U.K. Financial Reporting Council. However, the Directors recognize and value the importance of high standards of corporate governance and intend to observe the requirements of the Combined Code to the extent that they consider appropriate in light of the Company's size and resources.

**The Board of Directors**

The Company holds at least five Board meetings throughout the year. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets, and major items of capital expenditure, acquisitions and disposals. The Board is also responsible for succession planning, board appointments, remuneration of executives and risk management. In 2009, the Board consisted of two Executive and seven Non-executive Directors.

During the first quarter of 2010, there were significant changes to the composition of the Board of Directors and its committees. See the Statement of Directors' Responsibilities for further information, incorporated by reference herein.

**Board Committees**

The Board has established an Audit Committee and a Performance and Compensation Committee with formally delegated rules and responsibilities. Each of these committees is comprised of non-executive Directors. The Audit Committee met seven times in 2009 and the Performance and Compensation Committee met nine times.

The Audit Committee is responsible for ensuring that the financial performance of the Company is properly reported on and monitored and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. The Audit Committee meets at least four times per year, including at least once a year with the auditors without executive Directors present. The Audit Committee was chaired by Joseph G. Michels and its other members included Anthony R. C. Durrant, Sidney L. Tassin and VAdm. Albert J. Baciocco, Jr.

The Performance and Compensation Committee reviews the performance of the Executive Directors and reviews and recommends the scale and structure of their remuneration, the basis of their remuneration, and the terms of their service agreements with due regard to the interest of shareholders. In considering the remuneration of



Executive Directors, the Performance and Compensation Committee seeks to enable the Group to attract and retain staff of the highest caliber. The Performance and Compensation Committee also makes recommendations to the Board concerning the allocation of share options to employees. No Director is permitted to participate in discussions or decisions concerning his own remuneration. The Performance and Compensation Committee is comprised of Non-executive Directors and is chaired by VAdm. Albert J. Baciocco, Jr. and its other members in 2009 included Sidney L. Tassin, and Kenneth C. Brown.

The Company has also established a Nomination and Corporate Governance Committee consisting of James G.P. Dehlsen, acting as chairman of the committee, together with Sidney L. Tassin and Anthony R. C. Durrant. The Nomination and Corporate Governance Committee has been established to ensure that the Board has a formal and transparent appointment procedure and has primary responsibility for reviewing the balance and effectiveness of the Board and identifying the skills needed on the Board and those individuals who might best provide them. The Committee did not meet in 2009.



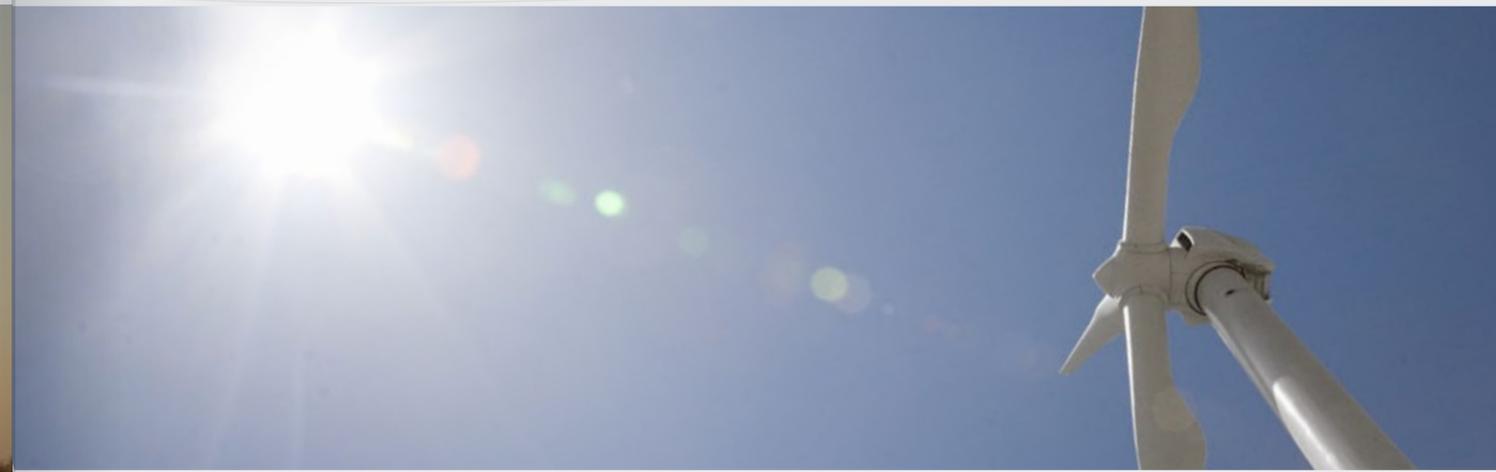


In addition, the Company has a Health Safety and Environment Committee, chaired by James B. Dehlsen. Other members during 2009 included Kenneth C. Brown and Finn M. Hansen. The Committee met five times in 2009.

#### **Directors' Conflicts of Interest**

The Company's Articles of Association grant the Board the power to evaluate actual or potential conflicts of interest that may arise, and to take or approve actions subject to the potential conflict. During Board meetings, Directors may raise any conflict of interest they may have, or update the Board on any change to a previous conflict of interest previously lodged. All Directors are aware that it is their responsibility to raise and update any conflicts of interest they may have.

As discussed in the Statement by the Chairman, as a result of the UTC transaction, there have been significant changes in the composition of the Board of Directors and its Committees subsequent to December 31, 2009 (see also Note 38).



#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper 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.

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.

## DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



**Mauricio F. Quintana**  
Chief Executive Officer  
March 29, 2010



**Michael E. Keane**  
Chief Financial Officer  
March 29, 2010



## DIRECTORS' REPORT

The Directors present this Annual Report on the affairs of Clipper Windpower Plc and its subsidiaries, together with the consolidated financial statements and auditors' report, for the year-ended December 31, 2009.

**Principal activities**

Clipper, primarily based in the U.S., is engaged in the design, engineering and manufacturing of advanced wind turbines and developing wind energy projects, including engineering, construction, and plant operation. The Group also retains partial ownership in certain wind energy projects. Beginning in 2007, Clipper commenced full commercial production of the Group's Liberty 2.5 MW wind turbine, and in 2009 produced 104 turbines and sold 259 turbines in the U.S and Mexico. In 2009 and 2008, the Group also sold the development rights to North American wind projects totaling 230 MW and 1,810 MW, respectively.

The subsidiaries and joint ventures principally affecting the profits or net assets of the Group in the year-ended December 31, 2009 are listed in Note 5 to the Company financial statements and Note 17 to the consolidated financial statements, respectively.

**Business review**

The information that fulfills the requirements of the Business Review can be found in the Statement by the Chairman and the Financial Review section of the annual report and is incorporated into this report by reference.

Information about the use of financial instruments by the Group is given in Note 35 to the financial statements and is incorporated into this report by reference.

**Key risks and uncertainties**

Management has considered the key risks and uncertainties facing the Group and believes that the following are the most significant to the operations of Clipper:

- Sales risk is the risk that new sales orders and associated deposits do not materialize. The Group continues to invest in technology, as described below under technology risks, to help ensure the Group is bringing a competitive product to market. In addition, the Group owns a wind asset development operation, which serves not only as a distinct source of revenue for wind land asset sales, but also serves as a lead for the sale of Clipper turbines. Lastly, the most recent \$206.2 million capital contribution by UTC has strengthened the Group's financial position thus expecting to facilitate customers financing of wind projects using Clipper turbines;
- Cash flow risk. The Group has experienced significant negative operating cash flows since 2007, mostly due to significant non-recurring remediation activities that are now nearly completed. Should the negative cash flow continue, the Group may experience liquidity issues. The Group can take additional actions to manage cash including deferral of discretionary development projects, monetization of certain assets of the Group, and reducing overhead and other capital spending. In addition, should the Group's cumulative negative cash flow going forward exceed 75% of the recently subscribed amount by UTC (\$206.2 million) or the cash balance drop below the Group's accounts payable balance for a continued three month period, the standstill period as defined in the subscription agreement with UTC will be modified to permit UTC to increase its investment in the Group to 55.0% from the current 49.5%. This risk is further discussed in the going concern disclosures herein;



- **Technology risk.** In the rapidly growing industry of energy production from wind turbines, it is vitally important the Group continues to innovate and invest in research and development to remain competitive. Should the Group fail to produce a competitive turbine, future sales and associated earnings are likely to be negatively impacted. In 2009, the Group invested \$24.5 million in research and development, up 16.0% from the 2008 investment of \$21.1 million. These activities were to support and improve Clipper's current Liberty product line as well as to continue funding for the world's largest offshore wind turbine under development, Clipper's Britannia Project. As a result of the recent investment by UTC, it is expected the Group will

identify technology synergies that will benefit future turbine development efforts by the Group. UTC is a diversified technology company whose products include Hamilton Sundstrand aerospace systems and industrial products, Otis elevators and escalators, Pratt & Whitney aircraft engines, and Sikorsky helicopters. The technology opportunities for Clipper from the UTC relationship are described in the Chairman's Statement, incorporated by reference herein.

Further information on the financial risks facing the Group is provided in Note 35 to the financial statements.





#### Going concern basis

The Company has historically met its operating capital requirements with equity capital provided by institutional investors and from deposits and progress payments made by customers on contracts for future turbine deliveries. The Group has only \$20.0 million of funded debt, but has significant obligations to (i) its customers under completed turbine sale agreements (including warranty and performance availability obligations); (ii) its customers under turbine sales agreements for future deliveries; and (iii) its vendors and suppliers for services performed and for components purchased.

In January 2010, the Group completed the sale of shares to UTC, realizing \$206.2 million in gross cash proceeds for approximately 84.3 million new ordinary equity shares. The increased liquidity will support Clipper's working capital requirements and growth initiatives.

The Group's forecasts and projections, taking into account reasonable variances in the timing of customer receipts and the other cash sources needed to fund operations, indicate that the Group should be able to operate for the foreseeable future within the level of currently available funds and expected future customer receipts. Further, the Group will continue to proactively manage its capital expenditures, supply chain, and operating costs to maximize financial flexibility.



Considering the combination of general economic conditions and the specific business risks and uncertainties described above, and after review of the projections and operating plans, the Directors have a reasonable expectation that the Group and the Company have adequate resources and operating flexibilities to continue its normal operational activities for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### Results and dividends

The Group loss for the year, after taxation, was \$241.4 million (2008: \$313.3 million) as presented under International Financial Reporting Standards ("IFRS"). No dividends have been paid or proposed in the current or prior year. The full financial statements are incorporated by reference herein.

### Directors

The Directors of the Company who served throughout the year, except as noted, were as follows:

James G.P. Dehlsen, Executive Director and Chairman (3)  
 Douglas Pertz, Executive Director, President and Chief Executive Officer (Resigned March 8, 2010)  
 Finn M. Hansen, Non-executive Director (Resigned January 12, 2010)  
 VAdm. Albert J. Baciocco, Jr. USN (ret.), Non-executive Director (1) (2)  
 Sidney L. Tassin, Non-executive Director (1) (2) (3)  
 Anthony R. C. Durrant, Non-executive Director (1) (3)  
 James B. Dehlsen, Non-executive Director (4)  
 Joseph G. Michels, Non-executive Director (Resigned January 12, 2010)  
 Kenneth C. Brown, Non-executive Director (Resigned January 12, 2010)

### Newly appointed Board members in the first quarter of 2010 include:

Mauricio F. Quintana, Executive Director, President and Chief Executive Officer (Effective March 8, 2010)  
 Michael E. Keane, Executive Director, Chief Financial Officer (Effective March 8, 2010)  
 Ronald E. Bruehlman, Non-executive Director (Effective January 12, 2010) (1)  
 Peter C. Christman, Non-executive Director (Effective January 12, 2010) (2)  
 An-Ping Hsieh, Non-executive Director (Effective January 12, 2010) (3) (4)  
 Robert F. Leduc, Non-executive Director (Effective January 12, 2010) (2) (4)  
 J. Michael McQuade, Non-executive Director (Effective January 12, 2010) (1) (3)

### Current members of the committees of the Board:

- (1) Member of the Audit Committee
- (2) Member of the Performance and Compensation Committee
- (3) Member of the Nomination and Corporate Governance Committee
- (4) Member of the Health Safety and Environment Committee

### Directors' interests, share options and indemnities

Directors' interests and share options are disclosed in Note 11 of the financial statements. The Company has not made any qualifying third party indemnity provisions for the benefit of its Directors.

### Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by the terms of agreement. Trade creditors of the Group at December 31, 2009 were equivalent to 46 days' purchases (2008: 32 days), based on the average daily amount invoiced by suppliers during the year.

### Charitable and political contributions

During 2009, the Group made charitable donations of \$19,509 (2008: \$3,000), principally to local charities serving the communities in which the Group operates. In 2009, the Group made \$15,000 in political contributions (2008: \$0).



### Substantial and Directors' shareholdings

As of March 1, 2010, the substantial holdings in ordinary shares of the Company, being those in excess of 3%, were as follows:

	Number	Percentage held
United Technologies Holdings Plc	106,141,674	49.5%
Blackrock Investment Management Ltd	17,179,671	8.0%
Landsdowne Partners Ltd	14,082,150	6.6%
OEP Wind Holdings LP	10,339,333	4.8%
Dehlsen Family (1)	9,419,239	4.4%
Dehlsen Associates LLC (1)	9,254,863	4.3%
Credit Suisse Securities (Europe) Ltd	8,133,333	3.8%

(1) Dehlsen Associates LLC is 68.6% owned by James G.P. Dehlsen (2008: 68.6%) and 31.4% owned by James B. Dehlsen (2008: 31.4%). The Dehlsen Family holdings include 5,495,442 shares held by the Dehlsen Family Trust, 2,855,637 shares held by James G.P. Dehlsen, and 1,068,160 shares held by James B. Dehlsen. Both James G.P. Dehlsen and James B. Dehlsen could be beneficiaries under the Dehlsen Family Trust.

### Directors' interest in ordinary shares of Clipper Windpower Plc as of December 31

Director	Number of		Number of	
	Shares 2009	Percentage Held(3)	Shares 2008	Percentage Held (3)
VAdm. Albert J. Baciocco, Jr.	85,000	0.1%	85,000	0.1%
Anthony R. C. Durrant	-	-	-	-
James B. Dehlsen (1)	1,099,145	0.9%	1,058,195	0.8%
James G.P. Dehlsen (1)	2,855,637	2.2%	2,925,637	2.2%
Finn M. Hansen	-	-	-	-
Douglas Pertz (2)	-	-	-	-
Sidney L. Tassin	-	-	-	-
Joseph Michels (2)	-	-	-	-
Kenneth C. Brown (2)	-	-	-	-

(1) Dehlsen Associates LLC is 68.6% owned by James G.P. Dehlsen (2008: 68.6%) and 31.4% owned by James B. Dehlsen (2008:31.4%). The Dehlsen Family holdings include 11,570,518 shares held by Dehlsen Associates, LLC, 6,884,835 shares held by the Dehlsen Family Trust, 2,855,637 shares held by James G.P. Dehlsen, and 1,099,145 shares held by James B. Dehlsen. Both James G.P. Dehlsen and James B. Dehlsen could be beneficiaries under the Dehlsen Family Trust.

(2) There are no direct interests or holdings in the ordinary shares of the Company. Indirectly, Mr. Pertz, Mr. Michels, and Mr. Brown own the equivalent of 31,684, 5,281, and 5,281 shares, respectively, through an investment in profit sharing units of OEP General Partner III, LP, the general partner of One Equity Partner's III, LP, and investor in a co-investment partnership which holds an interest in OEP Wind Holdings, LP.

(3) Based on 130,212,480 and 130,046,942 ordinary shares outstanding as of December 31, 2009 and December 31, 2008, respectively.

### Equal Employment Opportunity

The Group provides equal employment opportunity without regard to race, color, gender, age, disability, medical condition, religion, national origin, marital status, pregnancy, sexual orientation, ancestry, political belief or activity, status as a veteran, gender identification, or other basis protected by law. The policy applies to all areas of employment, including recruitment, hiring, training and development, promotion, transfer, termination, layoff, compensation, benefits, social and recreational

programs, and all other conditions and privileges of employment in accordance with applicable federal, state and local laws.

### Employee Consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings or provided electronically by the Communications or Human Resources departments or executive management.

### Events Since the Balance Sheet

Details of significant events since the balance sheet date are contained in Note 38 to the consolidated financial statements and Note 11 to the Company's financial statements.

### Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



James G.P. Dehlsen  
Chairman  
March 29, 2010  
USA

Clipper Windpower Plc  
6305 Carpinteria Avenue  
Carpinteria, CA 93013  
USA

2nd Floor, 50 Gresham Street  
London  
EC2V 7AY  
United Kingdom

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLIPPER WINDPOWER PLC

We have audited the financial statements of Clipper Windpower Plc for the year-ended December 31, 2009 which comprise Consolidated and Company only Income Statements, the Consolidated and Company only Balance Sheets, the Consolidated and Company only Statement of Cash Flow, the Consolidated and Company only Statement of Changes in Equity and the related Notes 1 to 38 and 12 in respect of the Consolidated and Company only Financial Statements, respectively. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

**Respective Responsibilities of Directors and Auditors**

As explained more fully in the Directors' Responsibilities Statement, 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 the financial statements in accordance with applicable law and Interna-

tional Standards on Auditing (U.K. 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

**Opinion on Financial Statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at December 31, 2009 and of the Group's and the parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 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.

James Leigh (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
March 29, 2010



CONSOLIDATED INCOME STATEMENT

	Notes	Year-ended December 31,	
		2009	2008
(Dollars in thousands except per share amount)			
<b>Revenue</b>	6	743,499	737,326
Cost of sales		(906,509)	(988,109)
<b>Gross loss</b>		(163,010)	(250,783)
Project development		(12,433)	(15,735)
Research and development	7	(24,461)	(21,064)
Administrative expense		(36,500)	(55,927)
Share of (loss) / profit from joint ventures		(3,071)	601
(Loss) / profit on sale of Group interests		(2,846)	30,908
<b>Operating loss</b>		(242,321)	(312,000)
Interest income	12	1,124	3,119
Finance costs and interest expense	12	(374)	(4,358)
<b>Loss before tax</b>	8	(241,571)	(313,239)
Tax on loss	13	146	(57)
<b>Loss for the period attributable to equity holders of the parent</b>		(241,425)	(313,296)
<b>Loss per share (\$/share) - basic and diluted</b>	14	\$ (1.86)	\$ (2.56)

CONSOLIDATED BALANCE SHEET

	Notes	As of December 31,	
		2009	2008
(Dollars in thousands)			
<b>Non-current assets</b>			
Intangible assets	15	1,912	1,179
Property, plant & equipment	16	41,101	40,871
Other investments	17	-	15,789
Investments in joint ventures	17	1,475	4,546
Other assets	18	10,537	16,604
<b>Non-current assets</b>		55,025	78,989
<b>Current assets</b>			
Inventories, net	19	167,750	557,446
Prepaid inventories	20	13,867	32,951
Trade and other receivables, net	21	48,789	97,940
Other current assets	22	19,096	12,874
Cash and cash equivalents	23	49,910	208,988
<b>Current assets</b>		299,412	910,199
<b>Total assets</b>		354,437	989,188
<b>Current liabilities</b>			
Deferred revenue	24	316,247	668,085
Trade and other payables	26	97,273	140,580
Provisions	27	100,222	117,817
Notes payable	28	20,000	-
Income tax payable		2,544	2,467
Obligations under finance leases	25	309	243
<b>Total current liabilities</b>		536,595	929,192
<b>Non-current liabilities</b>			
Deferred revenue	24	117,666	134,458
Provisions	27	36,145	23,924
Obligations under finance leases	25	543	240
Other non-current liabilities		627	734
<b>Total liabilities</b>		691,576	1,088,548
<b>Net liabilities</b>		(337,139)	(99,360)
<b>(Deficit) / Equity</b>			
Share capital	29	24,115	24,076
Share premium account		374,890	374,655
Other reserves	30	66,204	62,832
<b>Retained loss</b>		(802,348)	(560,923)
<b>Total (deficit) / equity</b>		(337,139)	(99,360)

The financial statements were approved by the Board of Directors on March 29, 2010 and signed on its behalf by:



James G.P. Dehlsen, Chairman

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)		Year-ended December 31,	
<b>Cash Flows from operating activities</b>	Notes	<b>2009</b>	<b>2008</b>
Loss after tax		(241,425)	(313,239)
Adjustments for non-cash transactions:			
Depreciation and amortization	15, 16	12,929	12,936
Loss on disposal of assets		213	116
Loss / (gain) from sale of Group interests	17	2,846	(30,908)
Stock-based compensation	33	4,121	3,166
Loss / (gain) from investments in joint ventures	17	3,071	(601)
Loss on assets available for sale		9,027	696
Loss / (gain) on foreign exchange		150	(278)
Changes in assets and liabilities:			
Accounts receivable	21	49,151	(95,998)
Inventory and contract related costs	19	405,972	(34,947)
Prepaid expenses and other current assets		(8,416)	13,715
Accounts payable and accrued expenses	26	(44,227)	39,447
Provisions	27	(2,421)	138,776
Deferred revenue	24	(368,926)	179,473
Income taxes payable		223	2,467
Other long term assets	18	6,067	(19,194)
Other long term liabilities		358	677
Interest paid		(57)	(895)
Interest received	6	967	2,519
Income taxes paid		(146)	(221)
Net cash used in operating activities		(170,523)	(102,293)
<b>Cash Flows from investing activities:</b>			
Investments in subsidiaries and joint ventures		-	(11,958)
Proceeds from sale of assets available for sale		9,725	30,908
Investment in wind assets under development		(4,992)	-
Purchase of intangible assets	15	(745)	(539)
Purchase of property and equipment	16	(11,868)	(20,232)
Net cash used in investing activities		(7,880)	(1,821)
<b>Cash Flows from financing activities:</b>			
Note payable	28	20,000	-
Capital element of finance lease payments	25	(465)	(235)
Proceeds from the exercise of stock options	33	274	1,082
Proceeds from issuance of share capital		-	200,000
Costs associated with issuance of share capital		-	(3,329)
Net cash provided by financing activities		19,809	197,518
Net (decrease)/ increase in cash and cash equivalents		(158,594)	93,404
Cash and cash equivalents, beginning of period		208,988	114,420
Effect of changes in foreign exchange rates		(484)	1,164
Cash and cash equivalents, end of period		49,910	208,988
<b>Non-cash transactions:</b>			
Liquidating damages forgiven		2,775	-
Fixed assets included in accounts payable		1,492	-

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Dollars in thousands)		Share	Share	Revaluation	Other	Foreign	Retained	Total
		capital	premium	reserve	reserves	reserve	earnings	equity
<b>Balance at January 1, 2008</b>		19,772	188,982	265	51,605	(131)	(248,181)	12,312
Net loss for the period		-	-	-	-	-	(313,296)	(313,296)
Exchange differences arising on translation of foreign currency recognized directly in equity		-	-	-	-	1,005	-	1,005
Issuances of shares from private placement		4,083	186,619	-	-	-	-	190,702
Offering cost		-	(1,807)	-	-	-	-	(1,807)
Warrants issued		-	-	-	10,768	-	-	10,768
Tax on Warrants		-	-	-	(3,015)	-	-	(3,015)
Employee share option scheme:								
Exercise of options		221	861	-	(554)	-	554	1,082
Issuance of options		-	-	-	2,889	-	-	2,889
<b>Balance at January 1, 2009</b>		24,076	374,655	265	61,693	874	(560,923)	(99,360)
Loss for the period		-	-	-	-	-	(241,425)	(241,425)
Exchange differences arising on translation of foreign currency recognized directly in equity		-	-	-	-	(484)	-	(484)
Sale of joint venture		-	-	(265)	-	-	-	(265)
Employee share option scheme:								
Exercise of options		39	235	-	-	-	-	274
Issuance of options		-	-	-	4,121	-	-	4,121
<b>Balance at December 31, 2009</b>		24,115	374,890	-	65,814	390	(802,348)	(337,139)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. General information**

Clipper Windpower Plc (the "Company") and subsidiaries (together, the "Group," "Clipper" or "Clipper Windpower") are engaged in wind energy technology, turbine manufacturing, and wind project development. The Company designs advanced wind turbines, manufactures its 2.5 MW Liberty wind turbine, and actively develops wind power generating projects in the Americas and Europe. Clipper's registered office is 2nd Floor, 50 Gresham Street, London EC2V 7AY, United Kingdom and its operating headquarters are located in Carpinteria, California, USA. The Company's 330,000 square foot manufacturing and assembly facility for land-based wind turbines is located in Cedar Rapids, Iowa; its development center for offshore wind turbine development is located in Blyth, U.K. Shares in Clipper Windpower Plc are traded on AIM of the London Stock Exchange and the Company's ticker symbol is CWP.

These financial statements are presented in U.S. dollars because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in Note 3. All amounts presented are rounded to the nearest thousand dollars except share amounts.

**2. Standards and interpretations in issue adopted and not yet adopted**

In 2009, the following standards and interpretations were implemented by the Group. There were no significant differences in the Group's accounts or presentation thereof as a result of adopting these standards.

- IAS 1 (2007) - Presentation of Financial Statements (effective January 1, 2009)  
IAS 1 has introduced a number of changes in the format and content of the financial statements. The Group does not have other comprehensive income in either 2009 or 2008 that would require presentation under changes made to IAS1.
- IFRS 8 – Operating Segments (effective January 1, 2009)  
IFRS 8 is a disclosure standard that has resulted in no changes to the Group's reportable segments or disclosure thereof (See Note 5).

At the date of authorization of these financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- Amendments to IFRS 2 - Group Cash-settled Share-based Payment Transactions (effective January 1, 2010)
- Amendments to IFRS 1 - Additional Exemptions for First-time Adopters (effective January 1, 2010)
- Amendments to IAS 32 - Classification of Rights Issues (effective January 1, 2010)
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective July 1, 2010)
- Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement (effective January 1, 2011)
- IAS 24 (revised) - Related Party Disclosures (effective January 1, 2011)
- IFRS 9 - Financial Instruments: Classification and Measurement (effective January 1, 2013)

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**3. Significant accounting policies****Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRS as adopted by the European Union. The financial statements have been prepared on an historical cost basis, except for the revaluation of an available for sale financial instrument. The principal accounting policies are set out below.

**Going concern**

The Group has only \$20.0 million in debt and has historically met its operating capital requirements with equity capital provided by institutional investors and customer receipts and progress payments made on orders for future turbine delivery.

Consideration of the Group's ability to continue as a going concern is discussed in the Directors' Report and incorporated by reference herein. After making enquiries, the Directors have a reasonable expectation that the Group has and will continue to have adequate resources to ensure that future cash flow will be sufficiently positive to enable the Group to continue to operate as a going concern for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis when preparing the financial statements.

**Basis of consolidation**

The consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries) for each period reported. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of joint venture undertakings are accounted for on an equity basis where the Group exercises joint control under a contractual agreement. Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The results of subsidiaries acquired or disposed of in the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in consolidation.

**Revenue**

Revenue is measured at the fair value of the consideration received or receivable, net of sales tax, rebates and discounts and after eliminating sales within the Group. Turbine revenue is recognized when the contractual obligations are complete such that the Group has transferred the risks and rewards of ownership, the Group does not retain managerial involvement at the level of an owner, the amount of revenue and costs can be measured reliably, and it is highly probable that the Group will receive the economic benefits.

Turbine sales typically include a two year warranty period. Consideration received and estimated costs for the warranty for these years are recognized at the date of revenue recognition. Where the Group provides operating and maintenance contracts, it also offers extended warranties on separate contracts. Revenue for extended warranties beyond two years and operations and maintenance contracts are recognized ratably over the period. Where estimated extended warranty and associated operation and maintenance costs exceed expected contract revenues, the excess is immediately recognized as expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and using the effective interest rate applicable.

**Share based payments**

The Company issues equity-settled share based payments to certain employees and non-employees. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant in accordance with IFRS 2 Share based Payment. The fair value determined at the grant date of the equity-settled share based payments is expensed on a ratable basis over each vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Share based payments to non-employees are re-measured at each balance sheet date.

Fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations, including expected forfeiture rate. Expected volatility is based upon historical volatility of the Company's stock since the date of its listing on the AIM market. The Company has not paid dividends in the past and does not currently plan to pay dividends in the near future. The risk free interest rate is based on the U.K. treasury yield. The principal assumptions incorporated into the Black-Scholes option pricing model are disclosed in Note 33.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and any provision for impairment. Assets in the course of construction are carried at cost, less any recognized impairment loss. Depreciation on these assets, on the same basis as other assets, commences when the assets are ready for their intended use. Depreciation is provided on property, plant and equipment in use, other than freehold land and assets under construction, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line, reducing balance or unit of production basis over its expected useful life, as follows:

Asset	Life	Method
Leasehold improvements	term of the lease	straight line
Anemometry equipment	3 years	straight line
Molds and templates	3 years	units of production
Tooling and testing equipment	3 years	straight line
Test turbine	20 years	reducing balance
Office equipment, vehicles and other	3-5 years	straight line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

**Intangible assets**

Patents are included at cost and depreciated on a straight line basis over the shorter of the duration of the patent and its useful economic life. The useful life of a patent is estimated at 20 years. Provision is made for any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Impairment of tangible and intangible assets excluding goodwill**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent (if any) of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Research and development**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Development expenditure is capitalized when the following criteria of IAS 38 *Intangible Assets* are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

In such cases, the identifiable expenditure is deferred and amortized on a straight line basis over its useful life. Provision is made for any impairment.

**Inventory**

Inventory is valued at the lower of cost or net realizable value using a weighted average cost methodology and including appropriate manufacturing overhead costs. Cost includes materials, direct labor and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less all estimated costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution. Provision is made for any slow moving, obsolete or defective inventory where appropriate. Provisions for obsolete inventories are netted against inventory carrying values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Wind farm development projects held for sale**

Expenditures for costs to develop wind farm projects are deferred on the balance sheet when project viability is achieved and such costs capitalized are probable to result in the future flow of economic benefits to the Group. Factors considered in assessing project viability include wind resource at the site, permitting obtained and environmental impacts of the project, the level of control over the site, the ability to finance, interconnection status and the local power market.

**Financial instruments**

Financial assets and liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the 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 amortized cost using the effective interest rate method less impairment.

When a trade receivable is considered uncollectible, it is written off against an 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 recognized in profit or loss.

**Investments**

After initial recognition, investments which are classified as held for trading or available for sale are measured at fair value. Gains or losses on investments held for trading are recognized in income. Gains or losses on available for sale investments are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to recent transactions at arm's length. Where investments are in equity instruments which do not have a quoted market price and whose fair value cannot be reliably measured, subsequent measurement is at cost.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at hand and other short-term liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, 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 the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

**Financial liabilities and equity**

Trade payables are initially measured at fair value and subsequently measured at amortized cost, using the effective interest rate method.

Debt or equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at proceeds received net of direct issue costs and taxes, if any.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

**Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Provisions for standard warranty costs are recognized at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

**Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalized at their fair value or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease as property, plant and equipment and are depreciated over their useful lives. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of interest on the remaining balance of the liability.

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

**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 purposes of the consolidated financial statements, the results and financial position of each Group company are expressed in U.S. dollars, which is the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

functional currency of the main operating activities of the Group and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the relevant functional currency of an entity are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies at the balance sheet date are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the translation of monetary items is included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognized in the Group's translation reserve. Such exchange differences are recognized as income or expense in the period in which the foreign operation is disposed.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or 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.

Deferred tax is the tax expected to be payable or recoverable between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of any temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also addressed in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Defined contribution pension scheme**

The Group operates a defined contribution pension scheme. Employer contributions are charged to expense as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group.

**Government grants**

Government grants are recognized as income over the period necessary to match them with the related costs and are included in other revenue. Government grants relating to property, plant, and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

**4. Critical accounting judgments and key sources of estimation uncertainty**

In applying the Group's accounting policies, which are described in Note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgments in applying the Group's accounting policies**

The following are the critical judgments that the Directors have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognized in financial statements.

**Revenue recognition**

Turbine revenue is recognized when the contractual obligations are considered complete such that the Group has transferred the risks and rewards of ownership. In making its judgment, the Directors considered the detailed criteria for the recognition of revenue from the sale of turbines set out in IAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future values, and other key sources of estimation uncertainty, at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Inventory provisions**

The carrying value of inventory is assessed regularly and provisions are taken to reflect the estimated future costs of future contracts, obsolescence, and remediating certain components.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Included within the calculation of the provision for component remediation are estimates of labor costs, crane costs, transportation costs, material costs, and time to complete, which is in itself dependent upon a number of unknown and uncontrollable factors such as the weather. The Group conducts a detailed study of the estimated costs to remediate the turbine components and continues to update such estimates, which may require the Group to make positive or negative adjustments to the provision in future periods.

If it is determined that the costs of meeting contractual obligations exceed the economic benefit arising under such contracts, the resulting net loss under the contract is recognized immediately. The calculation to determine the loss includes an estimate of the cost to complete a project and the cost of other associated and unavoidable obligations such as late delivery payments, which are dependent on an estimate of the time to complete.

**Warranty provisions**

The Group has established provisions for the future costs estimated under standard turbine warranties. These provisions are based on estimates of future costs to repair the turbines and involve substantial levels of judgment due to the limited operating history of the Group.

**Recoverability of development projects held for sale**

The Group tests for recoverability of costs compared with the carrying value of development projects held for sale using relevant facts and circumstances to create an estimate of future cash flows to determine the appropriate carrying values of development projects. Where costs exceed the carrying value of the project value, a net realizable value adjustment is booked to the carrying value of the work in progress recognized to ensure the value is accurately reflected at the recoverable amount of the asset. Adjustments will be made in future periods if future market activity indicates that the net resalable value of the projects is lower than the value of the asset recognized.

**Share based payments**

The Group uses the Black-Scholes option pricing model to determine the fair value of options granted to employees and non-employees under the Group's equity-based compensation plan. The Company recognized an expense of \$4.1 million in 2009 (2008: \$3.2 million) on the options, however the model incorporates various assumptions, the alteration of which would lead to a different charge. Key assumptions include the volatility of the Company's share price, the rate of forfeiture of options, the vesting period of the share options, dividend yield, risk-free interest rate and expected life. Details of the assumptions used in the calculation are given in Note 33.

**5. Segment information**

The Group implemented IFRS 8 - Operating Segments on January 1, 2009. Under IFRS 8, the Group has two operating segments: turbine technology and manufacturing, and wind project development. Turbine technology and manufacturing includes designing, manufacturing and the sale and servicing of wind turbines. Wind project development includes activities associated with developing wind energy facilities, including wind resource assessment, site planning, site control and interconnection to the power grid. Corporate pertains to administrative functions that support but are not specifically attributable to the Group's operating segments. The Directors believe that for 2009 and 2008 the Group's only material geographic segment was North America.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollars in thousands)

**Year-ended December 31, 2009**

	<b>Wind project development</b>	<b>Turbine technology and manufacturing</b>	<b>Corporate</b>	<b>Total</b>
<b>Income statement</b>				
- Revenue	980	742,519	-	743,499
- Net loss after tax	(25,076)	(180,039)	(36,310)	(241,425)
-Provisions for remediation related and other unusual expenses	-	(123,959)	-	(123,959)
<b>Balance sheet</b>				
- Assets	43,525	260,629	50,283	354,437
- Liabilities	(22,495)	(664,789)	(4,292)	(691,576)
Capital expenditures	775	5,295	7,289	13,359
<b>Non-cash items:</b>				
- Depreciation and amortization	1,089	10,617	1,223	12,929
- Share based payments	545	776	2,794	4,115

**Year-ended December 31, 2008**

<b>Income statement</b>				
- Revenue	140,197	597,129	-	737,326
- Net loss after tax	(20,017)	(235,716)	(57,563)	(313,296)
- Provisions for remediation related and other unusual expenses	(28,733)	(193,217)	(13,000)	(234,950)
<b>Balance sheet</b>				
- Assets	44,097	726,046	219,045	989,188
- Liabilities	(24,918)	(1,037,101)	(26,529)	(1,088,548)
Capital expenditures	582	15,770	3,880	20,232
<b>Non-cash items:</b>				
- Depreciation and amortization	811	11,322	790	12,923
- Share based payments	98	539	2,529	3,166

The revenue recorded in the wind project development and turbine technology and manufacturing segments was generated from external customers located in North America. Three customers accounted for 32%, 31% and 20% of revenue for the year-ended December 31, 2009 (2008: 57%, 20%, and 12%).

Segment assets consist primarily of operating and invested cash, inventories, property, plant and equipment, intangible assets and investments at fair value. Segment liabilities consist largely of receipts from customers for future turbine deliveries. Inventory provisions reduce the carrying value of inventory for the estimated future costs of wind turbine blade and gearbox remediation, loss-making contracts, and excess and obsolete inventory. Intercompany transactions have been eliminated and this is reflected in the segment information.

In 2009, the Group recognized an impairment loss of \$6.5 million related to an asset held for sale in inventory for wind project development. This impairment was based on the future sale of inventory at a contract price that is below the carrying amount. The loss is included in cost of sales for the wind project development segment.

Corporate assets consist primarily of cash and cash equivalents, while corporate liabilities primarily consist of various accruals and legal provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**6. Revenue**

The Group recorded the following categories of revenue in the period:

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
Sale of turbines and construction assets	721,102	736,386
Warranty revenue	11,490	-
Turbine service revenue	6,499	743
Development revenue	980	-
Other revenue	3,428	197
	<u>743,499</u>	<u>737,326</u>
Interest income	1,124	3,119

**7. Research and development expense**

In April 2008, Clipper and the Crown Estate Commissioners ("Crown Estate") signed an agreement to develop a 10 MW offshore turbine in Blyth, U.K. The Crown Estate, a U.K. government authority, will pay £8.0 million to Clipper for the turbine based on achievement of certain milestones. During 2008, the Group received a \$2.5 million milestone payment from the Crown Estate under this agreement. That amount is included in deferred revenue on the Group's balance sheet. It will be recognized as revenue once it is considered earned and non-refundable under the terms of the agreement. Expenditures incurred under the agreement are included in "Research and Development Expense" within the Group's income statement. For 2009, Clipper has not yet reached the milestones required in order to recognize the initial payment as grant revenue in the 2009 statements and received no additional funding from the Crown Estate.

**8. Provision for remediation related expenses and other unusual transactions**

In 2008 and 2009, provisions were made for remediation of turbines arising primarily from supplier quality issues. This has resulted in significant remediation work and associated costs in each of these years. Of the \$241.4 million loss in 2009 (2008: \$313.3 million) approximately \$124.0 million (2008: \$222.0 million) is directly or indirectly attributable to significant remediation activities. The remediation costs include direct costs to devise and implement repair solutions, costs to mobilize the workforce and equipment to perform the repairs, inventory obsolescence and liquidated damages to compensate customers for delays in power generation. The costs provided in 2008 and 2009 are summarized below:

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
Provision for remediation related expenses		
Provision for loss making contracts	11,856	2,866
Provision for turbine and blade remediation	82,555	134,588
Provision for inventory obsolescence	7,319	32,385
Provision for liquidated damages	22,228	52,111
	<u>123,958</u>	<u>221,950</u>
Provisions for litigation related matters	-	13,000
	<u>123,958</u>	<u>234,950</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**9. Auditors' remuneration**

The analysis of auditors' remuneration is as follows:

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual accounts:	856	1,248
Fees payable to the Company's auditors for U.S. audit services	-	240
The audit of the Company's subsidiaries pursuant to legislation	30	30
Total audit fees	<u>886</u>	<u>1,518</u>
Non-audit fees		
Tax services	534	779
Total non-audit fees	<u>534</u>	<u>779</u>

**10. Staff costs**

The average monthly number of employees for the Group, including executive Directors was:

	Year-ended December 31,	
	2009	2008
Turbine technology and manufacturing	553	497
Wind project development	36	39
Corporate	160	167
	<u>749</u>	<u>703</u>

Their aggregate remuneration, including executive directors, was:

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
Wages and salaries	61,810	58,178
Share based payments	4,054	3,891
Social security costs	4,504	4,111
Pension contributions	375	356
	<u>70,743</u>	<u>66,536</u>

Remuneration including bonuses to key management personnel who are not directors was \$0.7 million in 2009 (2008: \$0.2 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 11. Directors' remuneration, interests and transactions

	Albert J Baciocco	Kenneth Brown	James G.P. Dehlsen	James B. Dehlsen	Anthony R.C. Durrant	Finn M. Hansen	Alan Heeger	Joseph Michels	Douglas Pertz	Sidney Tassin	Charles Williams	Total
(Dollars in thousands)												
Year-ended												
December 31, 2009												
Salary	-	-	367	-	-	-	-	-	650	-	-	1,017
Bonus	-	-	405	-	-	-	-	-	405	-	-	810
Fees	93	85	-	75	65	68	-	79	-	86	-	551
Pension Benefits	-	-	518	-	-	-	-	-	-	-	-	518
Other Benefits	-	-	-	-	-	-	-	-	82	20	-	102
Expense reimbursement	4	7	8	-	26	29	-	11	-	4	-	89
	97	92	1,298	75	91	97	-	90	1,137	110	-	3,087
Year-ended												
December 31, 2008												
Salary	-	-	400	444	-	128	-	-	163	-	311	1,446
Bonus	-	-	300	275	-	100	-	-	-	-	278	953
Fees	123	2	-	18	76	18	45	48	21	99	-	450
Benefits	-	-	10	-	-	2	-	-	20	-	-	32
Expense reimbursement	8	-	-	-	11	16	-	10	-	32	-	77
	131	2	710	737	87	264	45	58	204	131	589	2,958

During 2008 James G.P. Dehlsen and James B. Dehlsen exercised 255,000 and 327,000 share options, respectively, resulting in gains of \$2.6 million and \$3.5 million, respectively. During 2009, James B. Dehlsen exercised 27,000 share options resulting in a gain of \$42,000.

On January 13, 2009, the Group and James G. P. Dehlsen entered into a new employment agreement. The agreement specifies that Mr. Dehlsen will receive certain post retirement benefits, which are set to begin in January 2012 and consist of 120 monthly payments of \$16,667. The portion of the present value of this benefit attributable to the 2009 employment period for Mr. Dehlsen is \$518,828.

Kenneth C. Brown was appointed a non-executive Director on November 18, 2008. Joseph Michels was appointed a non-executive Director on May 1, 2008. Douglas Pertz was appointed a non-executive Director on May 1, 2008 and an executive Director on September 24, 2008. Alan Heeger resigned as a non-executive Director on May 29, 2008. Charles Williams resigned as an executive Director on July 24, 2008. There were no changes to the Directors of the Group in 2009.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## Directors' interest in ordinary shares of Clipper Windpower Plc as of December 31, 2008 and 2009:

Director	Number of Shares 2009	Percentage Held(3)	Number of Shares 2008	Percentage Held(3)
VAdm. Albert J. Baciocco, Jr.	85,000	0.1%	85,000	0.1%
Anthony R. C. Durrant	-	-	-	-
James B. Dehlsen (1)	1,099,145	0.9%	1,058,195	0.8%
James G.P. Dehlsen (1)	2,855,637	2.2%	2,925,637	2.2%
Finn M. Hansen	-	-	-	-
Douglas Pertz (2)	-	-	-	-
Sidney L. Tassin	-	-	-	-
Joseph Michels (2)	-	-	-	-
Kenneth C. Brown (2)	-	-	-	-

(1)Dehlsen Associates LLC is 68.6% owned by James G.P. Dehlsen (2008: 68.6%) and 31.4% owned by James B. Dehlsen(2008:31.4%). The Dehlsen Family holdings include 11,570,518 shares held by Dehlsen Associates, LLC, 6,884,835 shares held by the Dehlsen Family Trust, 2,855,637 shares held by James G.P. Dehlsen, and 1,099,145 shares held by James B. Dehlsen. Both James G.P. Dehlsen and James B. Dehlsen could be beneficiaries under the Dehlsen Family Trust.

(2)There are no direct interests or holdings in the ordinary shares of the Company. Indirectly, Mr. Pertz, Mr. Michels, and Mr. Brown own the equivalent of 31,684, 5,281, and 5,281 shares, respectively, through an investment in profit sharing units of OEP General Partner III, LP, the general partner of One Equity Partner's III, LP, and investor in a co-investment partnership which holds an interest in OEP Wind Holdings, LP.

(3)Based on 130,212,480 and 130,046,942 ordinary shares outstanding as of December 31, 2009 and December 31, 2008, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Directors' share options

	Grant date	Number of options as of December 31,		Exercise price GBP	Exercisable period
		2009	2008		
James G.P. Dehlsen	1-Jan-05	160,000	160,000	£ 0.69	01/01/06-01/01/11
	18-May-09	75,000	-	£ 1.32	05/18/10-05/18/19
Douglas Pertz	25-Sep-08	-	1,000,000	£ 4.40	09/25/10-09/25/18
	18-May-09	200,000	-	£ 1.32	05/18/10-05/18/19
	26-Jun-09	714,286	-	£ 1.50	06/26/10-06/26/19
James B. Dehlsen	10-Dec-09	200,000	-	£ 1.75	12/10/10-12/10/19
	31-Dec-03	-	27,000	£ 0.69	12/31/04-12/31/09
	1-Jan-05	431,000	431,000	£ 0.69	01/01/06-01/01/11
	1-Oct-08	-	10,000	£ 3.35	10/01/08-10/01/18
Albert Baciocco, Jr.	26-Jun-09	7,143	-	£ 1.50	06/26/10-06/26/19
	1-Oct-09	10,000	-	£ 1.80	10/01/09-10/01/19
	4-Oct-06	-	10,000	£ 5.12	10/04/06-10/04/11
	2-May-08	-	10,000	£ 5.33	05/02/09-05/02/14
	1-Oct-08	-	10,000	£ 3.35	10/01/08-10/01/18
Anthony R. C. Durrant	26-Jun-09	12,476	-	£ 1.50	06/26/10-06/26/19
	1-Oct-09	10,000	-	£ 1.80	10/01/09-10/01/19
	26-Aug-05	20,000	20,000	£ 0.69	08/26/06-08/26/15
	4-Oct-06	-	40,000	£ 5.12	10/04/06-10/04/11
	2-May-08	-	10,000	£ 5.33	05/02/09-05/02/14
Finn M. Hansen	1-Oct-08	-	10,000	£ 3.35	10/01/08-10/01/18
	26-Jun-09	20,476	-	£ 1.50	06/26/10-06/26/19
	1-Oct-09	10,000	-	£ 1.80	10/01/09-10/01/19
	22-Jun-02	100,000	100,000	£ 0.14	06/22/03-06/22/12
	4-Oct-06	-	10,000	£ 5.12	10/04/06-10/04/11
Sidney L. Tassin	1-Oct-07	-	35,000	£ 5.86	10/01/08-10/01/13
	1-Oct-08	-	10,000	£ 3.35	10/04/08-10/01/18
	26-Jun-09	19,143	-	£ 1.50	06/26/10-06/26/19
	1-Oct-09	10,000	-	£ 1.80	10/01/09-10/01/19
	4-Oct-06	-	10,000	£ 5.12	10/04/06-10/04/11
One Equity Partners (1)	2-May-08	-	10,000	£ 5.33	05/02/09-05/02/14
	1-Oct-08	-	10,000	£ 3.35	10/01/08-10/01/18
	26-Jun-09	12,476	-	£ 1.50	06/26/10-06/26/19
One Equity Partners (1)	1-Oct-09	10,000	-	£ 1.80	10/01/09-10/01/19
	1-Oct-08	20,000	20,000	£ 3.35	10/01/08-10/01/18
	1-Oct-09	20,000	-	£ 1.80	10/01/09-10/01/19

(1) The Director options that would normally be granted to Mr. Brown and Mr. Michels have been granted to OEP Wind Holdings L.P.

In 2009, the Directors of the Company exchanged 1,185,000 shares in return for 786,000 new share option grants as part of the Employee and Director Option Exchange Program. Details of the "Program" are outlined in Note 33.

The market price of the ordinary shares at December 31, 2009 was £1.73 (2008: £0.71) and the range during the year was £0.62 to £1.80 (2008: £0.71 to £7.15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Finance costs and interest expense

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
<b>Finance costs</b>		
(Losses) / gains on foreign exchange movements	(150)	278
Finance lease charges	(57)	(54)
Amortization of discount	(27)	(26)
Finance expense	(140)	(4,556)
<b>Total finance charges</b>	<b>(374)</b>	<b>(4,358)</b>

Finance charges for 2008 pertain primarily to a credit facility entered into in 2007 and replaced in 2008 with a \$50.0 million credit facility. The facility was repaid and terminated in May 2008.

13. Tax

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
Current tax- U.S.	(146)	57
	(146)	57

Corporation tax is calculated at 42% (2008: 42%) of the estimated assessable profit for the year. This is the rate applicable to the Group's economic operating environment in the U.S. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The charge for the year can be reconciled to the loss per the income statement as follows:

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
<b>Loss before tax</b>	(241,571)	(313,239)
Tax credit on loss on ordinary activities at U.S. tax rate of 42% (2008: 42%)	(101,460)	(131,560)
Tax effect of expenses that are not deductible in determining taxable profit and taxable income not recognized for book purposes	1,874	986
Amounts chargeable to tax not recognized for book purposes	-	4,442
Tax losses carried forward and other temporary differences not recognized	94,141	120,878
Tax effect of utilization of tax losses not previously recognized	(43)	(847)
Effect of different tax rates of subsidiaries operating in other jurisdictions	31	(1,428)
Income taxed at lower rates	4,097	7,721
Depreciation in excess of capital allowances	1,360	2,636
Prior year adjustments	-	187
U.S. income tax	(146)	57
Tax charge through Statement of Changes in Equity	-	(3,015)
Tax (credit) / expense for the year	(146)	57

In addition to the amounts charged to the income statement, a current tax provision of \$0.0 (2008: \$3.0 million) relating to the issue of warrants during the year has been charged directly to equity (see Note 30).

The unrecognized deferred tax asset can be analyzed as follows:

(Dollars in thousands)	As of December 31,	
	2009	2008
Accelerated capital allowances	(273)	3,082
Provisions deductible when paid	64,315	96,063
Other temporary differences	48,823	66,920
Share based payments	1,090	1,433
Tax losses	211,783	73,414
	325,738	240,912

The deferred tax asset of \$325.7 million (2008: \$240.9 million) has not been recognized because there is insufficient evidence of taxable profits in the future which would enable the asset to be recovered and also there is a risk that some of this asset may not be available in the future.

The Company may have had one or more ownership changes as defined by Section 382 of the Internal Revenue Code (IRC) that may limit the future realization of its net operating loss carry forwards. Based on estimates prepared to date, the Company believes Section 382 could result in the forfeiture of between \$125.0 million and \$290.0 million of net operating loss carry forwards for federal income tax purposes. Therefore, between \$43.0 million to \$99.0 million of the unrecognized deferred tax asset in respect of losses disclosed above is potentially at risk of forfeiture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**14. Loss per share**

The calculations of basic and diluted loss per share are as follows:

	Year-ended December 31,	
	2009	2008
Loss for the financial year (\$'000s)	(241,425)	(313,296)
Weighted average number of shares for basic and diluted earnings per share	130,080,875	122,580,643
Basic and diluted loss per share	\$ (1.86)	\$ (2.56)

Unexercised share options and warrants to purchase 19,683,263 shares in 2009 (2008: 19,431,902 shares) are anti-dilutive and therefore excluded from the calculation of diluted loss per share.

**15. Intangible assets**

(Dollars in thousands)	Patents	Amortization	Net Book Value
At January 1, 2008	734	(24)	710
Additions	482	(13)	469
At January 1, 2009	1,216	(37)	1,179
Additions	746	(13)	733
At December 31, 2009	1,962	(50)	1,912

Intangible assets represent legal costs and filing fees involved in obtaining patents. These costs are considered internally generated intangible assets, have finite lives and are amortized over a 20 year useful life. The amortization expense is included in research and development expense within the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Property, plant & equipment

(Dollars in thousands)	Leasehold		Molds and templates	Tooling and testing equipment		Office equipment		Total
	improvements	Anemometry equipment		testing equipment	Test turbine	vehicles and other		
<b>Cost</b>								
At January 1, 2008	2,942	1,616	13,584	18,387	4,419	5,819	46,767	
Additions	590	561	2,670	12,278	-	4,864	20,963	
Disposals	(9)	(53)	-	(41)	-	(42)	(145)	
At January 1, 2009	3,523	2,124	16,254	30,624	4,419	10,641	67,585	
Additions	793	834	999	4,792	-	5,941	13,359	
Disposals	(267)	(264)	-	(124)	-	(81)	(736)	
At December 31, 2009	4,049	2,694	17,253	35,292	4,419	16,501	80,208	
<b>Accumulated depreciation</b>								
At January 1, 2008	(692)	(685)	(7,170)	(2,582)	(871)	(1,878)	(13,878)	
Charge for the year	(642)	(350)	(4,940)	(4,911)	(369)	(1,711)	(12,923)	
Disposals	4	40	-	2	-	41	87	
At January 1, 2009	(1,330)	(995)	(12,110)	(7,491)	(1,240)	(3,548)	(26,714)	
Charge for the year	(808)	(636)	(2,222)	(6,596)	(349)	(2,002)	(12,613)	
Disposals	-	152	-	20	-	48	220	
At December 31, 2009	(2,138)	(1,479)	(14,332)	(14,067)	(1,589)	(5,502)	(39,107)	
<b>Net book value</b>								
At December 31, 2008	2,193	1,129	4,144	23,133	3,179	7,093	40,871	
At December 31, 2009	1,911	1,215	2,921	21,225	2,830	10,999	41,101	

During the period, the Group carried out a review of the recoverable amount of its property, plant and equipment, giving regard to physical damage and obsolescence. No impairment was identified based on this review.

Included in property, plant and equipment are assets held under finance leases with a net book value of \$1.5 million (2008: \$0.5 million). The Group's obligations under finance leases (see Note 25) are secured by the lessor's title to the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Investments

The Group has investments in the following significant joint ventures and other investments which affect the profits, losses and net assets of the Group.

(Dollars in thousands)	Country of incorporation	Principal activity	Holding	As of December 31,	
				2009	2008
<b>Joint ventures</b>					
Fuerza Eolica I S.A. de C.V.	Mexico	Wind energy projects	50%	-	-
Great Republic Power Partners, LLC	USA	Wind energy projects	50%	16	16
Silver Star II Power Partners, LLC	USA	Wind energy projects	50%	5	5
Titan Wind, LLC	USA	Wind energy projects	50%	1,454	4,525
				1,475	4,546
<b>Other investments</b>					
Northstar Wind Towers, LLC	USA	Wind tower company	37.5%	-	-
<b>Available for sale investments</b>					
Silver Star I Power Partners, LLC	USA	Wind energy projects	15%	-	15,789

In July 2008, the Group created a new entity called Titan Wind, LLC ("Titan") which will serve as the master development company for the Titan project in South Dakota, U.S.A. The Group contributed certain wind development assets to Titan and, in September 2008, sold a 50% interest in the entity to BP Alternative Energy for \$21.9 million cash and an agreement to pay a minimum of an additional \$10.0 million no later than the end of 2011. In the future, the Group may receive additional compensation from this transaction, but such compensation is contingent on the development of the wind assets and the ultimate return realized from that development. The \$10.0 million receivable from the transaction is included in other non-current assets on the Group's balance sheet. Including Titan, the Group holds a 50% interest in four project Limited Liability Companies (LLCs). For 2009, the investment in Titan decreased by \$3.1 million due to operating losses and impairment. These project LLCs are accounted for as joint ventures using the equity method. The Group reports its investment in these joint ventures on a single line item on the balance sheet.

At December 31, 2008, the Group held a 15% interest in Silver Star I Power Partners, LLC which is accounted for as an available for sale investment with changes in fair value recorded directly in shareholders' equity. Clipper sold its 15% stake in Silver Star I Power Partners, LLC during the last half of 2009 resulting in a loss of \$2.8 million.

In January 2008, the Group made an investment of \$2.1 million in Northstar Wind Towers, LLC ("Northstar"), a related party, equal to a 37.5% interest in the company. Due to the development stage of Northstar, the Group provided for this investment as a research and development expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**18. Non-current assets**

	Year-ended December 31,	
	2009	2008
(Dollars in thousands)		
Long term receivable from sale of subsidiary undertakings (Note 17)	10,000	10,000
Long term trade receivable	-	6,000
Other	537	604
	<u>10,537</u>	<u>16,604</u>

**19. Inventories**

	As of December 31,	
	2009	2008
(Dollars in thousands)		
Raw materials and components	98,135	205,410
Less reserves	(16,535)	(46,999)
Net	<u>81,600</u>	<u>158,411</u>
Completed assembly	40,842	81,149
Less reserves	-	-
Net	<u>40,842</u>	<u>81,149</u>
Inventory at project sites	46,951	320,841
Less reserves	(1,643)	(2,955)
Net	<u>45,308</u>	<u>317,886</u>
Total net inventory	<u>167,750</u>	<u>557,446</u>

The carrying value of inventory has been reduced by \$18.1 million in the year-ended December 31, 2009 (2008: \$50.0 million) reflecting the estimated future costs of remediating certain components, estimated loss on future contracts and excess and obsolete inventory. The inventory component of cost of sales in 2009 was \$654.0 million (2008: \$687.0 million).

**20. Prepaid inventories**

Prepaid inventories of \$13.9 million and \$33.0 million for the years ended December 31, 2009 and 2008, respectively, consist primarily of advance deposits for turbine towers, gearbox components, turbine generators and pitch control units. These amounts are paid to secure turbine components which will be reflected in inventories upon receipt of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**21. Trade and other receivables**

	As of December 31,	
	2009	2008
(Dollars in thousands)		
Trade receivables	49,456	97,574
Other receivables	315	431
Less: allowance for doubtful accounts	(982)	(65)
	<u>48,789</u>	<u>97,940</u>

Included in the balance shown above are debtors with a carrying amount of \$10.0 million (2008: \$26.1 million) which are past due at the reporting date for which the Group has provided an allowance of \$1.0 million (2008: \$0.1 million). The Group does not hold any collateral over these balances. The credit period was in some cases extended while remediation was ongoing; however, the Directors believe full recovery will be made of the carrying value of trade receivables. The average age of these overdue receivables is 282 days (2008: 105 days).

Aging of past due receivables:

	As of December 31,	
	2009	2008
(Dollars in thousands)		
60-90 days	174	17,811
Over 90 days	9,830	8,292
	<u>10,004</u>	<u>26,103</u>

**22. Other current assets**

	As of December 31,	
	2009	2008
(Dollars in thousands)		
Restricted cash (see note 23)	11,928	5,081
Interconnection deposits	2,189	2,600
Vendor deposits and prepayments	4,979	1,304
Other	-	3,889
	<u>19,096</u>	<u>12,874</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**23. Cash**

Cash and cash equivalents comprise cash held by the Group, short-term bank deposits, and short-term money market funds invested in U.S. Treasury instruments with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The Group has an arrangement with a bank to issue letters of credit. The arrangement includes a restriction upon the use of the Group's cash equal to the amount of any letters of credit outstanding. At December 31, 2009 there were \$3.4 million in letters of credit outstanding (2008: \$0.7 million). In addition, the Group has \$8.1 million held in escrow due to customer contractual requirements. Total restricted cash amounts of \$11.9 million (2008: \$5.1 million) are contained in other current assets (see Note 22).

**24. Deferred Revenue**

(Dollars in thousands)	Current	Non-current	Total
At January 1, 2008	531,652	91,715	623,367
Customer deposits received	802,348	42,743	845,091
Recognized as revenue in the period	(665,915)	-	(665,915)
At January 1, 2009	668,085	134,458	802,543
Customer deposits received	321,029	16,031	337,060
Recognized as revenue in the period	(672,867)	(32,823)	(705,690)
At December 31, 2009	316,247	117,666	433,913

Deferred revenue reflects consideration received from customers for manufacture and delivery of wind turbines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**25. Obligations under finance leases**

(Dollars in thousands)	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	2009	2008
Amounts payable under finance leases:				
Within one year	365	272	309	243
In the second to fifth years inclusive	583	264	543	240
	948	536	852	483
Less future finance charges:	(96)	(54)		
Present value of lease obligations	852	482		
Less: Amount due for settlement within 12 months			(309)	(243)
Amount due for settlement after 12 months			543	240

The Group periodically leases certain of its fixtures and equipment under finance leases. The average lease term is three years. For the year-ended December 31, 2009, the average effective borrowing rate was 8.9% (2008: 9.1%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in U.S. dollars. The fair value of the Group's lease obligations approximates their carrying amount and are secured by the lessors' rights over the leased assets.

**26. Trade and other payables**

(Dollars in thousands)	As of December 31,	
	2009	2008
Trade payables	74,181	98,013
Other payables	23,092	42,567
	97,273	140,580

The Directors consider that the carrying amount of trade payables approximates their fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 27. Provisions

(Dollars in thousands)	Warranty	Remediation	Liquidated Damages	Other	Total
Current					
<b>At January 1, 2008</b>	367	3,677	-	-	4,044
Charged in the year	9,045	77,508	25,113	13,000	124,666
Reclassification	2,773	-	10,595	-	13,368
Utilization of provision	(3,352)	(19,409)	(1,500)	-	(24,261)
<b>At December 31, 2008</b>	8,833	61,776	34,208	13,000	117,817
Non current					
<b>At January 1, 2008</b>	12,863	-	-	478	13,341
Charged in the year	13,331	-	-	-	13,331
Reclassification	(2,773)	-	-	-	(2,773)
Unwinding of discount	-	-	-	25	25
<b>At December 31, 2008</b>	23,421	-	-	503	23,924

(Dollars in thousands)	Warranty	Remediation	Liquidated Damages	Other	Total
Current					
<b>At January 1, 2009</b>	8,833	61,776	34,208	13,000	117,817
Charged in the year	15,091	82,555	22,228	3,032	122,906
Reclassification	9,681	14,298	-	(2,000)	21,979
Utilization of provision	(14,758)	(117,702)	(19,020)	(11,000)	(162,480)
<b>At December 31, 2009</b>	18,847	40,927	37,416	3,032	100,222
Non current					
<b>At January 1, 2009</b>	23,421	-	-	503	23,924
Charged in the year	21,875	-	-	-	21,875
Reclassification	(9,681)	-	-	-	(9,681)
Unwinding of discount	-	-	-	27	27
<b>At December 31, 2009</b>	35,615	-	-	530	36,145

The provision for warranty claims represents the present value of the Directors' best estimate of the future cost that will be required under the Group's turbine warranty agreements. Actual outflows may vary based on the result of new materials, altered manufacturing processes or other events affecting product quality. These amounts are expected to be utilized from 2010 through 2014. Remediation represents provisions for costs to repair and replace gearboxes and blades on completed turbines. Liquidated damages represent estimates of contractual obligations to compensate customers for project delays or lost power generation as a result of not meeting guaranteed turbine performance, power curve or noise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 28. Note Payable

On May 13, 2009, the Group entered into an arrangement for a \$20.0 million secured loan funded by a customer associated with the deferral of certain 2009 committed turbine deliveries into 2010 and 2011. The loan is in the form of a promissory note with an expected maturity due in 2011. Interest will accrue on the note at the three-month LIBOR rate plus 20 basis points (0.2%). To date, the Group has recorded \$116,000 interest due on this note. The principal and interest are due on the maturity date.

Subsequent to December 31, 2009, the lender has notified the Group of a technical default of one of the loan terms in connection with the merger of several of the Group's companies. The Group is currently renegotiating with the lender and expects to reach an agreement for a later payment date. Until such an agreement is reached, the loan is classified as a current obligation.

## 29. Share Capital

(Dollars in thousands, except shares authorized)

	As of December 31,	
Authorized	2009	2008
Ordinary shares (10 pence each par value)	220,000,000	165,000,000
<b>Allotted, called up and fully paid</b>		
130,288,169 ordinary shares of 10 pence each (2008: 130,046,942 ordinary shares)	24,115	24,076

On May 12, 2008, the Company issued 15.8 million shares and 2.9 million warrants to purchase ordinary shares with a strike price of £5.38 per share to One Equity Partners for consideration of U.S. \$150.0 million. On April 22, 2008, institutional shareholders, through a private placement, subscribed to 4.7 million new ordinary shares of the Company at a price per share of £5.375 raising gross proceeds of £25.2 million (U.S. \$50.0 million). The proceeds raised in the offerings have been used for the ongoing cash requirements of the Group. On June 25, 2008, the Company issued 140,660 new ordinary shares with a value on that date of U.S. \$1.5 million to an investment banking firm as payment for services rendered regarding the share capital raising transactions.

On June 17, 2009, the Board of Directors authorized an increase in share capital resulting in 55,000,000 new ordinary shares.

Issued share capital at December 31, 2009 amounted to \$24.1 million. (2008: \$24.1 million). The only changes related to share capital in 2009 were directly related to stock option exercises. During the year, the actual number of share options exercised was 239,893 (2008: 1,161,977). The total consideration received from the exercise of these options was \$0.3 million (2008: \$1.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**30. Other Reserves**

(Dollars in thousands)	Share option reserve	Warrant reserve	Merger reserve	Total
<b>Balance at January 1, 2008</b>	6,686	9,812	35,107	51,605
Shares and warrants issued	-	10,768	-	10,768
Tax payable on warrant issued	-	(3,015)	-	(3,015)
Employee share option scheme:				
Exercise of options	(554)	-	-	(554)
Issuance of options	2,889	-	-	(2,889)
<b>Balance at December 31, 2008</b>	9,021	17,565	35,107	61,693
Employee share option scheme:				
Exercise of options	-	-	-	-
Issuance of options	4,121	-	-	4,121
<b>Balance at December 31, 2009</b>	13,142	17,565	35,107	65,814

**31. Financial commitments**

(Dollars in thousands)	As of December 31,	
	2009	2008
Contractual commitments under long term supplier contracts	92,629	86,010
Commitment under agreement to invest in a wind tower company	80	-

Contractual commitments under long term supplier contracts are for the purchase of supplies for the manufacture of turbine components.

At the balance sheet date, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Lease payments recognized as an expense in 2009 were \$2.4 million (2008: \$2.6 million). Leases are negotiated for a term of one to five years. Rent escalations are generally tied to the forward Consumer Price Index and have been estimated at 3% per annum for the remaining lease terms. Leases generally provide for the lessee to pay all insurance, maintenance and repair costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**32. Contingencies**

Contingent assets

The Group continues to hold 50% ownership in four project limited liability companies ("LLCs"), three of which were part of joint venture agreements signed with a customer in 2006 and 2008. In the event certain notice-to-proceed conditions in the customer contracts are satisfied, the Group will receive additional contingent purchase price consideration for the project companies up to a maximum of \$116.1 million (2008: \$120.8 million) for the three project companies. The Group realized \$375,000 of these contingent payments in 2009 related to the sale of Silver Star I Power Partners, LLC.

Contingent liabilities

The Group is from time to time engaged in routine litigation. The Group regularly reviews all pending litigation matters in which it is involved and establishes reserves deemed appropriate by management for these litigation matter when a probable loss estimate can be made. No amounts are expected to be paid above those provided.

In August 2009, Clipper entered into arbitration with a former vendor. The vendor is seeking payment for unpaid invoices, claiming breach of contract and related damages in the amount of approximately \$32.6 million. The Group does not believe a loss is probable in excess of what the Group has provided for. The Group asserts the vendor delivered products that required additional repairs and is seeking counter-claims for damages for costs of remediation.

For one of the three projects related to the joint venture agreement with a customer in 2006, the sale was completed on the basis that the project would achieve certain development thresholds. If the project falls short of the contractually-agreed commitments, the Group is required to transfer a new project in its place or, failing that, to reimburse its joint venture partner for any amounts paid plus interest at LIBOR plus 2%. The Directors consider it remote that any payments will arise under this arrangement.

In September 2007, the Group entered into an industrial jobs training agreement with the State of Iowa. Under the agreement, Clipper will receive reimbursement of payroll taxes paid in exchange for hiring and training a defined number of new employees through 2010. In the event the Group does not fulfill this quota, the Group is liable to pay the State up to \$1.7 million (2008: \$2.6 million). The Group does not believe that any such payments are probable and accordingly has not recorded a liability related to this agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**33. Share based payments**

The Company has a share option scheme wherein options may be granted to directors, employees and consultants of the Group. Options are exercisable at a price equal to or greater than the closing market price of the Company's share on the date of grant. Options generally become exercisable over a period between zero and four years and generally expire between five and ten years after the date of grant. Under terms of the option plan, if an employee leaves the Group, unvested options are forfeited immediately and vested options remain exercisable for three months after termination.

On June 9, 2009, the Board of Directors of the Group approved an Employee and Director Option Exchange Program (the "Program") designed to improve employee retention and strengthen alignment of employee incentives with shareholder interests. As a result of the Program, the number of ordinary shares under option pursuant to the 2005 Unapproved Executive Share Option Plan was reduced by 1.4 million shares.

The option price for each award under the Program was £1.50 per ordinary share, which was a pre-determined price to be the greater of £1.50 or the average stock price of £1.15 on June 26, 2009. The new options granted under the Program vest in four equal annual installments and expire on June 25, 2019. All exchanged options are subject to the new vesting period and no consideration was paid for the grant of options.

Details of the share options outstanding during the year for options granted after November 7, 2002 are as follows:

Exercise Price	Avg. remaining	Wtd. avg.	Options	Options			Options
	life in years	option price	outstanding	Options	Options	exchanged	Options
	at Dec 31, 2009	at Dec 31, 2009	at Dec 31, 2008	granted	exercised	or cancelled	at Dec 31, 2009
£0.00 to £0.70	1.79	£0.6858	1,351,421	-	239,893	49,213	1,062,315
£0.71 to £1.40	9.38	£1.3150	-	1,902,250	-	27,000	1,875,250
£1.41 to £3.50	9.37	£1.7300	1,602,450	3,031,462	-	1,196,745	3,437,167
£3.51 to £5.00	7.01	£4.1700	1,227,000	-	-	1,117,000	110,000
£5.01 to £10.00	3.62	£6.5400	1,664,500	-	-	1,177,500	487,000
			5,845,371	4,933,712	239,893	3,567,458	6,971,732

Details of the share options outstanding during the year for options granted on or before November 7, 2002, as required by the transitional provisions of IFRS 2, are as follows:

Exercise Price	Avg. remaining	Weighted avg.	Options	Options			Options
	life in years	option price	outstanding	Options	Options	Options	Options
	at Dec 31, 2009	at Dec 31, 2009	at Dec 31, 2008	granted	exercised	Cancelled (1)	at Dec 31, 2009
£0.00 to £0.70	2.40	£0.13716	1,075,000	-	-	875,000	200,000
			1,075,000	-	-	875,000	200,000

1) On April 30, 2009, a former employee entered into a settlement agreement with Clipper whereby the former employee released his claims to 875,000 share options in lieu of a settlement payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year the total number of share options exercised was 0.2 million (2008: 1.2 million). The weighted average exercise price for share options exercised during the period was £0.6858 (2008: £0.7038). The options outstanding at December 31, 2009 had a weighted average exercise price of £1.7839 and a weighted average remaining contractual life of 7.63 years (2008: £3.0921 and 6.08 years) until expiry. In 2009, options were granted on six dates (2008: 13 dates). The aggregate of the estimated fair values of the options granted to employees on those dates is \$9.1 million, comprised of \$5.7 million for new option grants issued as part of the option exchange program (offset by \$5.0 million of the fair value of the options cancelled in the exchange), and \$3.4 million for new option grants. (2008: \$8.4 million).

A reconciliation of option movements by purchase price over the year December 31, 2007 to December 31, 2008 for options granted on or after November 7, 2002 is shown below:

Exercise Price	Avg. remaining	Wtd. avg.	Options	Options	Options	Options	Options
	life in years	option price	outstanding	granted	exercised	cancelled	outstanding
	at Dec 31, 2009	at Dec 31, 2009	at Dec 31, 2008				at Dec 31, 2008
£0.00 to £0.70	2.46	£0.6858	2,047,766	-	666,377	29,968	1,351,421
£0.71 to £1.40	-	-	28,000	-	14,000	14,000	-
£1.41 to £3.50	9.26	£2.8103	360,750	1,291,500	12,000	37,800	1,602,450
£3.51 to £5.00	9.37	£4.3805	188,400	1,055,000	3,600	12,800	1,227,000
£5.01 to £10.00	4.72	£6.3381	1,153,000	627,500	-	116,000	1,664,500
			3,777,916	2,974,000	695,977	210,568	5,845,371

Details of the share options outstanding during the year for options granted on or before November 7, 2002, as required by the transitional provisions of IFRS 2, are as follows:

Exercise Price	Avg. remaining	Wtd. avg.	Options	Options	Options	Options	Options
	life in years	option price	outstanding	granted (1)	exercised	cancelled	outstanding
	at Dec 31, 2008	at Dec 31, 2008	at Dec 31, 2007				at Dec 31, 2008
£0.00 to £0.70	4.23	£0.13716	666,000	875,000	466,000	-	1,075,000
			666,000	875,000	466,000	-	1,075,000

(1) In June 2008 the Court of Appeal found in favor of a former employee that options granted prior to November 7, 2002 had not expired and that the employee was still entitled to the options for an additional five years.

The fair value of the employee share options was determined using the Black-Scholes option pricing model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The inputs into this model are summarized below:

	Year-ended December 31,	
	2009	2008
Weighted average share price	£1.1857	£4.4760
Weighted average exercise price	£0.6858	£0.7038
Expected volatility	55.9%	41.0%
Expected life (years)	6.24	5.88
Risk-free rate	2.75%	4.10%
Expected dividends	-	-
Forfeiture rate	5.0%	5.0%

Expected volatility was determined by calculating the historical volatility of the Group's share price since its initial public offering in September 2005.

Non-employee share options are measured at fair value using the Black-Scholes option pricing model which is approximately equivalent to the fair value of goods and services received.

The Group recognized total expenses of \$4.1 million and \$3.2 million related to equity-settled share-based payment transactions in 2009 and 2008, respectively.

**34. Defined contribution plan**

The Group adopted the Clipper 401(k) Plan ("the Plan") which is a defined contribution scheme generally available to full-time employees who are 21 years of age or older. Plan participants may contribute a percentage of their compensation up to the maximum dollar amount allowed under current law. In 2009, the Directors approved an employer contribution equal to the first 4% of compensation that an employee deferred up to a maximum matching contribution of \$1,000 (2008: 4% and \$1,000). The assets of the scheme are held separately from those of the Group in funds under control of trustees. If employees leave prior to being fully vested in the contributions, the forfeited Group contributions are returned to the Group. The Group contributions in 2009 were \$375,000. (2008: \$356,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**35. Financial instruments**

**Capital and liquidity risk management**

The capital structure of the Group consists of \$20.0 million of debt, finance lease obligations disclosed in Note 25, cash and cash equivalents and equity as disclosed in Notes 23 and 29, respectively.

**Categories of financial assets and financial liabilities**

(Dollars in thousands)	As of December 31,	
	2009	2008
<b>Financial assets</b>		
Available for sale investments	-	15,789
Cash and receivables:		
Cash and cash equivalents	49,910	208,988
Trade and other receivables	48,789	97,940
Other assets (deposits and restricted cash)	25,700	19,589
Subtotal cash and receivables	124,399	326,517
	124,399	342,306
<b>Financial liabilities</b>		
At amortized cost:		
Notes payable	20,000	-
Trade and other payables	97,273	140,580
Finance lease payables	852	483
	118,125	141,063

The carrying value of financial assets and liabilities shown above is considered to approximate their fair value. The carrying amounts reflected above represents the Group's maximum exposure to credit risk for loans and receivables. Bank balances are held with high quality financial institutions and management considers the credit quality of the above financial assets to be acceptable.

**Financial risk management objectives**

The Group's Corporate Treasury function monitors and manages the financial risks relating to the Group's financial instruments. These risks include market risk, credit risk, interest rate risk, and liquidity risk.

**Market risk**

The Group's activities expose it to risks related to changes in foreign currency exchange rates, changes in the price of certain commodities used in the manufacture of turbines, and changes in interest rates. The Group's policy is not to use derivatives to hedge market risk exposure.

The Group's activities expose it to both transactional and translational foreign currency risks. Both risks arise primarily from changes in Euros ("EUR")/ U.S. dollar ("USD") and British Pounds ("GBP")/ USD exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*Transactional foreign currency risk*

The transactional foreign currency risks arise primarily from the procurement of certain services and turbine components from vendors in foreign currencies and from the revaluation of intra-Group loans to foreign subsidiaries denominated in foreign currencies.

The Group had the following foreign currency balances outstanding at year-end:

(Dollars in thousands)	Assets as of December 31,		Liabilities as of December 31,	
	2009	2008	2009	2008
GBP	252	1,275	203	201
EUR	4	4	3,610	5,355

The Group also had \$6.8 million (2008: \$10.6 million) of intra-Group loans to foreign subsidiaries denominated in foreign currencies at the balance sheet date.

*Foreign currency sensitivity*

The EUR/USD and GBP/USD rates strengthened by 1.7% and 10.0%, respectively (2008: declined by 4.2% and 27.5%, respectively) between the start and the end of the year.

The following table details how the Group's income and equity would increase (decrease) on a pre-tax basis, for a 10% weakening and a 5% strengthening of the USD against the EUR and GBP, in accordance with IFRS 7, all other variables remaining constant. The calculation is based on the foreign exchange rates adjusting the actual rate by the stated percentage at January 1 in the respective year and continuing to remain at the stated percentage above the actual rate for the entire year.

(Dollars in thousands)	2009	2009	2008	2008
	Income statement	Equity	Income statement	Equity
10% weakening of the USD vs. GBP	(283)	670	(599)	56
5% strengthening of the USD vs. GBP	142	(335)	300	(28)
10% weakening of the USD vs. EUR	(717)	(717)	(6,472)	(6,472)
5% strengthening of the USD vs. EUR	358	358	3,236	3,236

The Group's sensitivity to foreign currency has decreased in the current period due to the decrease in purchases of turbine components from foreign suppliers by the Group and the decrease in the intra-Group loan balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Commodity price risk**

The Group uses a number of steel components in the manufacture of turbine towers, gearboxes, hubs and machine bases. The price of hot rolled steel plate continued to decline in 2009 falling from \$0.41 per pound at the beginning of the year to \$0.29 per pound in December. The year on year average price decrease was 39.0% (2008: increase 34.2%). The Group does not use commodity derivatives to hedge this exposure; however the Group does purchase steel at contracted prices for future use as a means of reducing exposure to price increases in the year.

The following table details the Group's estimates of its sensitivity to full year changes in the price of steel:

(Dollars in thousands)	2009	2009	2008	2008
	Income statement	Equity	Income statement	Equity
10% increase in the price of steel	(1,851)	(1,851)	(8,440)	(8,440)
5% decrease in the price of steel	925	925	4,219	4,219

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Counterparties to our turbine sales tend to be large utilities or development companies. The risk of customer default is mitigated by receipt of advance deposits and/or progress payments in accordance with standard industry practice.

The Group has \$3.8 million (2008: \$11.5 million) of cash on deposit with financial institutions. While the credit risk has increased during 2009, the overall risk on these liquid funds is considered minimal because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has \$46.1 million (2008: \$197.4 million) held in U.S. governmental money market funds. The credit risk on these liquid funds is considered minimal as it is comparable to the credit risk of U.S. treasuries. The Group does, however, have credit risk exposure for amounts advanced to component suppliers (see Note 20). Suppliers are provided advance payments to secure raw material and capacity consistent with industry practice. This risk is mitigated through the use of multiple suppliers. Amounts advanced to the Group's five major component suppliers at the balance sheet date are \$12.3 million (2008: \$31.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Liquidity risk**

The Group manages liquidity risk by receiving advance deposits from customers and by regularly monitoring forecast and actual cash flows. In addition, the Group matches the maturity profiles of financial liabilities to funds available to settle them. Advance deposits are the primary financing tool for acquisition of turbine components.

The Board of Directors reviews financial forecasts for the purpose of managing the Group's short, medium and long-term funding and liquidity requirements. The following table contains a maturity analysis for financial liabilities, including unaccrued interest that shows the maturities:

(Dollars in thousands)

As of December 31, 2009	Within one month	One to six months	Seven months to one year	Two to five years	After five years	Total
Finance lease obligations	30	150	185	583	-	948
Trade and other payables	46,606	50,667	-	-	-	97,273
Income taxes payable	-	-	2,544	-	-	2,544
Note Payable	-	-	20,000	-	-	20,000

(Dollars in thousands)

As of December 31, 2008	Within one month	One to six months	Seven months to one year	Two to five years	After five years	Total
Finance lease obligations	-	136	136	264	-	536
Trade and other payables	68,122	72,458	-	-	-	140,580
Income taxes payable	-	282	2,185	-	-	2,467

**36. Related party transactions**

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

**Trading transactions**

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

(Dollars in thousands)	Purchase of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	Year-ended December 31,		As of December 31,		As of December 31,	
	2009	2008	2009	2008	2009	2008
Potencia Industrial S.A.	14,668	34,665	-	-	400	1,721
Chairman entities	41	-	-	-	-	4
Northstar	-	50	1,000	-	80	-

In 2009 and 2008, the Group provided general and administrative services to its Chairman and entities owned or affiliated with its Chairman ("Chairman Entities"). The amounts outstanding are unsecured and were settled in cash. No guarantees have been given or received. Potencia Industrial S.A. is a Mexican company which owns 50% of Fuerza Eolica S.A. de C.V., a Clipper joint venture. Northstar is a U.S. company that designs and devel-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

ops wind turbine towers and is partially-owned by the son of a Clipper Director. As of December 31, 2009, two of the Group's other Directors are appointed by Clipper to be directors of the tower company. In February 2009, the Clipper Board granted a \$1.0 million loan to Northstar, a related party, in exchange for a convertible preferred note. Upon further evaluation, during 2009 the loan may not be recoverable by Clipper and thus the Company has provided for this note within operating expenses for 2009.

**37. Controlling party**

Following the listing of the Company's equity on the U.K. Alternative Investment Market, the Directors do not believe that any individual or organization controls the Company.

**38. Subsequent events**

On December 10, 2009, Clipper entered into an agreement (the "Subscription Agreement") with United Technologies Corporation "UTC" to conditionally subscribe for approximately 84.3 million new ordinary shares at a subscription price of £1.50 per share, equal to gross proceeds of \$206.2 million, representing approximately 39% of the Issued Share Capital of Clipper following the transaction.

Additionally, UTC issued a cash offer (the "Tender Offer"), conditional (among other matters) on the subscription, to purchase up to 21.8 million Clipper ordinary shares from existing shareholders at a price of £1.80 per share.

In conjunction with the subscription, One Equity Partners and British Petroleum agreed to terminate their respective options to purchase 2,914,850 and an adjusted 13,014,122 Shares at £5.375 and £3.77 respectively for cash consideration.

Both the Subscription Agreement and Tender Offer closed on January 11, 2010. As a result of the aforementioned transactions, as of the end of March 8, 2010, UTC owns 49.5% of Clipper.

Pursuant to the terms of the Subscription Agreement, and with effect from admission of the new shares, Kenneth C. Brown, Joseph G. Michels and Finn M. Hansen resigned from the Clipper Board. In addition, and also with effect from admission, Ronald E. Bruehlman, Peter Christman, An-Ping Hsieh, Robert Leduc and Dr. J. Michael McQuade (all of whom have been nominated by UTC) have been appointed to the Board as non-executive Directors. The terms of the Subscription Agreement permit UTC to hold a proportion of seats on the Board equal to the percentage of shares they own rounded down. Currently, UTC holds 5 of the total 12 board seats.

In March 2010, Douglas Pertz resigned as President and CEO and Board Director. Mauricio F. Quintano was subsequently appointed as new President and CEO and Board Director. Also, in March 2010, Michael E. Keane, CFO, was appointed as Board Director.

## CLIPPER WINDPOWER PLC COMPANY INCOME STATEMENT

(Dollars in thousands)	Note	Year-ended December 31,	
		2009	2008
Operating expense		1,379	2,084
<b>Operating loss</b>		(1,379)	(2,084)
Investment revenue	4	-	225
Impairment reversal / (loss) on investments in subsidiaries	5	150,000	(174,500)
<b>Profit / (loss) before tax</b>		148,621	(176,359)
Tax on profit / (loss)	3	-	-
<b>Net profit / (loss) for the period</b>		148,621	(176,359)

## CLIPPER WINDPOWER PLC COMPANY BALANCE SHEET

(Dollars in thousands)	Note	As of December 31,	
		2009	2008
<b>Non-current assets</b>			
Investments	5	299,116	133,691
<b>Current assets</b>			
Trade and other receivables	6	315	308
Cash		93	177
<b>Total current assets</b>		408	485
<b>Total assets</b>		299,524	134,176
<b>Current liabilities</b>			
Accrued liabilities	7	-	(64)
Accrued taxes payable		(2,405)	(2,186)
<b>Total current liabilities</b>		(2,405)	(2,250)
<b>Net assets</b>		297,119	131,926
<b>Equity</b>			
Share capital	8	24,115	24,076
Share premium		374,890	374,655
Other reserves		(74,594)	(90,892)
Retained loss		(27,292)	(175,913)
<b>Total equity</b>		297,119	131,926

The Company's registration number is 05425635. The financial statements were approved by the Board of Directors on March 29, 2010 and signed on its behalf by:



James G.P. Dehlsen  
Chairman  
March 29, 2010

## CLIPPER WINDPOWER PLC COMPANY STATEMENT OF CASH FLOWS

(Dollars in thousands except per share amount)	Note	Year-ended December 31,	
		2009	2008
<b>Cash flows from operating activities</b>			
Operating loss		(1,379)	(2,084)
Adjustments for:			
Share-based compensation	9	228	675
(Increase) / decrease in receivables	6	(7)	1,905
(Decrease) / increase in accrued expenses	7	(64)	13
Increase / (decrease) in income taxes payable	7	219	2,186
<i>Net cash (used) / provided by operating activities</i>		<u>(1,003)</u>	<u>2,695</u>
<b>Cash flows from investing activities</b>			
Interest received	4	-	225
Investment from / (in) subsidiaries		645	(223,829)
<i>Net cash provided by / (used) in investing activities</i>		<u>645</u>	<u>(223,604)</u>
<b>Cash flows from financing activities</b>			
Proceeds from the exercise of share options and warrants		274	1,082
Proceeds from issues of share capital		-	200,000
Costs of issuance of share capital and warrant		-	(3,329)
<i>Net cash provided by financing activities</i>		<u>274</u>	<u>197,753</u>
Net decrease in cash and cash equivalents		(84)	(23,156)
<b>Cash and cash equivalents at beginning of period</b>		177	23,333
Effect of changes in foreign exchange rates		-	-
<b>Cash and cash equivalents at end of period</b>		<u>93</u>	<u>177</u>

## CLIPPER WINDPOWER PLC COMPANY STATEMENT OF CHANGES IN EQUITY

(Dollars in thousands)	Share capital	Share premium	Other reserves	Retained earnings	Total equity
<b>Balance at January 1, 2008</b>	19,772	188,982	27,627	(108)	236,273
Issuance of options	-	-	2,889	-	2,889
Issuance of shares from private placement	4,083	186,619	-	-	190,702
Offering cost	-	(1,807)	-	-	(1,807)
Warrants issued	-	-	10,767	-	10,767
Tax on warrants	-	-	(3,015)	-	(3,015)
Share options exercised	221	861	(554)	554	1,082
Exchange differences arising on translation of foreign currency recognized directly in equity	-	-	(128,606)	-	(128,606)
Net loss for the year	-	-	-	(176,359)	(176,359)
<b>Balance at January 1, 2009</b>	24,076	374,655	(90,892)	(175,913)	131,926
Issuance of options	-	-	4,121	-	4,121
Share options exercised	39	235	-	-	274
Exchange differences arising on translation of foreign currency recognized directly in equity	-	-	12,177	-	12,177
Net gain / (loss) for the year	-	-	-	148,621	148,621
<b>Balance at December 31, 2009</b>	<u>24,115</u>	<u>374,890</u>	<u>(74,594)</u>	<u>(27,292)</u>	<u>297,119</u>

## CLIPPER WINDPOWER PLC NOTES TO THE COMPANY FINANCIAL STATEMENTS

**1. Significant accounting policies**

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 3 to the consolidated financial statements except as noted below. Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The financial statements of the Company are presented in U.S. dollars, its presentation currency consistent with the Group financial statements. The Company's functional currency is pounds sterling, as this is the currency in which funds from financing activities are generated and shares issued.

**Going Concern**

Consideration of the Group's ability to continue as a going concern is discussed in the Directors' Report and incorporated by reference herein. The same considerations apply in respect to the Company. Therefore, after making enquiries, the Directors have a reasonable expectation that the Company has and will continue to have adequate resources to ensure that future cash flow will be sufficiently positive to enable the Company to continue to operate as a going concern for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis when preparing the financial statements.

**2. Loss before tax**

The Company does not have any employees except for the Directors (2008: nil, save for Directors). Directors' emoluments are disclosed in Note 11 to the consolidated financial statements. In addition, the Company recorded a charge for share based payments in respect of Directors' share options of \$228,000 (2008: \$678,000). Auditor's remuneration is disclosed in Note 9 to the consolidated financial statements.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

**3. Tax**

Corporation tax would be calculated at 28% (2008: 28.5%) of the estimated assessable profit for the year. The charge for the year can be reconciled to the loss per the income statement as follows

(Dollars in thousands)	Year-ended December 31,	
	2009	2008
Profit / (loss) before tax	148,621	(176,359)
Tax on ordinary activities at 28% (2008:28.5%)	41,614	(50,262)
Tax effect of expenses that are not deductible in determining taxable profit and taxable income not recognized for book purposes	64	174
Amounts chargeable to tax not recognized for book purposes	-	3,015
Tax losses carried forward and other temporary differences not recognized	(41,678)	50,088
Tax charge on warrants through equity	-	(3,015)
Total tax charge in the income statement	0	0

In addition to the amounts charged to the income statement, a current tax provision of \$0.0 (2008: \$3.0 million) relating to the issue of warrants during the year has been charged directly to equity (see Note 30).

The unrecognized U.K. deferred tax asset is analyzed as follows:

(Dollars in thousands)	As of December 31,	
	2009	2008
Other timing differences	6,860	53,855
Share-based payments	7	-
Tax losses	1,258	804
	8,125	54,659

The deferred tax asset of \$8.1 million (2008: \$54.7 million) has not been recognized because there is insufficient evidence of taxable profits in the future which would enable the asset to be recovered. \$6.9 million (2008: \$48.9 million) relates to capital losses.

The tax losses are potentially at risk as there may have been a change of ownership and a significant increase in the Company's capital. Therefore, the unrecognized deferred tax of \$1.3 million in respect of the Company's U.K. tax losses may potentially be forfeited.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

**4. Investment revenue, net**

	Year-ended December 31,	
	2009	2008
(Dollars in thousands)		
<i>Investment revenue</i>		
Interest income	-	225
Total investment revenue, net	-	225

Investment revenue is earned on cash and bank balances.

**5. Investments**

The Company has investments in the following subsidiary undertakings.

Subsidiary undertaking	Country of incorporation	Principal activity	Holding
Clipper Capital Holding, Inc.	USA	Wind energy projects	100%
Clipper Fleet Services, Inc.	USA	Operations and maintenance	100%
Clipper Montana Windpower, LLC	USA	Wind energy projects	100%
Clipper Turbine Works, Inc.	USA	Turbine assembly	100%
Clipper Windpower Development Co., Inc.	USA	Wind energy projects	100%
Clipper Windpower do Brasil Energia Eolica, LTDA	Brazil	Wind energy projects	100%
Clipper Windpower Europe Limited	United Kingdom	Wind energy projects	100%
Clipper Windpower Marine Limited	United Kingdom	Wind energy projects	100%
Clipper Windpower Technology, Inc.	USA	Research & development	100%
Clipper Windpower, Inc.	USA	Group management	100%
CTW APS	Denmark	Wind energy projects	100%
Galena Energy Holding Company LLC	USA	Wind energy projects	100%
Medicine Bow Partners, LLC	USA	Wind energy projects	100%
Montana Wind Holdings, LLC	USA	Wind energy projects	75%
Paragon Power Partners, LLC	USA	Wind energy projects	100%
Clipper Windpower de Mexico S. de R. L. de C.V.	Mexico	Wind energy projects	100%

The only direct subsidiary of the Company is Clipper Windpower, Inc.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

Investment in subsidiary undertakings	Investment in shares
(Dollars in thousands)	
<b>At January 1, 2008</b>	211,086
Capital contribution	225,711
Impairment loss	(174,500)
Translation adjustment	(128,606)
<b>At January 1, 2009</b>	133,691
Capital contribution	3,248
Impairment reversal	150,000
Translation adjustment	12,177
<b>At December 31, 2009</b>	299,116

Clipper Windpower Plc increased its investment in Clipper Windpower, Inc. primarily due to the treatment of Group stock options issued as capital contributions, compared to a \$223.8 million net investment in 2008 comprised largely of cash capital contributions to fund operating requirements. The Company provided share options to employees of other Group undertakings in the current year and has recognized this cost of \$4.5 million (2008: \$3.2 million) as a capital contribution. The required translation of the Company's balance sheet to the presentation currency (USD) has resulted in an unrealized translation gain of \$12.2 million as compared to an unrealized loss of \$128.6 million for 2008.

As of December 31, 2009 the Company reversed an impairment loss to the value of \$150.0 million. In 2008, an impairment charge of \$174.5 million was made.

**6. Trade and other receivables**

	As of December 31,	
	2009	2008
(Dollars in thousands)		
U.K. income tax refund receivable	308	308
Amounts owed by subsidiary undertakings	7	-
Other receivables	315	308

**7. Current liabilities**

	As of December 31,	
	2009	2008
(Dollars in thousands)		
Accruals	-	64
Income taxes payable	2,405	2,186
	2,405	2,250

## NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

**8. Called up share capital**

The movements in these items are disclosed in Note 29 to the consolidated financial statements.

**9. Share based payments**

The Company operates a share option scheme for the Group wherein options may be granted to Directors, employees and consultants of the Group. The details of the scheme are outlined in Note 33 of the consolidated financial statements.

The only members of the scheme directly employed by the Company are the Directors. At the end of 2009 Non-Executive Directors had 712,717 options outstanding (2008: 783,000) and the Executive Directors had 1,349,286 options outstanding (2008: 1,160,000). Details of all options granted to Directors of the Company during the year are outlined in Note 11 of the consolidated financial statements.

Details of the weighted average exercise price for share options exercised during the period for the scheme as a whole are detailed in Note 33 of the consolidated financial statements.

The fair value of the employee share options was determined using the Black-Scholes option pricing model. The inputs into this model are also detailed in Note 33 of the consolidated financial statements.

The Company recognized total expenses of \$0.2 million and \$0.6 million related to Non-Executive Directors equity-settled share-based payment transactions in 2009 and 2008, respectively. Expenses for Executive Directors equity-settled share-based payment transactions are reported in the consolidated financial statements.

**10. Financial instruments****Capital risk management**

The capital structure and financial risks of the Company are disclosed in Note 35 to the consolidated financial statements.

**11. Related parties**

See Note 36 in Group consolidated financials.

**12. Subsequent events**

See Note 38 in Group consolidated financials.

We remain committed to becoming one of the leading turbine manufacturers in the world, recognized by wind energy customers as a leader for delivering customer value through innovative technology.

