

Ceres Power Holdings plc

23 September 2009

Ceres Power Holdings plc
("Ceres", "Ceres Power", or "the Group")

Preliminary results for the year ended 30 June 2009

Ceres Power Holdings plc, the AIM listed alternative energy company, announces its preliminary results for the year ended 30 June 2009.

Highlights

- Alpha phase of residential CHP programme with British Gas successfully completed
- £2 million Alpha phase milestone payment received from British Gas in June 2009
- £2.5 million funded development and trialling programme secured with Calor Gas for LPG CHP
- Volume call-off order from Calor for 20,000 LPG fuelled CHP products
- 50,000 sq. ft. manufacturing facility secured and fitted out for fuel cell mass production
- £23 million in net cash and financial assets at 30 June 2009
- Former FTSE 100 Finance Director appointed as Non-Executive Director and Audit Committee Chairman

Key Achievements

- Grid-connected 1kW CHP products successfully tested on mains natural gas
- Alpha phase trialling and performance tests witnessed and data independently verified
- Beta phase of CHP programme commenced with design and procurement activities under way
- Fuel cell mass manufacturing equipment procured and installation under way
- Volume supply agreements for key balance of plant components in place
- Volume CHP assembly agreement entered into with Dutch heating appliance group Daalderop

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Results Summary

	2009	2008
	£'000	£'000
Revenue	952	722
Other operating income	492	845
Operating loss	(9,290)	(6,364)
Finance income	967	974
Loss for the financial year	(7,978)	(4,990)
Loss per share	(11.94)p	(7.98)p
Net cash and financial assets	23,009	27,476

Dr Brian Count, Chairman, commented:

"I am pleased to report that Ceres Power has successfully completed the Alpha phase of the CHP programme with British Gas in line with the Company's published roadmap. Together with the fuel cell mass manufacturing facility being commissioned in Horsham, this underpins the Group's progress towards commercialisation of Ceres Power's CHP products in the UK."

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Chairman's Statement

Business overview

I am pleased to report on the financial results and achievements of the Group for what has been another successful year. Over the last twelve months the Group has achieved the key milestones and priorities that we set out and communicated to the market last year. In particular, the Group has successfully completed the Alpha phase of the Combined Heat & Power ('CHP') programme with British Gas, signed a residential CHP commercial contract with Calor Gas Limited and secured a facility for the mass manufacture of fuel cells. Together, these represent major steps forward in the development of a mass manufacturing capability and progress towards commercialisation of the Ceres Power CHP product.

The successful completion of the Alpha milestone means that we are now addressing the challenges of the Beta phase, which is focused on engineering product refinements and validation of the CHP product's performance and reliability in consumers' homes.

Despite the very challenging global economic climate, the Group has delivered another year of strong growth in commercial revenues reflecting the successful completion of key technical milestones in accordance with the Group's go-to-market roadmap. During the year, the Group made significant investments in plant and machinery and human resources, increasing the underlying operating expenditure. This will continue as the Group scales-up operations towards CHP product launch in volume. As at 30 June 2009, the Group held £23 million in net cash and financial assets.

Support for cleaner technologies increases

Since I reported to you last year, a number of major economies around the world have launched significant fiscal incentive programmes designed to stimulate the development and deployment of low-carbon technologies; in the United States alone, this programme is expected to be worth in excess of US\$60 billion. This is a very welcome development and recognition that addressing carbon emissions, especially in the residential sector, is an essential part of the solution to climate change.

One such key green incentive is the feed-in tariff ('FIT') – a per-energy unit incentive payment for small-scale low-carbon electricity generation. FIT schemes are already widely used across the European Union where they have been used to encourage the deployment of small-scale distributed electricity generation, thereby avoiding the generation, transmission and distribution losses of centralised power generation. There is also evidence that installation of small-scale generating assets by consumers results in their greater understanding and more efficient use of energy.

In July 2009, the UK Government announced that it will implement a FIT for residential microgeneration devices, including CHP fed by non-renewable fuels such as natural gas and LPG. The scheme is to be implemented in April 2010 and has the potential to substantially reduce the energy bills of consumers installing a Ceres CHP product. If the FIT is capitalised as an upfront payment, this could reduce or even eliminate the price premium compared to a condensing boiler, further emphasising the compelling consumer proposition.

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Ceres fuel cell CHP is one of the lowest cost ways to reduce the carbon footprint of homes and utilises the existing installation, service and maintenance infrastructure. Large-scale deployment of the technology can make a significant contribution towards meeting the Government's 2020 emissions reductions targets.

People

The Board was pleased to welcome Jonathan Watkins as Chief Operating Officer, who joined the Ceres executive management team, bringing considerable experience in running global, technology-led high volume manufacturing operations. We are also very pleased to report that Phil Whalen joined Ceres Power as Technology Director, with extensive experience leading global technology teams across a variety of technologies, including engineered ceramics and control systems. Prior to joining Ceres Power, Phil was the Chief Technology Officer of Invensys plc and previously Director of Technology Strategy at Honeywell. Together with the recruitment of around 30 new staff, we are confident that we have the organisation and skills to deliver our plans.

We would like to thank Andrew Baker, who left the Group in December 2008, for his contribution to the Board, and Nigel Brandon, who steps down from the Ceres executive management team to take on the role of Chief Scientific Adviser to the Board.

We were delighted to appoint John Nicholas as Non-Executive Director and Chairman of the Audit Committee in February 2009. John's broad business background and previous experience as a FTSE 100 Group Finance Director further strengthens the Board as the Group scales-up for mass market delivery of its products. We would also like to congratulate Sir David Brown on his appointment as Senior Independent Director of Ceres Power.

On behalf of the Board I would like to record our thanks to all of our employees who, through their hard work and commitment, have enabled the Group to meet its challenging targets over the past year.

Brian Count
Chairman

Chief Executive's Review

Business review

I am pleased to report that Ceres Power has had another successful year despite the challenging business environment. The Group has made substantial progress in key areas and successfully delivered all of the objectives that we set out in last year's Annual Report.

Residential CHP products

In May 2009, the Group announced the successful design, build and test of 1kW grid-connected Alpha Combined Heat and Power ('CHP') products meeting all of the deliverables under the Alpha phase of the residential CHP programme with British Gas. This important milestone was achieved within the timescale set out in the roadmap presented to the market in June 2008.

The Alpha CHP products were tested on mains natural gas under representative operating conditions. During testing, the units produced sufficient electricity to meet most of a typical UK home's power requirements and demonstrated the seamless export and import of power to and from the grid, as well as producing the heat required to meet all of a home's central heating and hot water needs. Key tests were witnessed and data verified by British Gas and an independent gas appliance testing company appointed by British Gas. All of the Alpha CHP product requirements including performance, size, weight and regulatory compliance were successfully achieved. Completion of the Alpha phase triggered the £2 million Alpha milestone payment received in June 2009. I would like to thank all of the employees of Ceres for their hard work and commitment in delivering this significant milestone.

The Beta phase of the British Gas CHP programme is now under way and includes a sequence of activities relating to the design, procurement, build and trialling of Beta CHP units. The validation of in-field product performance and reliability including consistently high quality installation, service and maintenance, is a critical element of this phase. The refinements identified for product and manufacture from the Alpha phase testing have been incorporated in the Beta design phase. The Group is in the process of procuring the necessary components for testing and incorporation into the build of the initial batch of Beta field trial units. The Beta units will be manufactured off representative volume-capable machines and processes and use components sourced from the Group's global supply chain.

Extensive work has been conducted in conjunction with British Gas engineers to select a representative sample of homes across the country for inclusion in the Beta field trials programme. The in-home surveys and site selection have been completed and work is under way to install the necessary monitoring equipment to capture and analyse the relevant data from the trials including room temperature, heat usage, home occupancy and electricity consumption. In addition to providing valuable in-field product validation data, the trials will enable the CHP control and electronics operating systems to be optimised using real world in-home data across a range of housing market segments. The trials will also be an opportunity to establish and optimise the associated service offering including the capture of valuable consumer feedback.

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Manufacturing

In March 2009, the Group secured a lease on a 50,000 sq. ft. (5,000 m²) factory for the volume manufacture of fuel cells and assembly of Fuel Cell Modules. The factory is located in Horsham, South East England, within 10 miles of the Group's existing facilities in Crawley. The factory fit-out was completed in July 2009 and it is anticipated that the installation and commissioning of volume manufacturing machines will be completed during Q3 2009 and initial manufacturing operations will commence during Q4 2009. As part of the Group's de-risking strategy, the core mass manufacturing machines and processes being installed in the Horsham factory have been trialled in the Group's pilot manufacturing facility in Crawley. The Horsham facility's manufacturing output will be for low volume Beta units in 2009 and into 2010 for sheltered field trials under the programme with British Gas. Additional equipment will be installed from 2010 to deliver the higher volumes required for commercial field trials and in preparation for volume launch with British Gas in H2 2011.

Ceres has entered into a long-term supply agreement with Daalderop BV, a well-established domestic heating appliance manufacturer. The company, based in the Netherlands, has a strong presence in the Benelux region and also supplies the German and UK markets. The boiler assembly will be manufactured in volume by Daalderop in accordance with Ceres Power's complete CHP product design. Daalderop provides Ceres with a cost-effective volume condensing boiler assembly capability, brings supply chain relationships for the standard boiler components, extensive gas appliance engineering expertise, a strong brand and established channels into the European market. We are delighted to have secured this long-term agreement with Daalderop.

To support the on-going product engineering and manufacturing scale-up activities, Ceres is continuing to invest significant time and resources across its global network of supply chain partners for raw materials, engineered balance of plant components, manufacturing process machinery and test equipment.

Operations

During the year the Group has made significant investments in both capital equipment and also human capital. The Group has recruited experienced engineers to support the scale-up for the Beta and Gamma phases of the British Gas programme and towards market launch. The Group has recruited approximately 30 new staff in manufacturing, product development, supply chain management and product testing. This investment will help ensure that the Group delivers a cost-effective and reliable CHP product.

The Group is also investing in the infrastructure to support the planned growth of the business. Group-wide Enterprise Resource Planning and Quality systems are being implemented and we have brought in-house a dedicated personnel function to support and develop the growing workforce. The Group continues to make significant investments in the development, capture and management of a substantial intellectual property ('IP') portfolio including patents, trademarks and know-how. The Group has unique IP and it is essential that this continues to be well protected and the Group maximises value through its commercial exploitation.

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Commercial

In January 2009, the Group secured a major new development, supply and distribution agreement with Calor Gas Limited ('Calor'). Under this agreement, Calor is paying £2.5 million towards the costs of developing and trialling residential CHP products operating on liquefied petroleum gas ('LPG'). Calor will make milestone payments to Ceres during the development and trialling phase, and has already made an up-front payment of £1 million. Ceres has also secured a volume call-off order from Calor for 20,000 Ceres LPG CHP products in aggregate over a five-year period for the UK market. Subject to successful completion of the development and trialling phase, and agreeing standard commercial terms, Ceres Power will sell the Ceres LPG CHP product to Calor for the UK market on an exclusive basis for a five-year period, anticipated to begin in 2012.

Ceres and Calor intend to maximise sales of the Ceres LPG CHP product by addressing both the existing LPG customer base and also the substantial number of homes and small businesses using oil, solid fuel or conventional electrical heating (more than two million in the UK alone). Calor is the UK's leading LPG supplier with over 70 years experience and its parent company, SHV Gas, is the world's largest distributor of LPG with operations spanning 27 countries over three continents. Ceres Power retains the right to supply and distribute Ceres LPG CHP products anywhere in the world outside the UK and the right to exploit its innovative fuel cell technology in other applications globally, including in the UK. There are more than 100 million properties without access to mains gas across Europe, representing a substantial growth opportunity for Ceres.

Ceres Power's unique fuel cell technology provides significant opportunities for residential CHP products globally including Europe, Asia and North America. The Group is exploring options in all these geographies, with particular near-term focus on Europe given the potential synergies and similarities with the CHP product developed for the UK market.

Financial

During the last 12 months the global financial system has been under extreme pressure. As we reported in the interim results, the Group's Board-approved treasury policy has focused on preserving the Group's capital base by investing in low-risk, high quality investments. I am pleased to report that this risk management policy has enabled the Group to avoid any financial investment losses.

Commercial revenue for the year increased by 32% to £1.0 million (2008: £0.7 million) due to the successful completion of the Alpha phase of the CHP programme with British Gas and the completion of the contract with EDF Energy Networks. As noted in the interim results, the first milestone payment of £1.0 million from British Gas in February 2008 has been recognised as revenue spread over the Alpha phase.

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In June 2009, following the completion of the Alpha phase with British Gas, the Group received the second milestone payment of £2.0 million. During the year the Group also received the first milestone payment of £1.0 million under the new commercial contract with Calor. In accordance with the Group's accounting policy, these up-front cash payments are being recognised as revenue spread forward over the development and trialling phases of each contract based on the costs incurred. Other operating income arising from public sector contracts fell to £0.5 million (2008: £0.8 million).

Operating costs for the year increased by 35% to £10.7 million (2008: £7.9 million). This increase reflects the recruitment of experienced staff in product engineering, manufacturing and procurement and the expenditure in the supply chain to co-develop and procure CHP components. Included in operating costs is a non-cash share-based payments charge of £0.6 million (2008: £0.6 million) which includes the effect of the new medium-term incentive schemes approved by shareholders at the AGM in December 2008. Finance income of £1.0 million (2008: £1.0 million) was in line with the prior year, with the fall in interest receivable of £0.1 million offset by the increase in fair value of the Company's investment in short-dated UK Government gilts.

The loss for the financial year rose by 60% to £8.0 million (2008: £5.0 million) reflecting the costs of the Alpha phase and the investment in scaling-up the Group's engineering and manufacturing operations ahead of the Beta phase.

The Group's net cash and financial assets fell by £4.5 million (2008: £16.3 million increase) during the year to £23.0 million (2008: £27.5 million). This reduction primarily arose due to the loss for the financial year of £8.0 million (2008: £5.0 million), adjusted for non-cash items of £1.5 million (2008: £1.4 million), and the cash investment in property, plant and equipment of £2.1 million (2008: £1.1 million) partly offset by the decrease in working capital of £3.9 million (2008: £1.2 million). The reduction in working capital has been driven by the increase in deferred income due to the receipt of milestone payments of £2.0 million and £1.0 million from British Gas and Calor respectively and the increase in trade payables relating to the procurement of plant and machinery due for delivery after the year end.

The Group's liquidity position remains sound with £23.0 million in net cash and financial assets. All surplus funds are invested in UK Government gilts, short-term low-risk 'AAA'-rated money market funds and short-term bank deposits.

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Outlook

The Board and senior management are focused on the delivery of our core residential CHP programmes and on investing in the operational capabilities that will underpin our future growth. To achieve the Group's core objectives our priorities for the next 12 months are to:

- commence initial manufacturing operations in the Horsham fuel cell mass manufacturing facility;
- complete design, procure and build stages of the Beta phase of the CHP programme with British Gas including formal regulatory certification of the CHP product;
- conduct testing of mains natural gas Beta CHP units in both sheltered field trials and initial commercial trials in consumers' homes; and
- secure additional commercial relationships with go-to-market channel partners internationally.

I look forward to reporting on the delivery of our stated priorities and other progress over the next 12 months.

Peter Bance
Chief Executive Officer

**CONSOLIDATED INCOME STATEMENT
for the year ended 30 June 2009**

	Note	2009 £'000	2008 £'000
Revenue		952	722
Operating costs		(10,734)	(7,931)
Other operating income		492	845
Operating loss		(9,290)	(6,364)
Finance income		967	974
Loss before income tax		(8,323)	(5,390)
Income tax credit		345	400
Loss for the financial year		(7,978)	(4,990)
 Loss per £0.05 ordinary share expressed in pence per share:			
- basic and diluted	2	(11.94)p	(7.98)p

**CONSOLIDATED BALANCE SHEET
as at 30 June 2009**

	2009	2008
Note	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	3,243	2,034
Other receivables	81	53
Total non-current assets	3,324	2,087
Current assets		
Trade and other receivables	428	492
Current tax receivable	320	400
Financial assets at fair value through profit or loss	5 9,803	-
Cash and cash equivalents	5 13,206	27,476
Total current assets	23,757	28,368
Liabilities		
Current liabilities		
Trade and other payables	(3,664)	(1,735)
Derivative financial instruments	(28)	-
Total current liabilities	(3,692)	(1,735)
Net current assets	20,065	26,633
Non-current liabilities		
Other payables	(1,966)	(77)
Provisions for other liabilities and charges	(30)	(13)
Total non-current liabilities	(1,996)	(90)
Net assets	21,393	28,630
Equity		
Share capital	3 3,344	3,337
Share premium account	35,551	35,465
Other reserve	7,463	7,463
Profit and loss account (deficit)	(24,965)	(17,635)
Total shareholders' equity	21,393	28,630

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CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash used in operations	4	(3,900)	(3,735)
Income tax received		425	-
Net cash used in operating activities		(3,475)	(3,735)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,088)	(1,095)
Purchase of financial assets at fair value through profit or loss		(10,000)	-
Finance income received		1,216	923
Net cash used in investing activities		(10,872)	(172)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		93	20,301
Net expenses of shares issued		-	(81)
Net cash generated from financing activities		93	20,220
Net (decrease) / increase in cash and cash equivalents		(14,254)	16,313
Exchange (losses) / gains on cash and cash equivalents		(16)	21
		(14,270)	16,334
Cash and cash equivalents at beginning of year		27,476	11,142
Cash and cash equivalents at end of year		13,206	27,476

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2009**

	Share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account (deficit) £'000	Total £'000
At 1 July 2007	2,981	15,594	7,463	(13,250)	12,788
Issue of shares (net of costs)	356	19,864	-	-	20,220
Loss for the financial year	-	-	-	(4,990)	(4,990)
Share-based payments charge	-	-	-	605	605
Share-based remuneration for services	-	7	-	-	7
At 30 June 2008	3,337	35,465	7,463	(17,635)	28,630
Issue of shares (net of costs)	7	86	-	-	93
Loss for the financial year	-	-	-	(7,978)	(7,978)
Share-based payments charge	-	-	-	648	648
At 30 June 2009	3,344	35,551	7,463	(24,965)	21,393

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Notes to the Preliminary Announcement

1. Basis of Preparation

The preliminary announcement for the year ended 30 June 2009 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as at 30 June 2009. The financial information contained in this preliminary announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information has been extracted from the financial statements for the year ended 30 June 2009, which have been approved by the Board of Directors and on which the auditors have reported without qualification. The financial statements will be delivered to the Registrar of Companies after the Annual General Meeting. The financial statements for the year ended 30 June 2008, upon which the auditors reported without qualification, have been delivered to the Registrar of companies.

2 Loss per share

Basic and diluted loss per £0.05 ordinary share are calculated by dividing the loss for the financial year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Given the losses during the year, there is no dilution of losses per share in the year ended 30 June 2009 or in the previous year.

The loss for the financial year ended 30 June 2009 was £7,978,000 (2008: £4,990,000) and the weighted average number of £0.05 ordinary shares in issue during the year ended 30 June 2009 was 66,813,275 (2008: 62,548,262).

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3 Share capital

	2009		2008	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £0.05 each	100,000,000	5,000	100,000,000	5,000
Allotted, called up and fully paid				
Ordinary shares of £0.05 each	66,874,075	3,344	66,740,675	3,337

During the year the Company issued 7,700 ordinary shares of £0.05 each on the exercise of employee share-options for cash consideration of £5,088, and 125,700 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £87,990.

4 Cash used in operations

	2009	2008
	£'000	£'000
Loss before income tax	(8,323)	(5,390)
Adjustments for:		
Fair value gain on UK Government gilts	(119)	-
Other finance income	(848)	(974)
Depreciation of property, plant and equipment	879	770
Share-based payments charge	648	605
Share-based remuneration for services	-	7
Operating cash flows before movements in working capital	(7,763)	(4,982)
Decrease in trade and other receivables	28	167
Increase in trade and other payables	3,818	1,075
Increase in provisions	17	5
Decrease in working capital	3,863	1,247
Cash used in operations	(3,900)	(3,735)

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5 Net cash and financial assets

	2009	2008
	£'000	£'000
Cash at bank and in hand (1)	688	(70)
Financial institutions – Money Market Funds	9,518	27,546
Financial institutions – Short Term Bank Deposits	3,000	-
	<hr/>	<hr/>
	13,206	27,476
UK Government gilts (financial assets at fair value through profit or loss)	9,803	-
	<hr/>	<hr/>
	23,009	27,476

(1) The negative cash at bank and in hand balance at 30 June 2008 was due to timing differences relating to unpresented cheques.

The Group typically places surplus funds into bank deposits of durations of up to three months, pooled money market funds and UK Government gilts of durations of up to twelve months. The Group's credit policy limits investments to short term sterling money market funds which carry short-term credit ratings of at least two of AAAM (Standard & Poor's), Aaa/MR1+ (Moody's) and AAA V1+ (Fitch) and money market deposits with long term rating of AA/AA/Aaa or short term rating of F1+/A-1/P-1.