

**Ceres Power Holdings plc**

**Preliminary results for the year ended 30 June 2011**

Ceres Power Holdings plc (“Ceres”, “Ceres Power” or “the Group”) announces its preliminary results for the year ended 30 June 2011.

**Business highlights:**

- David Pummell appointed as new Chief Executive Officer with effect from 5 September 2011
- Significant improvements achieved in core fuel cell technology
- Robust new plan to achieve first generation product launch in H1 2014
- Global opportunity for Ceres CHP product remains substantial
- £26.7m in net cash and short-term investments at 30 June 2011

**Results Summary**

	<b>2011</b>	2010
	<b>£'000</b>	£'000
	<hr/>	<hr/>
Revenue	<b>692</b>	786
Other operating income	<b>352</b>	570
Operating loss	<b>(16,658)</b>	(13,187)
Finance income	<b>503</b>	371
Loss for the financial year and total comprehensive loss	<b>(13,821)</b>	(11,723)
Loss per share	<b>(16.04)p</b>	(15.16)p
Net cash and short-term investments	<b>26,687</b>	40,900

David Pummell, Chief Executive, commented:

“Since my appointment I have conducted a detailed review of the business and our plan to achieve mass market uptake of the Group’s residential CHP product. Ceres Power has world-leading technology and a highly differentiated CHP product that is capable of mass market adoption, albeit later than originally planned. I am confident that we can successfully deliver both the revised commercialisation plan and significant value to shareholders.”

Gearóid Lane, Managing Director of British Gas New Markets, commented:

“We believe that Ceres Power’s innovative technology has the potential to offer a unique value proposition. We are working closely with Ceres Power to bring their CHP product to our customers in the UK and enable them to generate flexible, low carbon electricity in their own homes and reduce their energy bills.”

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## **Chairman's Statement**

I am pleased to report on the financial results and achievements of the Group for the year ended 30 June 2011. There have been some notable achievements that have moved the business forward, but there have also been some setbacks in our progress to launching a mass market residential Combined Heat and Power ('CHP') product.

In March 2011, we reported that the initial in-home CHP field trial units had experienced reliability and durability issues. We have made significant progress in resolving all these issues but, in order to accommodate the additional engineering activity, the programme to complete testing and trialling and to achieve initial CHP product sales will take longer than originally planned.

I am pleased to report that during the last six months we have made substantial performance improvements in the core fuel cell technology. These improvements give us increased confidence in meeting the requirements for the mass market launch of our CHP product.

The Board is delighted to have appointed David Pummell as the Group's new Chief Executive, who took up office on 5 September 2011. David was CEO of MAPS Technology Ltd, where he built the company from an early-stage technology venture into a commercially successful business selling high-value engineered products and services. Prior to this, David held a number of senior executive roles in BP including leading the European fuels and lubricants business and various operational roles with responsibility for manufacturing, operations and distribution.

Since joining as CEO, David has conducted a comprehensive review of the business, the status of the core technology and the plan to commercialise the Group's CHP product. As described in the Chief Executive's Review, we are today setting out a revised plan to conduct a second phase of in-home field trials in H2 2012 leading to the launch of our first generation CHP product in H1 2014. In parallel, the Group will commence work on developing the next generation CHP product by value engineering the current CHP design to achieve a low cost, durable CHP product to meet mass market cost requirements and a planned launch date in H1 2016.

This revised plan means that the Group is likely to continue to incur losses at the operating level. The Board continues to monitor closely the existing cash resources, which stood at £26.7m at the year end, and the funding needs of the Group, and it is anticipated that the Group will raise an initial tranche of further funding during the next twelve months.

## **Strategic Overview**

Since my report last year, the macro environment for microgeneration has continued to improve. Energy prices have risen significantly and most commentators expect this trend to continue as the scale of the investment required to replace ageing infrastructure and deliver low carbon energy is recognised. Gas is an abundant, clean, flexible fuel and is acknowledged as an important ingredient in the transition to achieving a low carbon economy. Technologies such as micro CHP that efficiently convert gas into useable heat and power on-site will become important as a strategic option for consumers and governments. Importantly, in an uncertain world where technology is continuously advancing, an option

for flexible, cleaner energy production with a typical life of up to 10 years provides a lower risk option compared to large centralised power generation where investments typically have a life of 25 years or more and require considerable investment in the transmission systems to deliver the energy to the consumer.

Against this background the market potential for residential CHP is substantial. Ceres Power's low cost, wall mounted CHP product allows the Group to access the annual boiler replacement market and offer consumers the opportunity to generate low carbon electricity in their own homes with an attractive payback. In Europe alone there are approximately 8 million residential boilers replaced every year and Ceres Power has already secured market access to millions of consumers in the UK and Ireland through its partnerships with British Gas, Calor Gas and Bord Gáis. We intend to develop further commercial partnerships in Europe and beyond to address the global market opportunity of more than 18 million units annually.

### **Feed-in-Tariff and support for microgeneration technologies**

In the UK, the Government has recognised the importance of trying to achieve lower cost ways to reduce carbon rather than a single focus on maximising the deployment of higher cost renewables. In February 2011, the UK Government's Department of Energy and Climate Change (DECC) announced a review of the Feed-in-Tariff; which is expected to re-align the Feed-in-Tariff to stimulate the uptake of the most cost-effective technologies.

As part of this review, a group of the leading micro CHP developers and energy companies in the UK, including Ceres Power and British Gas, has submitted a report to DECC recommending changes to the existing Feed-in-Tariff structure to further encourage the uptake of micro CHP. The report recommends that the current generation Feed-in-Tariff of 10p/kWh should be raised to at least 15p/kWh with a volume-based reduction going forward, and that the current cap of 30,000 units should be lifted. Implementing this recommendation would stimulate faster adoption of micro CHP, with the tariff reducing as the technologies are adopted and the benefits of the volume-related cost-down curve are captured.

We welcome this review and look forward to working with DECC and demonstrating the sustainable benefits of our technology for both the retrofit and new build housing sectors. The outcome of the review is expected to take effect in April 2012.

### **People**

On behalf of the Board I would like to thank our employees for their commitment and determination. We have built a team of dedicated and talented people and they are rightly proud of what they have achieved. Bringing a new technology to market involves discovery, innovation and significant engineering effort and is never a straightforward journey, but the opportunities for our technology are substantial.

## **Summary**

The technology is capable of delivering flexible, clean power generation in an integrated and wall mounted residential CHP product and we believe that this CHP product can be engineered into a low cost reliable fuel cell CHP product for the residential mass market.

The key task for the business is to complete the development, trialling and launch of a low cost, durable CHP product that provides the consumer with clean, economic energy on demand. We have made considerable progress towards this goal and our new Chief Executive, David Pummell, sets out in more detail in his review the key priorities for the Group over the next 12 months that underpin the route to achieving initial sales and creating the platform for mass market uptake thereafter.

## **Brian Count**

Chairman

## **Chief Executive's Review**

I am delighted to join Ceres Power as Chief Executive and excited by the global potential of the Ceres CHP product and the opportunity to lead this Group to a successful and vibrant future, delivering significant value to all its stakeholders.

My first priority, since my appointment in September 2011, has been to conduct a detailed review of the business and the plan to achieve mass market uptake of the Group's CHP product, with specific focus on the status of the core technology and our internal product validation programme. Ceres has had a challenging year and although there have been setbacks which have had an impact on the commercialisation timeline, we should not lose sight of the enormous progress that has been made in the development of our low cost, wall mounted residential fuel cell CHP product and the platform this now provides to mass market uptake of the technology.

In September 2010, we demonstrated a compact CHP unit installed on a kitchen wall delivering heat for hot water and central heating and generating electricity on demand powering a range of domestic appliances. The unique ability of the CHP fuel cell product to respond automatically and rapidly to real-time changing energy needs in the home was also demonstrated. Our partner British Gas has confirmed that the ability of the CHP product to increase or decrease power output on demand will enable access to the broadest range of UK households as target customers and will be of significant value to energy utility companies.

During Q1 2011, and in partnership with British Gas, Ceres completed the installation of five CHP units in family homes across South East England directly replacing the existing conventional gas boilers. The field trial units delivered central heating, hot water and power to the homes and controlled themselves automatically, responding in real time to the home's energy needs using a combination of the CHP unit's fuel cell module and boiler. The purpose of this first wave of field trials was to gain valuable real-world experience and to identify issues ahead of deploying the next wave of field trial units in consumers' homes.

## **Technology Progress**

The Group has made substantial progress in a number of different areas relating to the core fuel cell technology. Significant improvements have been achieved in reducing the rate of power degradation and increasing long term cell durability under real-world operating conditions.

In March 2011, the Group reported that the in-home field trial units had experienced reliability and durability issues. We have made significant progress in resolving all these issues:

- ✓ Boiler tuning and calibration issue causing ignition lock-out has been addressed;
- ✓ Shutdown of Fuel Cell Modules ('FCM') due to water management has been addressed;
- ✓ Interconnect corrosion and resulting power degradation has been addressed with an improved coating through better control of the heat treatment process;

- ✓ Debris from FCM insulation causing power degradation has been addressed. There is no evidence of any ongoing impact on FCM power degradation. Testing is continuing to determine the impact, if any, of low level contaminants on long term degradation;
- ✓ Cell delamination has been addressed through minor modifications to cell chemistry and refinements to the operating strategy. Development and testing work is underway to further strengthen cell layers and optimise performance; and
- ✓ The operating strategy of the FCM used in the initial field trials has been confirmed as a significant cause of power degradation. A revised operating strategy has been developed and, in conjunction with improved measurement of operating temperature and tighter control of water and fuel flow to the stack, has significantly reduced the power degradation mechanism. These improvements are currently being validated and the operating strategy optimised.

Analysis of the power degradation measured in cells operating in the initial field trial CHP units showed that a significant root cause of power loss was cyclic oxidation of the anode. This can occur when fuel is interrupted and electronic and physical leakage is present in the cells. The Group has virtually eliminated electronic leakage and significantly reduced physical leakage of the cells through minor modifications to cell layer chemistry and improved control of the fuel cell manufacturing process. Reducing cell leakage has also increased the cell operating potential to near theoretical limits which reduces the cell heat to power ratio to the lowest levels possible.

The new generation of cells has been subjected to aggressive, accelerated stack testing under conditions which stress the anode interface through multiple hot relight and load cycling events. The new cells have shown a substantial improvement, with stacks consistently withstanding over 1000 hot relight events with minimal degradation compared to the rapid degradation measured in the previous cell generation used in our initial field trials. The robustness of the new cells to load cycling was demonstrated using a fuel cell module running on methane subjected to an accelerated test plan of 800 rapid load cycles. No measureable degradation was recorded, providing validation of the cell's tolerance to electronic stresses caused by load cycling.

Water and fuel flows and temperatures are highly integrated and therefore must all operate in concert to provide accurate delivery and control of conditions within the fuel cell module. Improvements have been made in the accuracy of the flow and measurement control of both water and fuel in the system through minor hardware and software changes. By adopting operating strategies which are compatible with the operating tolerances of the entire control system and which also prevent or minimise the likelihood of cell anode oxidation, we achieve significantly improved stack durability.

Taken in total, the improvements in cell leakage reduction, input control and operating strategy refinement have resulted in a significant step forward in achieving the long term durability targets.

A significant contribution to long term cell degradation is the gradual increase in cell electronic series resistance that is believed to arise from an increased level of metal interconnect corrosion. The Group has developed improved interconnect designs which provide the same level of interconnect corrosion resistance and actually increase the power per cell. Short stack testing completed to date (~3000 hrs) with production interconnect coating materials and the optimised heat treatment conditions have achieved

power and cell voltage degradation rates of 1%/1000hrs. The Group will continue to perform both accelerated and long term testing under all potential operating conditions in conjunction with the general field trial programme and we are confident of achieving further improvements in cell durability and long term degradation.

### **Route to achieve mass market uptake of Ceres CHP product**

It is clear from my review that Ceres has unique technology and the potential to be a world-class company with the ability to lead the sector. I have been very impressed with the technical and operational capability in the business. Of significant note is that during the past two years, the Group has undertaken to simultaneously develop its core technology, design and engineer the complete CHP product, whilst building a capable engineering and manufacturing organisation; this would be a challenge even for a well-established company.

We are now enhancing our organisational capability further and implementing improvements to key processes to reduce overall programme delivery risk; underpinning this will be an improvement in overall organisational effectiveness. These changes will improve the Group's competency to manage product programmes, rapidly solve product issues and deliver a low risk scale-up capability.

The current compact CHP design forms the basis of our first generation residential product. This already integrates a boiler and fuel cell module in a single wall mounted unit and demonstrates a commercially distinctive size, weight and value proposition to customers, which our UK market partner, British Gas, believes are pre-requisites for a product to achieve widespread consumer adoption.

The current CHP prototype validates the concept of a boiler-replacement consumer appliance that can be installed in the majority of the UK's homes and deliver significant energy bill savings, payments from the Feed-in Tariff and carbon reductions.

We are today setting out a revised plan to launch a CHP product that meets the requirements of the mass market. The revised timeline, allowing the completion of value engineering, validation testing, performance optimisation and field trials, is as follows:

- Second phase of in-home field trials in H2 2012;
- First generation sales of CHP product in H1 2014;
- Sales of the second generation mass market CHP product in H1 2016.

The second phase of in-home field trials will now be conducted during H2 2012 to allow sufficient time to conduct CHP product and fuel cell module testing and optimisation in the Group's test facilities to validate the product and demonstrate that the required performance levels of reliability and durability have been achieved.

We plan to execute a launch in H1 2014 of our first generation CHP product that will validate the value proposition of this new product category. The initial product launch will also serve to understand how customers will use the product in their homes and what additional product refinements may need to be carried forward to further enhance the design of the mass volume launch product. Ceres and British Gas are working in collaboration to define the requirements necessary to access the early adopter segment in the UK that maximises our market understanding whilst minimising our commercial risk.

We will use the knowledge gained from customer services, supply chain management and manufacturing to inform the processes required to support the next generation product. This will be based on the same product system platform but will incorporate additional design and value engineering developments to achieve the cost and lifetime targets to secure mass volume uptake. In addition, work will continue with the supply chain to invest in tooling to deliver the mass volumes and component cost targets. We are confident that the inherent low cost nature of our CHP design will enable these mass market targets to be achieved.

To de-risk the product development programme to achieve mass volume uptake of our CHP product, we will develop further our collaborations with existing partners and put in place new strategic partner collaborations within the value chain to enable the Group to access world class technical competencies and proven capabilities and successfully leverage their existing access to customers.

I believe this new timeline is achievable and represents a realistic plan for the Group. It is the best way to deliver a robust, reliable, value-engineered product that is shown to meet our partners' and customers' needs. As mentioned previously, the successful delivery of this revised timeline will require some important changes to the business. My task is to embed these changes quickly, and reposition the Group as a high performing organisation, without diverting our focus from delivering results.

### **Operations and Manufacturing Developments**

During the year fuel cell manufacturing capacity has been increased and quality improved with an additional furnace and cell production area upgrade. This increase in production capacity has enabled additional testing to be conducted and learning to be incorporated more rapidly. The key operational focus has been the establishment of repeatable production processes, improvements in fuel cell manufacturing quality and reduction in production variation. These recent improvements have led to a manufacturing process capability for fuel cell open circuit voltage of fewer than 1000 part per million defects. This is an on-going process improvement activity and similar improvements are targeted for stack build and FCM assembly.

The Group has completed the build of the second phase of the new test facilities which are now fully operational. This has substantially increased the Group's test capability across cell, stack, FCM and CHP testing and learning from the field trials has been incorporated in the testing protocols that enable extended testing of CHP products under representative in-home conditions. Additional investments have been made in increasing the Group's data mining capability to ensure that the results from testing can be more effectively analysed to inform the on-going technical development.

Ceres has been awarded ISO 9001:2008 certification for its Quality Management Systems. The certificate was awarded following an audit conducted by the British Standards Institute and demonstrates the Group's commitment to developing quality systems to underpin volume manufacture and support the requirement of CE marking and the Feed-in-Tariff.

## **Commercial Opportunities**

The opportunity for Ceres' CHP product in international markets is substantial. The Group's compact wall mounted product format and low cost design can deliver substantial value to both households and energy companies in Europe, North America and Asia. Today, our primary focus remains on bringing the CHP product to market in the UK in partnership with British Gas and securing a significant share of the more than 1.5 million boilers that are sold every year in the UK.

In parallel, we are exploring new opportunities with partners in North America, Europe and Asia. In these markets the Group's compact low cost product format can offer valuable benefits to consumers and energy companies when compared to conventional residential boiler and water heater appliances. Ceres' technology, when deployed in large volumes, can also provide valuable real-time local balancing capacity to relieve grid strain and enable security of supply to be maintained in an environment where a greater proportion of wholesale power production is inflexible.

## **Financial**

Commercial revenue for the year decreased by 12% to £0.7m (2010: £0.8m) driven largely by the delay in completing the CHP programme with British Gas and the resultant lower amortisation rate of the up-front milestone payments received. Deferred income, being the difference between milestone payments received and revenue recognised in the Consolidated Statement of Comprehensive Income, decreased to £2.5m (2010: £3.2m) reflecting the revenue recognised in the current year. Other operating income, being monies earned by the Group from government grant-funded programmes, fell to £0.4m (2010: £0.6m).

Operating costs increased by 22% to £17.7m (2010: £14.5m). Within operating costs, research and development costs increased by 30% to £12.9m (2010: £9.9m) and administrative expenses increased by 4% to £4.8m (2010: £4.6m). The increase in research and development has been driven by the increase in average monthly headcount from 70 to 105 persons, the costs of developing and procuring the components for the internal and external field trial testing and the increased production of fuel cells from the Horsham manufacturing facility.

Interest receivable was in line with the prior year at £0.5m (2010: £0.5m) and, following the redemption in December 2009 of the Group's holding of UK Government gilts, there was no fair value movement in the current year (2010: £0.1m loss). The Group recorded an income tax credit of £2.3m (2010: £1.1m) consisting of £1.5m estimated income tax recovery in respect of the current financial year and an additional £0.8m recovery in respect of the previous financial year.

The loss for the financial year attributable to shareholders increased by 18% to £13.8m (2010: £11.7m) due to the increased operating costs partly offset by higher financial income and increased R&D tax credits. The average number of shares in issue during the year was 86.2m (2010: 77.3m), reflecting the effect of the placing that occurred mid-way through the previous financial year. The loss per ordinary share rose to 16.04 pence from 15.16 pence in the previous financial year.

The Group's net cash used in operating activities increased by £3.4m to £13.4m (2010: £10m). This increase is attributable to the increased operating loss of £3.5m and an unfavourable working capital movement of £0.7m, partly offset by an increased income tax receipt of £0.7m. During the year the Group invested £2.3m (2010: £2.8m) to purchase additional fuel cell manufacturing equipment and to complete

the expansion of the testing facilities and received a capital grant of £0.8m (2010: £0.3m). Total equity-free cash outflow for year was £14.2m (2010: £12.3m).

As at the year end the Group held £26.7m (2010: £40.9m) in cash and cash equivalents and short-term investments. The Group's treasury policy to preserve capital by investing in low-risk, high quality investments remains unchanged. Surplus funds are invested in short-term low risk 'AAA'-rated money market funds and short-term deposits at banks with high credit ratings.

The Board anticipates that the Group will raise an initial tranche of funding during the next 12 months to continue the development, testing and trialing of the mains gas residential CHP product as set out in the Chairman's Statement.

### **mCHP Opportunity**

There can be no greater global challenge than the transition to a low carbon economy that will involve major changes to the way we supply and use energy.

My examination of the market opportunity that Ceres can address has convinced me that the potential upside is enormous. By designing a product that retrofits in place of a conventional heating appliance, the Group can access an existing market of approximately 1.5 million units per annum in the UK alone, and more than 18 million units per annum globally.

The timing is right, the world needs cost-effective, cleaner, flexible power generation that can be retrofitted into the built environment; the Ceres CHP product is capable of delivering this.

### **Outlook**

The Board and senior management team are focused on completing the work to enable the Group to achieve CHP product sales in H1 2014 and commence the development in 2012 of the next generation of the CHP product. To achieve this, the Group's priorities for the next twelve months are:

- Complete the validation and optimisation of the solutions to the remaining issues from the first phase of in-home field trials;
- Conduct extended internal testing of CHP products ahead of further in-home field trials;
- Commence the next phase of in-home field trials;
- Commence the development of the next generation of wall mounted CHP product;
- Continue to work with our partner British Gas to refine the details of the UK product launch;
- Develop the next phase of strategic partner collaborations to further de-risk the commercialisation plan; and
- Secure additional funding.

Ceres faces a number of challenges in the year ahead. I am confident that we can meet these challenges and successfully deliver both the commercialisation plan and significant value to shareholders.

**David Pummell**  
Chief Executive Officer

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2011**

	Note	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
<b>Revenue</b>		692	786
Operating costs	2	(17,702)	(14,543)
Other operating income		352	570
<b>Operating loss</b>		<b>(16,658)</b>	<b>(13,187)</b>
Fair value loss on gilts		-	(119)
Interest receivable		503	490
<b>Loss before income tax</b>		<b>(16,155)</b>	<b>(12,816)</b>
Income tax credit		2,334	1,093
<b>Loss for the financial year and total comprehensive loss</b>		<b>(13,821)</b>	<b>(11,723)</b>
<b>Loss per £0.05 ordinary share expressed in pence per share:</b>			
Basic and diluted loss per share	3	(16.04)p	(15.16)p

## CONSOLIDATED BALANCE SHEET

### As at 30 June 2011

	Note	30 June 2011 £'000	30 June 2010 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		4,635	4,381
Other receivables		81	81
<b>Total non-current assets</b>		<u>4,716</u>	<u>4,462</u>
<b>Current assets</b>			
Trade and other receivables		941	1,045
Derivative financial instruments		29	27
Current tax receivable		1,500	620
Short-term investments	6	8,000	25,000
Cash and cash equivalents	6	18,687	15,900
<b>Total current assets</b>		<u>29,157</u>	<u>42,592</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(4,570)	(4,172)
<b>Total current liabilities</b>		<u>(4,570)</u>	<u>(4,172)</u>
<b>Net current assets</b>		<u>24,587</u>	<u>38,420</u>
<b>Non-current liabilities</b>			
Other payables		(1,667)	(2,158)
Provisions for other liabilities and charges		(228)	(107)
<b>Total non-current liabilities</b>		<u>(1,895)</u>	<u>(2,265)</u>
<b>Net assets</b>		<u>27,408</u>	<u>40,617</u>
<b>Equity</b>			
Share capital	4	4,309	4,309
Share premium account		64,821	64,821
Other reserve		7,463	7,463
Profit and loss account (deficit)		(49,185)	(35,976)
<b>Total equity</b>		<u>27,408</u>	<u>40,617</u>

## CONSOLIDATED CASH FLOW STATEMENT

### For the year ended 30 June 2011

	Note	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
<b>Cash flows from operating activities</b>			
Cash used in operations	5	(14,824)	(10,820)
Income tax received		1,454	793
<b>Net cash used in operating activities</b>		<b>(13,370)</b>	<b>(10,027)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,313)	(2,814)
Capital grant contributions to property, plant and equipment		831	252
Redemption of financial assets at fair value through profit or loss		-	9,553
Movement in short-term investments		17,000	(25,000)
Finance income received		628	454
<b>Net cash generated from/(used in) investing activities</b>		<b>16,146</b>	<b>(17,555)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		-	31,556
Net expenses of shares issued		-	(1,321)
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>30,235</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,776</b>	<b>2,653</b>
Exchange gains on cash and cash equivalents		11	41
		2,787	2,694
Cash and cash equivalents at beginning of year		15,900	13,206
<b>Cash and cash equivalents at end of year</b>		<b>18,687</b>	<b>15,900</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the year ended 30 June 2011

	Share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account (deficit) £'000	Total £'000
At 1 July 2009	3,344	35,551	7,463	(24,965)	21,393
<b>Comprehensive income</b>					
Loss for the financial year	–	–	–	(11,723)	(11,723)
<b>Total comprehensive income</b>	–	–	–	(11,723)	(11,723)
<b>Transactions with owners</b>					
Issue of shares, net of costs	965	29,270	–	–	30,235
Share-based payments charge	–	–	–	712	712
<b>Transactions with owners</b>	965	29,270	–	712	30,947
At 30 June 2010	4,309	64,821	7,463	(35,976)	40,617
<b>Comprehensive income</b>					
Loss for the financial year	–	–	–	(13,821)	(13,821)
<b>Total comprehensive income</b>	–	–	–	(13,821)	(13,821)
<b>Transactions with owners</b>					
Share-based payments charge	–	–	–	612	612
<b>Transactions with owners</b>	–	–	–	612	612
<b>At 30 June 2011</b>	<b>4,309</b>	<b>64,821</b>	<b>7,463</b>	<b>(49,185)</b>	<b>27,408</b>

## Notes to the preliminary announcement

### 1. Basis of preparation

The preliminary announcement for the year ended 30 June 2011 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as at 30 June 2011. 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 2011, 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 2010, upon which the auditors reported without qualification, have been delivered to the Registrar of Companies.

### 2. Operating costs

Operating costs are split as follows:

	<b>Year ended 30 June 2011 £'000</b>	<b>Year ended 30 June 2010 £'000</b>
Research and development costs	12,869	9,907
Administrative expenses	4,833	4,636
	<b><u>17,702</u></b>	<b><u>14,543</u></b>

### 3. 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 2011 or in the previous year.

The loss for the financial year ended 30 June 2011 was £13,821,000 (2010: £11,723,000) and the weighted average number of £0.05 ordinary shares in issue during the year ended 30 June 2011 was 86,177,614 (2010: 77,349,920).

## Notes to the preliminary announcement

### 4. Share capital

	2011		2010	
	Number	£'000	Number	£'000
<b>Authorised</b>				
Ordinary shares of £0.05 each	100,000,000	5,000	100,000,000	5,000
<b>Allotted and fully paid</b>				
<b>At 1 July</b>	<b>86,177,614</b>	<b>4,309</b>	66,874,075	3,344
Allotted under share option schemes	-	-	303,539	15
Allotted on cash placing	-	-	19,000,000	950
Ordinary shares of £0.05 each at 30 June	<b>86,177,614</b>	<b>4,309</b>	86,177,614	4,309

During the year the Company did not issue any shares and no employee share options were exercised. (2010: the Company issued 19,000,000 ordinary shares of £0.05 each, in a placing approved by shareholders on 14 December 2009, for a cash consideration of £31,350,000 (excluding issue costs of £1,321,580). Also, 303,539 ordinary shares of £0.05 each were issued on the exercise of employee share options for cash consideration of £206,347.)

### 5. Cash used in operations

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
<b>Loss before income tax</b>	(16,155)	(12,816)
<b>Adjustments for:</b>		
Fair value loss on UK Government gilts	-	119
Other finance income	(503)	(490)
Depreciation of property, plant and equipment (net of amortised grant contributions)	1,296	1,115
Share-based payments charge	612	712
<b>Operating cash flows before movements in working capital</b>	<b>(14,750)</b>	<b>(11,360)</b>
(Increase) in trade and other receivables	(23)	(477)
(Decrease)/increase in trade and other payables	(172)	940
Increase in provisions	121	77
(Increase)/decrease in working capital	(74)	540
<b>Cash used in operations</b>	<b>(14,824)</b>	<b>(10,820)</b>

## Notes to the preliminary announcement

### 6. Net cash and short-term investments

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	1,265	1,033
Money market funds	4,537	5,826
Short-term bank deposits < 3 months	12,885	9,041
<b>Cash and cash equivalents</b>	<b>18,687</b>	<b>15,900</b>
Short-term bank deposits > 3 months	8,000	25,000
	<b>26,687</b>	<b>40,900</b>

The Group typically places surplus funds into pooled money market funds, bank deposits with durations of up to twelve months and UK Government gilts with durations of up to twelve months. The Group's treasury policy restricts investments in short-term sterling money market funds to those which carry short-term credit ratings of at least two of AAAM (Standard & Poor's), Aaa/MR1+ (Moody's) and AAA V1+ (Fitch) and deposits with banks having a minimum long -term rating of AA-/AA-/Aa3 and short-term rating of F1+/A-1/P-1 for banks which the UK Government holds less than 25% ordinary equity.