Zenergy Power plc

Audited preliminary results for the year ended 31 December 2011.

Highlights

- **Exit from cash-hungry superconductivity operations completed**
- **Revised strategy focusing on non-Superconducting mFCL product in place**
- **Orders for mFCLs anticipated during 2012**
- **Continuing operating loss of £3.2m before impairment charge**
- **Year end cash reserves of £5.3m**
- **Accounts are now reported in Sterling**
- **2010 and 2009 comparatives restated in Sterling from Euros**

Chairman's statement

As expected the results for the year show a significant loss of £20.6million which includes the loss of £10.5million from the Group's discontinued German superconducting operation and an impairment charge of £7.9million (less related tax credit of £0.6million). Before which, the loss from continuing operations was £2.7million (2010: £3.8million).

Cash and net liquid resources at 31 December 2011 is £5.3million (2010: £13.6million).

Following our appointment to the Board of Zenergy in April 2011, the current Directors' focus has been on stabilising the business and halting the long term decline in shareholder value whilst at the same time laying a foundation for re-building the business in future years.

Zenergy's challenges were well understood and the initial months were spent in seeking strategic partnerships with numerous global players to support the funding required to bring the Group's core products to market, while in parallel, investigating all alternative commercial and strategic strategies that would either reduce cash burn or assist in raising further cash. We received considerable interest in the Magnetic Fault Current Limiter technology whereas some of Zenergy's other products were less well received.

This process confirmed there were significant commercial questions around Zenergy's ability to deliver superconductor technology; notably the time and further investment still necessary to reach full commercialisation. This, together with the on-going running costs of the superconducting operations, was such that the Board concluded the pursuit of superconductor technology was not commercially feasible for Zenergy.

Other than the mFCL technology, Zenergy's product portfolio was largely tied to the success of its superconductor technology.

As a result, the Board decided to focus on the mFCLs and not to continue to support the German based superconductor technology. Zenergy Power GmbH entered into administration on 22 September 2011. A full and final settlement was reached with the Administrator of Zenergy Power GmbH on 22 December 2011 in which all obligations between Zenergy GmbH and the rest of the Group were settled for a one-off payment of

€150,000 to the administrator. No other claims are anticipated in respect of Zenergy Power GmbH ceasing to trade.

In addition to the above the Board negotiated a 10 year royalty from any sales derived from the 2G HTS wire programme should it be successfully developed and commercialised.

Our US and Australian business units, who are responsible for mFCL development, had for some time believed that it was possible to manufacture lower voltage mFCLs using simple copper magnets, but this was not pursued by the previous board due to its focus on superconducting technology.

Once tests on non-superconducting mFCLs were approved, it soon became apparent that it was possible to design mFCLs with simple copper magnets for all voltage classes up to, and including, transmission voltages and in autumn 2011 a small prototype was built and successfully tested.

In addition to the acknowledged strengths of the superconductive FCL's, the new, non-superconductive generation FCL's have a number of specific advantages over its superconducting equivalent;

- Technology that is understood by GRID operators; iron with copper magnets:
- Robust design; they run at ambient temperature so no cooling needed:
- Cheaper to build; 50% of the cost of the equivalent superconducting mFCL:
- Smaller footprint; For 11kv, total footprint reduced from 32 m^2 to 10 m^2:
- Simpler and quicker to build; reduced turnaround time:
- Essentially maintenance free; similar operating and maintenance profile as transformers:
- Efficiency of design means that at lower voltages the new mFCL consumes less energy:

These improvements represent a step change in the commercial prospects of the mFCL program. Indeed, during the last few months there have been promising initial discussions with over a dozen potential customers in US, Australia, Europe and Russia.

Whilst, at the time of writing, there are no firm orders in place, the Board currently believes that a number of these discussions should develop into profitable orders sometime in the course of 2012.

In the meantime, a previously sold superconductive mFCL is in the course of being installed in the UK grid and discussions are continuing to deliver a previously specified superconductive mFCL which could also be installed in the UK grid in 2012.

Whilst the Board is excited about the level of interest it has seen in the new non-superconducting mFCLs, it remains mindful of the risks facing the Group and so will continue to keep the commercial progress and remaining resources of the Group under close review during the year.

Simon Cleaver
Chairman

Consolidated Income Statement

	Group 2011 £000	Group 2010 restated £000
Continuing operations		
Revenue	**61**	896
Cost of sales	**(445)**	(1,098)
Gross loss	**(384)**	(202)
Other operating income	**(9)**	22
Sales & marketing expenses	**(713)**	(1,291)
Administrative expenses	**(1,253)**	(1,408)
Research & development expenses	**(810)**	(818)
Impairment loss on intangibles	**(7,924)**	-
Operating loss	**(11,093)**	(3,697)
Financial income	**166**	275
Financial expenses	**(32)**	(439)
Net financing income/(expense)	**134**	(164)
Loss before tax	**(10,959)**	(3,861)
Taxation	**873**	22
Loss from continuing operations	**(10,086)**	(3,839)
Discontinued operation		
Loss from discontinued operation (net of income tax)	**(10,484)**	(4,832)
Loss for the year	**(20,570)**	(8,671)
Loss per share		
Basic & fully diluted loss per share (Pounds)	**(0.30)**	(0.13)
Loss per share - continuing operations		
Basic & fully diluted loss per share (Pounds)	**(0.15)**	(0.06)

Consolidated Statement of Comprehensive income

	Group 2011 £000	Group 2010 restated £000
Loss for the period	**(20,570)**	(8,671)
Other comprehensive income		
Foreign exchange translation differences on translation of foreign operations	**(211)**	198
Other comprehensive income for the year, net of tax	**(211)**	198
Total comprehensive income for the year	**(20,781)**	(8,473)

Consolidated Statement of Financial Position

	Group 2011 £000	Group 2010 restated £000	Group 2009 restated £000
Non-current assets			
Investment in Subsidiaries	-	-	-
Property, plant and equipment	186	2,271	3,066
Goodwill	-	1,224	1,173
Other intangible assets	-	7,647	5,617
	186	11,142	9,856
Current assets			
Inventories	124	953	1,064
Trade and other receivables	382	2,983	2,086
Research & development tax credit receivable	158	-	-
Cash and cash equivalents	5,287	13,639	6,128
Assets classified as held for sale	-	1,533	-
	5,951	19,108	9,278
Total assets	6,137	30,250	19,134
Current liabilities			
Trade and other payables	(663)	(2,527)	(2,399)
Liabilities classified as held for sale	-	(62)	-
Total current liabilities	(663)	(2,589)	(2,399)
Non current liabilities			
Deferred tax liabilities	-	(548)	(546)
Total liabilities	(663)	(3,137)	(2,945)
Net assets	5,474	27,113	16,189
Equity attributable to equity holders of the parent			
Share capital	691	691	522
Share premium	49,951	49,951	30,839
Translation reserve	2,336	2,547	2,349
Warrant reserve	134	134	134
Retained loss	(47,638)	(26,210)	(17,655)
Total equity attributable to shareholders	5,474	27,113	16,189

Consolidated Statement of Changes in Equity

Group	Share capital £000	Share premium £000	Translation reserve £000	Capital and other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010 restated in Sterling	522	30,839	2,349	134	(17,655)	16,189
Loss for the year	-	-	-	-	(8,671)	(8,671)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	198	-	-	198
Total comprehensive income for the year	-	-	198	-	(8,671)	(8,473)
Transactions with owners of the Company, recognised directly in equity						
Share based payment transactions	-	-	-	-	116	116
Issue of ordinary shares	169	19,112	-	-	-	19,281
Balance at 31 December 2010 restated in Sterling	691	49,951	2,547	134	(26,210)	27,113
Balance at 1 January 2011 restated in Sterling	**691**	**49,951**	**2,547**	**134**	**(26,210)**	**27,113**
Loss for the period	-	-	-	-	**(20,570)**	**(20,570)**

Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	(211)	-	-	(211)
Total comprehensive income for the year	-	-	(211)	-	(20,570)	(20,781)
Transactions with owners of the Company, recognised directly in equity						
Equity settled share based payments transactions	-	-	-	-	(858)	(858)
Issue of ordinary shares	-	-	-	-	-	-
Balance at 31 December 2011	**691**	**49,951**	**2,336**	**134**	**(47,638)**	**5,474**

Consolidated Cash Flow Statement

	Group 2011 £000	Group 2010 restated £000
Cash flows from operating activities		
Loss for the period	**(20,570)**	(8,671)
Adjustments for:		
Depreciation	**446**	656
Amortisation of intangible assets	**119**	150
Foreign exchange gains/(losses)	**(276)**	(81)
Impairment losses on intangible assets	**7,924**	-
Impairment loss on investment in subsidiaries	**-**	-
Loss on sale of fixed assets	**-**	3
Loss on discontinued operation, net of cash disposed of	**5,881**	-
Financial income	**(166)**	(278)
Financial expenses	**32**	439
Equity settled share-based payment expenses	**(262)**	160
Taxation	**(873)**	(22)
Operating loss before changes in working capital and provisions	**(7,745)**	(7,644)
(Increase)/Decrease in trade and other receivables	**1,691**	(1,161)
(Increase)/Decrease in inventory	**(186)**	86
Increase/(decrease) in trade and other payables	**(211)**	190
Cash absorbed by operations	**(6,451)**	(8,529)
Tax received/(paid)	**(157)**	-
Net cash (outflow)/inflow from operating activities	**(6,608)**	(8,529)

	Group 2011 £000	Group 2010 restated £000
Net cash (outflow)/inflow from operating activities	**(6,608)**	(8,529)
Cash flows from investing activities		
Interest received	**50**	278
Investment in subsidiaries		-
Proceeds from the sale of fixed assets	**-**	15
Acquisition of property, plant and equipment	**(322)**	(1,185)
Development expenditure capitalised and acquisition of other intangible assets	**(1,585)**	(1,891)
Net cash outflow from investing activities	**(1,857)**	(2,783)
Cash flows from financing activities		
Proceeds from the issue of share capital	**-**	19,237
Net cash inflow from financing activities	**-**	19,237
Net (decrease)/increase in cash and cash equivalents	**(8,465)**	7,925
Cash and cash equivalents at start of period	**13,639**	6,128
Effect of exchange rate fluctuations on cash held	**113**	(414)
Cash and cash equivalents at 31 December	**5,287**	13,639

Basis of preparation

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2011 or 2010, but is derived from those accounts. Statutory accounts for 2010 have been delivered to the registrar of companies, and those for 2011 will be delivered in due course. The auditors have reported on those accounts; their reports (i) were unqualified), (ii) except as noted below did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The audit report on the accounts for 2011 includes an Emphasis of Matter paragraph regarding the disclosures in the accounts about the ongoing applicability of the going concern basis in preparing those accounts.

The financial statements include the following notes:

Restatement of prior year: Change in presentational currency

Following the administration of Zenergy Power GmbH, the Directors have determined that the presentational currency of the Group is Sterling as the currency of funding, where majority of cash is held and its listing on AIM. The 2010 consolidation has been restated to reflect this change and in accordance with IAS 21 three year-end balance sheets have been presented in the accounts, 2009, 2010 and 2011 into Sterling

Going concern

The accounts have been prepared on a going concern basis.

The Group made a loss of £20,570,000 after impairment charges of £7,924,000 and a loss from discontinued operation of £10,484,000 in the year ended 31 December 2011 and is forecast to remain loss making in the year to 31 December 2012. As at 31 December 2011 the Group had cash reserves of £5,287,000

The Directors have prepared projections covering more than one year which, based on current sales prospects, indicate that the Group will initiate sales of fault current limiters sometime during 2012. These projections assume payroll costs continue at current levels, no significant capital expenditure, working capital profiled on the basis of current experience and foreign exchange rates at those prevailing at 31 December 2011. Any such forward looking projections are inevitably subjective and sensitive to changes in the underlying assumptions and the Directors have sensitised these projections, including that no fault current limiter is delivered within 12 months of these accounts being approved. These projections, as sensitised, indicate that sufficient funds will be available to settle liabilities as they fall due for at least 12 months from the date of approving these accounts.
The Directors recognise that the long term financial viability of the Group as currently structured will depend upon concluding sales of fault current limiters and/or raising additional working capital. Accordingly, the Directors have considered the financial and commercial implications of rationalising the Group further and will continue to keep the commercial development of the business under close review.

The Directors have concluded that the inherent uncertainties reported above represent a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern. The Group and parent Company, may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business but the financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2011 of £0.30 loss (2010:£0.13 loss) was based on the loss attributable to ordinary shareholders of £20,570,000,000 (2010: £8,671,000) and a weighted average number of Ordinary Shares outstanding during the period of 69,059,000 (2010:68,025,000), calculated as follows:

Thousands of shares	2011 (000)	2010 (000)
Issued ordinary shares at start of period	**69,059**	52,242
Share options exercised	-	60
Shares issued to directors	-	29
Placing - January 2010	-	15,694
Weighted average number of ordinary shares	**69,059**	68,025

Diluted earnings per share

Share options and warrants have only been included in the calculation of fully diluted earnings per share when they are dilutive.

Thousands of shares	2011 (000)	2010 (000)
Warrants	**160**	160
Share options	**5,523**	2,534
Total potential dilutive instruments	**5,683**	2,694

The instruments that could potentially dilute the basic earnings per share in the future, but were not included because they were anti-dilutive for the periods presented are:

Thousands of shares	2011 (000)	2010 (000)
Issued ordinary shares at start of period	**69,059**	52,242
Issued for cash	-	15,723
Issued in settlement of services	-	60
Share options	**21**	-
Diluted weighted average number of ordinary shares	**69,080**	68,025

Operating Segments

Following the discontinuation of superconductor technology, the Group has one product range, mFCLs. Zenergy Power Pty Ltd based in Australia is primarily focused on research and development, Zenergy Power Inc. based in the USA undertakes the detailed design, engineering, manufacturing, sales and distribution and Zenergy Power plc provides sales, marketing and management support. Zenergy Power plc also maintains a small sales office in Germany. Together, these companies are responsible for the entire life cycle of the mFCL product and this is therefore the sole operating segment in addition to the Head Office segment.

The Head office segment comprises the expenses of Zenergy Power plc relating to the head office function and Stock Exchange listing and related costs.

The Discontinued segment comprises the results of Zenergy Power GmbH up to the date it was placed into administration.

Information regarding each operating segment is included below. Segments are assessed based on revenues and loss before tax, as included in the management information that is reviewed by the Board. Inter-segment pricing is determined on an arm's length basis.

Information about reportable segments

For the year ended 31 December 2011	Discont-inued £000	mFCL £000	Head office £000	Eliminat- ions and restate-ments £000	Continuing £000
Revenue					
Sales to external customers	443	61	-	(443)	61
Sales with other segments	1,045	-	-	(1,045)	-
Total segment revenue	**1,488**	**61**	**-**	**(1,488)**	**61**
Result					
Segment result being loss from operations	**(3,411)**	**(10,545)**	**(548)**	**3,411**	**(11,093)**
Finance income	3	8	158	(3)	166
Finance expense	-	(32)	-	-	(32)
Loss before tax	**(3,408)**	**(10,569)**	**(390)**	**3,408**	**(10,959)**
Tax	-	873	-	-	873
Loss on sale of discontinued operation	(7,076)			7,076	-
Loss for the year	**(10,484)**	**(9,696)**	**(390)**	**10,484**	**(10,086)**

Balance sheet					
Segment assets	8,935	1,975	5,205	(9,978)	6,137
Segment liabilities	(1,717)	(280)	(383)	1,717	(663)
Net assets/(liabilities)	**7,218**	**1,695**	**4,822**	**(8,261)**	**5,474**
Other information					
Capital additions	478	1,429	-	-	1,907
Depreciation and amortisation	366	199	-	-	565
Impairment loss on intangibles	-	8,184	9	(269)	7,924
					-
Other non cash expenses (share option charge/(credit) and directors shares)	(596)	(172)	(90)	596	(262)
Research and development	1,973	810	-	(1,973)	810

Eliminations and restatements comprise adjustments to eliminate transactions between group undertakings and restatements to reclassify the discontinued operation.

Discontinued Operations

Zenergy Power GmbH was placed into administration on 22 September 2011. It was not treated as a discontinued operation at 31 December 2010 and the comparative statement of comprehensive income has been re-presented to show the results of Zenergy GmbH as a discontinued operation.

On 22 December 2011, Zenergy Power plc concluded a full and final settlement with the Administrator, the principal terms of which were as follows:

Zenergy Power plc paid €150,000 and surrendered its rights to the intellectual property rights registered by Zenergy Power GmbH. These related to superconductor technology including the 2G HTS wire development and the billet heater programme.

The administrator granted Zenergy Power plc a royalty of 1% of all 2G HTS wire sales for the next 10 years, certain assets which had been previously paid for by Zenergy Power Inc. and, Zenergy Power trademarks and trading names. The trademarks and trading names were transferred and recorded at nil book value by Zenergy Power Plc. The inventory returned to Zenergy Power Inc. had a book value of £276,000 and has been included in tinventory at a realisable value of £26,000 at 31 December 2011.

The Group and administrator of Zenergy Power GmbH agreed to forgive all indebtedness between Zenergy Power GmbH and the Group. At that date there was a balance of £1,669,000 due from Zenergy Power Inc. to Zenergy Power GmbH and £950,000 due from Zenergy Power GmbH to Zenergy Power plc.

This announcement was approved by the Board of Directors on 9 February 2011. Statutory accounts for the year to 31 December 2011 will be delivered to the registrar of companies following the Annual General Meeting which is set for 18 April 2012.

Further information

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