



# Developing Fuel Cell Products for Global Energy Markets

Ceres Power is a leading fuel cell business developing alternative energy products for global mass markets.

Our aim is to provide a range of money saving, dependable and environmentally friendly products for use in homes, transport and a variety of commercial applications worldwide.

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# Highlights

- Key milestone achieved with a compact, lightweight 1kW fuel cell
- British Gas relationship extended with £2.7 million part-funded programme
- Second BOC contract secured and successfully delivered
- Income of £562,000, up by 13% compared to the six months ended 31.12.04
- Strong balance sheet with cash and short-term investments of £15.4 million
- Cash outflow from operating activities during the period of £1.6 million
- Management team strengthened through key director appointments
- Enhancement of market applications engineering capability
- New contract awarded to accelerate mass-manufacturing capability
- Prestigious role in the UK Government's Energy Research Partnership

# Chairman's Statement

Philip Holbeche  
Chairman



## Introduction

Ceres Power made significant progress in the half year ended 31 December 2005 towards delivering cost-effective, efficient and reliable commercial solutions using its fuel cell technology. Investment in our product engineering and manufacturing capabilities has enabled achievement of a major technical milestone. The Group continues to build commercial partnerships in the UK and internationally.

The energy industry is currently the focus of much debate. Ceres is pleased to participate and contribute to the debate at the highest levels, as the only fuel cell company in the UK's Energy Research Partnership, reflecting Government interest in micropower generation as part of a coherent national energy policy.

## Financial results

The Group's balance sheet remains strong, with £15.4 million in cash and short-term investments allowing the Group to fund immediate growth plans and take advantage of emerging opportunities. Income for the six months totalled £562,000, of which interest on cash balances provided £334,000, income from Government contracts was £148,000 and revenue from development contracts was £80,000. In total this represents a 13% increase compared to the six months ended 31 December 2004.

Operating costs increased by 19% over the comparable period last year, due in large part to the strengthening of the skill base in line with the Group's commercialisation plans. Administration overheads decreased to efficient levels, in the absence of the exceptional costs incurred in association with admission to AIM in November 2004.

Capital expenditure during the period totalled £665,000, significantly above the £163,000 during the prior interim period, reflecting investment in the Group's design, testing and manufacturing capabilities, including the building of complete fuel cell systems.

The cash outflow from operating activities during the period was £1.6 million, with cash outflows attributable to capital expenditure totalling

£596,000. There were cash inflows of £173,000 from the exercise of warrants and employee share options, in addition to the £562,000 income highlighted above.

## Commercial engagement

Based on the Group's proven technology and product capability, major new commercial engagements have been successfully secured.

Our relationship with Centrica plc (trading as British Gas), has been further enhanced with the announcement of a £2.7 million programme, part-funded by the DTI, to design, build and evaluate domestic fuel cell Combined Heat and Power (CHP) units. The Group's products are designed to deliver electricity, heating and hot water to the home, substantially reducing both energy bills and CO<sub>2</sub> emissions. British Gas estimates that the Ceres technology is accessible by 14.5 million British homes.

Ceres has extended its relationship with the BOC Group plc (BOC), successfully securing and completing a second significant contract. This contract builds on previous work and focuses on using Ceres fuel cell products to provide electrical power from LPG and propane fuels, which are distributed by BOC to millions of customers in over 50 countries.

During the period the Group successfully completed an important Government programme for the DTI, continuing our exemplary delivery record in such contracts. The Group's close relationship with Government and other agencies continues, highlighted by the recent announcement of a further £0.5 million contract with The Carbon Trust to assist development of mass production processes for Ceres fuel cells.

## Technical review

Ceres has recently achieved a key technical milestone: the delivery of a production-engineered 1kW fuel cell, suitable for domestic CHP and many other applications. This fuel cell successfully passed multiple tests for performance and fuel flexibility. We continue to expand the Group's engineering resources to successfully integrate fuel cell technology into complete products for a range of markets.

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The Group's innovations in materials and engineering have continued to drive up fuel cell performance to levels required for market applications. Recent investment in analytical and testing equipment further supports this important activity and enhances our excellent facilities.

We have continued to invest to ensure that the newly-established manufacturing team has the necessary skills to deliver high quality product in large volumes. Recent progress includes successful adoption of proven manufacturing processes for the deposition of fuel cell layers.

The Group is capturing a very rich stream of intellectual property (IP), building a substantial portfolio of patents, trademarks and trade secrets. To support this activity, we have retained the services of a firm of highly experienced patent attorneys with an outstanding pedigree in IP protection, commercialisation and litigation.

Ceres has continued to receive awards and recognition from major organisations. The Group received the Frost & Sullivan Technology Innovation Award, and took a leading role in the formation of the UK Fuel Cell Industry Association.

## People

During the period the Group recruited ten new members of staff, increasing our skill base and depth of experience. Important new directorships also reflect the successful transformation from an R&D focused company to a commercially driven, market-led business.

Andrew Baker, Operations Director, is appointed to the board of the Group with responsibility for technology, engineering and manufacturing. He has previously held a number of international board-level directorships within major organisations such as Calsonic and Ricardo.

Professor Nigel Brandon moves to the newly created role of Chief Scientist, leaving the board of the Group but remaining on the operating company board. Nigel focuses on technology foresight, Government programmes and liaison with academic research institutions, combining his role at Ceres with the prestigious position of Shell

Professor of Sustainable Development in Energy at Imperial College London.

We recently welcomed Bob Flint as Commercial Director of Ceres Power Limited, with responsibility for deal structuring, partnership negotiation and marketing. He has over 15 years experience in business development, technology licensing and corporate venturing, specialising in building businesses from platform technologies.

## Outlook

During the last six months Ceres has put more essential elements of the Group's development platform into place. The Group's clear competitive advantage, as demonstrated by the delivery of a compact, highly engineered 1kW fuel cell, is now becoming more evident to industry partners, financial backers and Government.

I am immensely pleased that our relationships with key partners continue to strengthen, for example, through contracts with British Gas and BOC. Ceres now has a proven ability to win and deliver contracts in order to achieve key technical, commercial and financial goals. I believe this to be an indicator of future commercial success in other geographic and market sectors.

As is usual in high growth companies in emerging industries, there are a number of significant challenges and hurdles to overcome to reach our ambitious goals. In order to address the execution risks inherent in the Group's strategy, we are continuing to build top-class capabilities in all areas of the business.

Finally, and as ever, the demands of a rapidly growing company place substantial burdens on all employees and their families. I wish to thank each one of them for their commitment to making Ceres such a success.

Philip Holbeche  
**Chairman**

# Consolidated Profit and Loss Account

for the six months ended 31 December 2005

	<b>Six months ended 31 December 2005</b>	Six months ended 31 December 2004	Year ended 30 June 2005
	<b>Unaudited £'000</b>	Unaudited £'000	Audited £'000
<b>Turnover</b>	<b>80</b>	61	71
Research and development costs	<b>(1,548)</b>	(1,032)	(2,324)
Administrative expenses	<b>(656)</b>	(816)	(1,272)
Other operating income	<b>148</b>	299	366
<b>Operating loss</b>	<b>(1,976)</b>	(1,488)	(3,159)
Interest receivable and similar income	<b>334</b>	136	508
<b>Loss on ordinary activities before taxation</b>	<b>(1,642)</b>	(1,352)	(2,651)
Tax on loss on ordinary activities	–	–	–
<b>Loss for the financial period/year</b>	<b>(1,642)</b>	(1,352)	(2,651)
<b>Loss per £0.05 ordinary share</b>			
– Basic and diluted	<b>(2.91)p</b>	(3.04)p	(5.28)p
Weighted average number of shares used to compute loss per £0.05 ordinary share	<b>56,432,218</b>	44,507,813	50,232,830

# Consolidated Balance Sheet

as at 31 December 2005

	Notes	31 December 2005 Unaudited £'000	31 December 2004 Unaudited £'000	30 June 2005 Audited £'000
<b>Fixed assets</b>				
Tangible assets		1,728	1,186	1,302
<b>Current assets</b>				
Debtors		397	213	316
Short-term investments		14,100	14,950	15,600
Cash at bank and in hand		1,301	3,391	1,444
		15,798	18,554	17,360
<b>Creditors: amounts falling due within one year</b>		(758)	(325)	(471)
<b>Net current assets</b>		15,040	18,229	16,889
<b>Total assets less current liabilities</b>		16,768	19,415	18,191
<b>Creditors: amounts falling due after more than one year</b>		(5)	(14)	(10)
<b>Net assets</b>		16,763	19,401	18,181
<b>Capital and reserves</b>				
Called-up share capital	3	2,838	2,794	2,804
Share premium account		14,386	14,130	14,199
Merger reserve		7,463	7,463	7,463
Profit and loss account	4	(7,924)	(4,986)	(6,285)
<b>Equity shareholders' funds</b>		16,763	19,401	18,181

# Consolidated Cash Flow Statement

for the six months ended 31 December 2005

	Notes	Six months ended 31 December 2005 Unaudited £'000	Six months ended 31 December 2004 Unaudited £'000	Year ended 30 June 2005 Audited £'000
<b>Net cash outflow from operating activities</b>		<b>(1,604)</b>	<b>(1,129)</b>	<b>(2,629)</b>
<b>Returns on investments and servicing of finance</b>				
Interest received		334	134	508
Net cash inflow from returns on investments and servicing of finance		334	134	508
<b>Taxation</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		(596)	(157)	(338)
Net cash outflow for capital expenditure		(596)	(157)	(338)
<b>Net cash outflow before use of liquid resources and financing</b>		<b>(1,866)</b>	<b>(1,152)</b>	<b>(2,459)</b>
<b>Management of liquid resources</b>				
Reduction/(increase) in short-term deposits with banks		1,500	(10,550)	(11,200)
<b>Financing</b>				
Issue of ordinary share capital		173	16,301	16,312
Net expenses of share issue	3	50	(1,399)	(1,400)
Net cash inflow from financing		223	14,902	14,912
<b>(Decrease)/increase in net cash</b>		<b>(143)</b>	<b>3,200</b>	<b>1,253</b>
<b>Reconciliation to net funds</b>				
Opening net funds		17,044	4,591	4,591
(Decrease)/increase in net cash		(143)	3,200	1,253
Movements in short-term deposits		(1,500)	10,550	11,200
<b>Closing net funds</b>		<b>15,401</b>	<b>18,341</b>	<b>17,044</b>
<b>Cash flow from operating activities</b>				
Reconciliation of operating loss to net cash outflow from operating activities:				
Operating loss		(1,976)	(1,488)	(3,159)
Depreciation charge		239	158	346
Share option compensation charge		3	21	20
(Increase)/decrease in debtors		(83)	48	(67)
Increase in creditors		213	132	231
<b>Net cash outflow from operating activities</b>		<b>(1,604)</b>	<b>(1,129)</b>	<b>(2,629)</b>

# Notes to the Interim Financial Statements

for the six months ended 31 December 2005

## 1. Basis of preparation

These interim financial statements do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. Results for the six month periods ended 31 December 2005 and 31 December 2004 have not been audited. The results for the year ended 30 June 2005 have been extracted from the statutory financial statements of Ceres Power Holdings plc that have been filed with the Registrar of Companies and upon which the auditors reported without qualification.

## 2. Principal accounting policies

These interim financial statements for the six months ended 31 December 2005 have been prepared in accordance with the accounting policies set out in the statutory financial statements of Ceres Power Holdings plc for the year ended 30 June 2005. These accounting policies include:

### (a) Basis of consolidation

The consolidated financial statements of Ceres Power Holdings plc have been presented under merger accounting rules. This means that the financial statements of Ceres Power Holdings plc and its wholly owned subsidiary, Ceres Power Limited, have been aggregated and presented as if the two companies have always formed a group. Accordingly, although Ceres Power Holdings plc acquired the entire issued share capital of Ceres Power Limited on 3 September 2004, the results for both companies are reflected in the group financial statements for the period to 31 December 2004.

### (b) Turnover

Revenue, which excludes value added tax and other sales taxes, represents the invoiced value of services supplied.

Amounts received or receivable under development agreements are recognised as revenue when earned. Amounts received or receivable in respect of milestone payments under agreements are recognised as revenue when the specific conditions in the agreement have been met. All costs relating to these development programmes are recorded as research and development expenditure. As revenue represents contributions towards costs incurred, no amounts have been allocated to cost of sales.

## 3. Called-up share capital

Ceres Power Holdings plc had called-up share capital totalling 56,076,293 ordinary shares of £0.05 each at 30 June 2005 as disclosed in the statutory financial statements of Ceres Power Holdings plc for the year ended 30 June 2005.

Between 13 July 2005 and 21 December 2005, 664,582 ordinary shares of £0.05 each were issued on the exercise of employee share options for cash consideration of £167,929.

On 25 November 2005, the Company issued 3,340 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £2,338.

On 2 December 2005, the Company issued 3,900 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £2,730.

No issue costs have been incurred with respect to the above transactions. However, an amount of £49,806 has been credited to the share premium account in respect of VAT reclaimed in the six months to 31 December 2005 relating to share issue costs in prior periods.

## 4. Profit and loss account

In accordance with the provisions of Urgent Issues Task Force Abstract 17, "Employee Share Schemes", the share option compensation charge in the period of £2,520 (six months ended 31 December 2004: £20,770; year ended 30 June 2005: £20,020) has been charged to the profit and loss account and credited to the profit and loss reserve.

# Independent Review Report to Ceres Power Holdings plc

## **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 31 December 2005 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report and the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2005.

## **PricewaterhouseCoopers LLP**

Chartered Accountants  
Cambridge

17 March 2006

### Notes:

- (a) The maintenance and integrity of the Ceres Power Holdings plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Company Information

### Directors

Philip Holbeche (Chairman) <sup>1,2</sup>  
Peter Bance (Chief Executive Officer) <sup>1,2</sup>  
Andrew Baker (Operations Director) <sup>1,2</sup>  
Nigel Brandon (Chief Scientist) <sup>2</sup>  
Robert Flint (Commercial Director) <sup>2</sup>  
Harry Fitzgibbons (Non Executive Director) <sup>1</sup>  
John Gunn (Non Executive Director) <sup>1</sup>

### Company Secretary

Matthew Stride

### Company Registered Number

5174075

### Registered Office

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### Solicitors

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### Registered Auditors

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### Bankers

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London SW7 2LB

### Brokers

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### Registrar

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