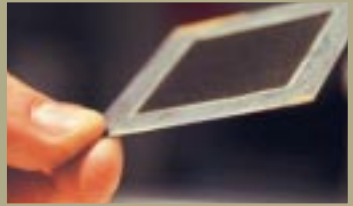


Ceres Power Holdings plc

Interim Report 31 December 2004



## Markets and Products

Ceres Power is a developer and manufacturer of fuel cells and integrated product systems which can be applied to deliver substantial economic and environmental benefits for a range of global market applications:

- Combined Heat and Power (CHP) – providing heat and power for homes and small businesses
- Off-grid Power – power at point of use from commercially available bottled gases
- Auxiliary Power Units (APU) – satisfying the electrical demand for on-board vehicle applications
- Uninterruptible Power Supplies (UPS) – security of energy supply for critical applications

The proven ability of the technology to perform well on both hydrocarbon gases and hydrogen allows the fuel cells to run on existing fuel infrastructures and the future hydrogen economy.

The group is thus ideally placed to exploit near term opportunities and deliver long term growth from existing and emerging markets.

# Highlights

- Admission to AIM on 25 November 2004 with blue chip institutional backing
- £15 million funds raised from IPO
- £18.3 million cash and short term investments at 31 December 2004
- First commercial revenues from customer partnerships
- Major investment in fuel cell manufacturing facilities
- Successfully completed grant funded development programmes with Carbon Trust and DTI
- Core technology patent granted in the US
- Recognition as a leader in low carbon technology and energy efficiency by Prime Minister Tony Blair in his Climate Change Speech

# Chairman's Statement

Philip Holbeche  
Chairman



Prime Minister Tony Blair referred to Ceres Power as a “world leader” in his Climate Change Speech.

The Energy Minister Mike O'Brien described Ceres Power as “being at the forefront in the race to make fuel cells commercially viable”.

I am pleased to report on the substantial progress achieved by the group in the six months to 31 December 2004.

## Admission to AIM

Ceres Power Holdings plc was admitted to the Alternative Investment Market (AIM) of the London Stock Exchange, with trading of the shares commencing on 25 November 2004. It was particularly pleasing that we were able to attract a significant number of prestigious financial institutions as new shareholders. The funds raised will allow the group to take advantage of the very substantial opportunities open to it and to negotiate partnership agreements from a position of strength. High quality staff have been, and will continue to be, recruited. New equipment has been purchased to accelerate technical progress towards commerciality and to provide the basis for future growth.

## Financial results

The group received its first commercial revenues during the six months to 31 December 2004, providing in excess of £60,000 from development

and testing arrangements with two global companies. During the period the group successfully completed grant funded projects sponsored by both the Carbon Trust and the DTI. These projects, and one further project, generated operating income of almost £300,000 for the six month period. These income streams provide a significant endorsement of the group's technology and have contributed to the progress achieved in 2004.

Research and development costs increased by 44% to £1.03 million for the six months, compared with the same period last year, reflecting increased headcount, R & D contract and materials costs. Expansion into the adjoining facility has increased establishment costs and depreciation on associated capital expenditure. Administration costs increased in the period, reflecting the demands of a high growth company preparing for a stock market listing.

Interest income of £136,000 was greater than the prior year as a result of both the second private round and IPO fundraisings. The loss for the six months was £1.35 million, compared with £766,000 in the latter half of 2003, reflecting growth in the group's operations and associated expenses.

As at 31 December 2004, the group had cash and short term investments amounting to £18.3 million, having raised some £15 million net of expenses in November 2004. Thus, the group is well financed to undertake the next phase of its development over the coming years.

## Review

The group has achieved major progress in its research and development activities during the past year and is now focusing on product engineering for market applications. Concurrently, we are developing strong supply chain partnerships as the basis for generating commercial revenue streams. The effective doubling of the facilities in Crawley to include a cell manufacturing facility and extensive testing facilities, as well as a substantial increase in technical staff, are measures of the transformation of the group.

## The group has achieved major progress in its research and development activities during the past year.

Significant milestones achieved during the past six months include:

- Testing agreement signed with BOC
- Official opening of fuel cell manufacturing facility
- Fuel cell robustness and planar stack integrity demonstrated
- Multiple stack durability tests and design of complete system
- Demonstration of fuel cell operation on LPG, natural gas and hydrogen

Commercial supply chain relationships have been established with several major international energy supply and power generation companies.

The unique fuel cell technology of Ceres Power has been endorsed by the UK government, with Prime Minister Tony Blair citing Ceres Power as a “world leader” in his Climate Change Speech. In addition the Energy Minister Mike O’Brien described Ceres Power as “being at the forefront in the race to make fuel cells commercially viable”.

### People

We have attracted a number of high calibre personnel vital to the group’s progress. The new Head of Product Development, Dr. Andrew Baker, brings a wealth of experience in transforming technology into world leading mass-manufactured products in a variety of relevant industries. In addition, Mr Harry Fitzgibbons joined the board as a non-executive director. He brings extensive experience in corporate finance, venture capital, and technology commercialisation, as well as fuel cell industry insight, having been on the Johnson Matthey board for 11 years.

Every one of our employees, as a stakeholder in the business with shareholdings and/or share options, has made a significant contribution to the success of the group. I would like to thank all of them for their part in our continuing success.

### Intellectual property

The group recognises the need to protect and grow its intellectual property portfolio. Nine patent applications have been filed to date. Our core

fuel cell patent has been granted in the UK, and was recently granted in the US, unaltered and unopposed. Further patents and trademarks continue to be filed in order to ensure that the core technology is well protected and to help build the group’s brand value.

### Outlook

The group is continuing to build on its fuel cell, stack and systems innovations as the basis for revenue growth and value creation from customer trials and partnership agreements. The funding raised at the time of the Initial Public Offering is enabling the group to strengthen its team, commission customised facilities and establish key channels to market in order to help achieve the ambitious goals set by the board. I look forward to reporting to you on our continuing progress.

Philip Holbeche  
Chairman

# Consolidated Profit and Loss Account

for the six months ended 31 December 2004

	Six months ended 31 Dec 2004 unaudited £'000	Six months ended 31 Dec 2003 unaudited £'000	11 month period ended 30 June 2004 audited £'000
<b>Turnover</b>	<b>61</b>	–	–
Research & development costs	<b>(1,032)</b>	(715)	(1,455)
Administrative expenses	<b>(816)</b>	(240)	(699)
Other operating income	<b>299</b>	–	382
<b>Operating loss</b>	<b>(1,488)</b>	(955)	(1,772)
Interest receivable & similar income	<b>136</b>	17	110
<b>Loss on ordinary activities before taxation</b>	<b>(1,352)</b>	(938)	(1,662)
Tax credit on loss on ordinary activities	–	172	–
<b>Loss for the financial period</b>	<b>(1,352)</b>	(766)	(1,662)
<b>Loss per £0.05 ordinary share</b>			
Basic & diluted	<b>(3.04p)</b>	(1.83p)	(3.98p)
Weighted average number of shares used to compute loss per £0.05 ordinary share	<b>44,507,813</b>	41,763,060	41,763,060

# Consolidated Balance Sheet

as at 31 December 2004

	Notes	31 Dec 2004 unaudited £'000	31 Dec 2003 unaudited £'000	30 June 2004 audited £'000
<b>Fixed assets</b>				
Tangible assets		1,186	663	1,181
<b>Current assets</b>				
Debtors		213	327	247
Short term investments		14,950	5,200	4,400
Cash at bank & in hand		3,391	138	191
		<b>18,554</b>	5,665	4,838
<b>Creditors: amounts falling due within one year</b>		<b>(325)</b>	(84)	(108)
<b>Net current assets</b>		<b>18,229</b>	5,581	4,730
<b>Total assets less current liabilities</b>		<b>19,415</b>	6,244	5,911
<b>Creditors: amounts falling due after more than one year</b>		<b>(14)</b>	(10)	(14)
<b>Net assets</b>		<b>19,401</b>	6,234	5,897
<b>Capital &amp; reserves</b>				
Called up share capital	3	2,794	2,088	2,088
Share premium account		14,130	–	–
Merger reserve		7,463	6,897	7,463
Profit & loss account	4	(4,986)	(2,751)	(3,654)
<b>Equity shareholders' funds</b>		<b>19,401</b>	6,234	5,897

# Consolidated Cash Flow Statement

for the six months ended 31 December 2004

	Six months ended 31 Dec 2004 unaudited £'000	Six months ended 31 Dec 2003 unaudited £'000	11 month period ended 30 June 2004 audited £'000
<b>Net cash outflow from operating activities</b>	<b>(1,129)</b>	(801)	(1,673)
<b>Returns on investments &amp; servicing of finance</b>			
Interest received	134	12	110
Net cash inflow from returns on investments & servicing of finance	134	12	110
<b>Taxation</b>	-	172	172
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	(157)	(62)	(664)
Net cash outflow for capital expenditure	(157)	(62)	(664)
<b>Net cash outflow before use of liquid resources &amp; financing</b>	<b>(1,152)</b>	(679)	(2,055)
<b>Management of liquid resources</b>			
(Increase) in short term deposits with banks	(10,550)	(4,200)	(3,400)
<b>Financing</b>			
Issue of ordinary share capital	16,301	4,885	5,633
Expenses of share issue	(1,399)	(147)	(147)
Net cash inflow from financing	14,902	4,738	5,486
<b>Increase/(decrease) in net cash</b>	<b>3,200</b>	(141)	31
<b>Reconciliation to net funds</b>			
Opening net funds	4,591	1,279	1,160
Increase/(decrease) in net cash	3,200	(141)	31
Movement in deposits	10,550	4,200	3,400
<b>Closing net funds</b>	<b>18,341</b>	5,338	4,591
<b>Cash flow from operating activities</b>			
Reconciliation of operating loss to net cash outflow from operating activities:			
Operating loss	(1,488)	(955)	(1,772)
Depreciation	158	78	155
Share option compensation charge	21	16	26
Decrease/(increase) in debtors	48	(13)	(153)
Increase in creditors	132	73	71
<b>Net cash outflow from operating activities</b>	<b>(1,129)</b>	(801)	(1,673)

# Notes to the Interim Financial Statements

for the six months ended 31 December 2004

## 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 2004 and 31 December 2003 have not been audited. The results for the eleven month period to 30 June 2004 have been extracted from the statutory financial statements of Ceres Power Limited 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 2004 have been prepared in accordance with the accounting policies set out in the statutory financial statements of Ceres Power Limited for the eleven month period ended 30 June 2004. The following additional accounting policies are applicable to the interim financial statements for the six months ended 31 December 2004:

### (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 and the comparative amounts are presented on the same basis.

### (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 was incorporated with an authorised share capital of £1,000 comprising 1,000 ordinary shares of £1 each. One ordinary share was allotted nil paid on incorporation.

On 13 July 2004, Ceres Power Holdings plc sub-divided its existing issued and authorised share capital into ordinary shares of £0.05 each and increased its authorised share capital by 99,980,000 ordinary shares of £0.05 each.

On 3 September 2004, Ceres Power Holdings plc issued 41,763,040 ordinary shares of £0.05 each to the shareholders of Ceres Power Limited in consideration for the transfer of the entire issued share capital in Ceres Power Limited.

On 25 November 2004, Ceres Power Holdings plc issued 13,333,333 ordinary shares of £0.05 each on admission to the Alternative Investment Market of the London Stock Exchange for cash consideration of £16,000,000.

Between 2 December 2004 and 22 December 2004, 773,854 ordinary shares of £0.05 each were issued on the exercise of employee share options for cash consideration of £234,726.

## 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 £20,770 (six months ended 31 December 2003: £16,401; 11 month period ended 30 June 2004: £25,760) 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 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 performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. 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 2004.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Cambridge  
9 March 2005

## 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

Mr. Philip Holbeche  
(Chairman)

Dr. Peter Bance  
(Chief Executive Officer)

Prof. Nigel Brandon  
(Chief Technology Officer)

Mr. John Gunn  
(Non Executive Director)

Mr. Harry Fitzgibbons  
(Non Executive Director)

### Company Secretary

Mr. Matthew Stride

### Company Registered Number

5174075

### Registered Office

Unit 18, Denvale Trade Park  
Haslett Avenue East  
Crawley  
RH10 1SS

### Solicitors

Taylor Wessing  
Carmelite  
50 Victoria Embankment  
Blackfriars  
London  
EC4Y 0DX

### Registered Auditors

PricewaterhouseCoopers LLP  
Abacus House  
Castle Park  
Cambridge  
CB3 0AN

### Bankers

National Westminster Bank plc  
South Kensington Station Branch  
PO Box 592  
18 Cromwell Place  
London  
SW7 2LB

### Brokers

Numis Securities Ltd  
Cheapside House  
138 Cheapside  
London  
EC2V 6LH

### Registrar

Computershare Investor Services PLC  
PO Box 82, The Pavilions  
Bridgwater Road  
Bristol  
BS99 7NH

[www.cerespower.com](http://www.cerespower.com)