

30 September 2005

Ceres Power Holdings plc

(“Ceres” or “the Company”)

Preliminary Results for the year ended 30 June 2005

Operational highlights

Over the last year, the Group has been transformed, building on its leading technology to become a well capitalised, AIM quoted company. It has established key relationships with major corporations to access channels to market for global energy opportunities.

Recent highlights include:

- **Key relationships announced with British Gas and BOC.**
- **Recognised as a leader in low carbon technology by the UK Government.**
- **Admission to AIM, raising £15 million (after expenses) with high-quality institutional support.**
- **£17 million in cash and short term investments at 30 June 2005.**
- **Operating cash outflow of £2.63 million.**
- **First commercial revenues generated.**
- **Patent granted in the US for core materials technology.**
- **Capability extended from cell to stack and end-user products.**
- **Cell power output for commercial application achieved two years ahead of expectations.**
- **Manufacturing facility established for pilot scale production.**
- **Grant funded programmes with the DTI and Carbon Trust successfully completed.**

Chairman's Statement

Business Evolution

The year to June 2005 marked a major step in the development of Ceres Power, and a transformation from its research and development roots to a business focused on delivering finished products to market.

The Group's Admission to the Alternative Investment Market (AIM) of the London Stock Exchange in November 2004 was of particular importance. Equally crucial have been the series of technological breakthroughs, and the relationships built with global corporations providing channels to market. Ceres Power now has the technological excellence and the market opportunities to progress with confidence.

The Admission to AIM attracted a significant number of prestigious institutions which provided £15 million of funding after expenses. Whilst operations have expanded and investment in technological development has continued, that funding has remained untouched. There is a determination to keep costs tightly under control, while investing in the required capabilities to secure and build revenues.

We have transformed the Group into a dynamic business focused on product engineering, commercial engagement and manufacturing. High quality staff have been, and will continue to be, recruited to sustain this transformation.

The Group's robust financial position has assisted development of the business in several important respects. Supply chain partnerships have been developed to accelerate product commercialisation. Design and manufacturing capabilities have been extended from individual fuel cells to stacks and products for market applications. We have continued to invest in first-class resources to drive the next phase of our business growth, and ensure the value of Ceres technology is maximised.

Continued technical progress has demonstrated the tremendous market potential of the unique Ceres Power fuel cell technology. A stream of technical innovations has strengthened the Group's portfolio of intellectual property (IP), bolstered its global business position, and attracted significant interest from potential partners for a range of market applications.

The technical leadership of the Group has enabled the development of key relationships with major corporations including British Gas and BOC. Under the agreement with British Gas, announced since the year end, we have agreed to work towards commercialisation of a natural gas fed combined heat and power (CHP) unit incorporating a Ceres Power fuel cell system for the UK residential market. Following successful completion of feasibility trials in September 2005, a second phase of collaboration with BOC was announced to develop products for specific off-grid applications fuelled by liquefied petroleum gas (LPG).

Ceres Power has completed several grant funded programmes from the Department of Trade and Industry (DTI) and the Carbon Trust, achieving all defined milestones. Work is now underway on two major new contracts, awarded by the DTI, to support the development of core technology. Significantly, commercial revenues are now being generated from product development contracts targeting specific market applications.

Financial

Income for the year ended 30 June 2005 totalled £945,000, of which interest on cash balances provided £508,000, income from grants was £366,000, and revenue from development contracts was £71,000. In comparison, income during the 11 month period to 30 June 2004 was £492,000, reflecting a 92% increase during the past year.

As the Group has grown, operating costs have risen by 67% from £2.15 million to £3.59 million, in turn increasing the loss for the year to £2.65 million from £1.66 million in the period to 30 June 2004. The physical expansion of the Group into the adjoining facility has increased both establishment costs and the depreciation charge associated with the investment in additional equipment. The recruitment of additional highly qualified and experienced personnel to support rapid growth has also led to increased costs.

Capital expenditure of £467,000, for facilities and equipment, has increased the Group's in-house capacity and capability for product design and testing, and enabled manufacturing process scale-up to commence.

The Group's liquidity position is strong with more than £17 million in cash and short-term investments at 30 June 2005. The cash outflow from operating activities during the year was £2.63 million, (excluding the fundraising at the time of Admission to AIM) with cash outflows attributable to capital expenditure totaling £338,000. There were cash inflows of £312,000 from the exercise of share options and warrants in addition to cash inflows from development contracts, government grants and interest income. With net funds of £14.6 million (after all related expenditure) from the placing, net cash inflow for the year was £12.5 million.

Recognition

During the year, the Group received external endorsement of its leading position from the fuel cell industry, government and the financial community. The Prime Minister, Tony Blair, cited Ceres Power as “a world leader” in his landmark Climate Change speech. In a nationwide competition in 2003, Ceres Power won the inaugural Carbon Trust award for being the company with the best low-carbon innovation and the greatest commercial potential. The award of the Institute of Materials, Minerals and Mining 2005 Gold Medal for “industrial application of its materials technology” placed Ceres Power alongside Airbus and Qinetiq as previous winners. Such recognition has been important in securing key commercial relationships, government support, and the backing of leading financial institutions.

Intellectual Property

The Group places great emphasis on the expansion and protection of its portfolio of intellectual property in order to defend its unique position, build brand value, and extract greater financial returns from market development opportunities. The grant of the core materials technology patent in the US, unaltered and unopposed, having already been granted in the UK, is indicative of the uniqueness and strength of Ceres technology. Further patent applications have been granted and filed and others are being prepared, as are a number of trademarks.

People

Ceres Power is built on the solid foundations of world-leading materials technology and innovation. From its inception, the Group has been well capitalised, driven by a strong commercial focus, and led by a highly motivated, multidisciplinary management team. Andrew Baker has recently been appointed Operations Director; he brings a wealth of experience in transforming innovative technology into world-leading products within related global industries.

The very significant enhancements to the Group’s product engineering and manufacturing capabilities during the past year have positioned it for the next steps towards mass-market commercial success.

Every one of our employees is a stakeholder in the business with a shareholding and/or share options. I would like to thank all of them for the important contributions that they have made and I am sure will continue to make to our exciting progress.

Philip Holbeche

Chairman

Chief Executive’s Review

Historical Overview

In the four years since Ceres Power was founded, we have successfully built on its world-class technology to become a commercially focused, product company based on a strong intellectual property portfolio. In the past year key milestones have been achieved. Commercial revenues have been generated, the Group’s facilities have doubled in size, and high-profile endorsements from the City, government and our industry partners have been received. This has been a very good year for Ceres Power.

Strategy

The Group’s strategy is to establish a series of specific relationships, each with a defined market application and geographical focus, in a way that maximises global commercial potential. A series of complementary relationships are being developed with major corporations with direct access to well established channels to end-users for Ceres Power products. The recently announced business development partnerships with British Gas and BOC are examples of this approach.

Ceres Power is a fuel cell systems business with world-leading core technology. It has established strong in-house product engineering and systems integration capabilities along with a network of external relationships with ‘balance of plant’ component suppliers.

The Group’s intended supply chain partnerships with volume manufacturers should ensure the commercial availability of raw materials and components, and provide the product assembly, distribution, installation and service capabilities required for mass-market uptake.

Revenues should continue to grow through project-based product development contracts for target market applications, as well as through scalable component and sub-system manufacturing activities. In this way, the Group retains control over the core fuel cell elements which are extremely IP-rich and likely to command high and sustainable margins. Licensing and/or joint venture models may also be employed by the Group, as appropriate, to exploit specific fields of use where there is a clear business advantage in adopting these approaches.

Health, Safety and Environmental Management

Group operations have rapidly expanded over the past year with the hiring of additional staff, commissioning of new facilities and acceleration of the pace of development. There has been a corresponding emphasis on operational excellence. We have rigorously implemented procedures to minimise potential health and safety risks and impact on the working environment.

The systematic implementation of risk assessments, training programmes, and operational procedures resulted in an exemplary health and safety record. I am pleased to report that there have been no incidents resulting in serious personal injuries, damage to assets, or adverse impact upon the wider community. As we continue our rapid growth, the safety and well-being of our employees will remain our first priority.

Operating Performance

A strong record of on-time and on-budget delivery of milestones for internal development, government contracts and commercial partnerships has been established, based on a technology road map guided by a clear understanding of market requirements. This carefully managed approach will continue to be adopted to grow the Group's business in line with evolving capabilities.

The Group has invested heavily across the business to establish a world-class set of core capabilities, facilities and equipment. These investments have enabled the recruitment of high calibre staff in core product development areas and manufacturing, as well as key account management. We shall continue to place great emphasis on design for manufacturing in order to reduce time-to-market and achieve demanding product quality, cost, and delivery targets for internal developments and commercial contracts.

As a result of an aggressive and successful technical development plan, key objectives have been achieved during the past year, some well ahead of schedule. Significant milestones have included:

- commercial engagement to develop products for mass-market applications;
- first revenue generating commercial contracts successfully completed;
- pilot-scale fuel cell manufacturing facility officially opened;
- fuel cell size and power output for commercial application achieved well ahead of expectations;
- robust stack design demonstrated; and
- multi-fuel capability established for propane, natural gas and hydrogen.

Outlook

Building on a solid financial position and established market channel relationships, the Group will now focus on the following areas:

- **expanding and strengthening the Group's intellectual property portfolio;**
- **increasing the throughput from volume cell and stack manufacturing processes;**
- **designing, assembling and testing complete fuel cell products, together with sustaining progress on cell and stack developments;**
- **progressing commercial engagements throughout the value chain;**
- **building the senior management team across key functions; and**
- **successfully delivering on current development contracts and securing new engagements.**

The growing international concerns regarding energy security, environmental issues and competitiveness reinforce the positive business outlook for the Group. It is ideally placed to exploit its unique technology and satisfy the increasing demands for alternative energy solutions.

Over the past year the Group has enjoyed some very significant successes. I look forward to reporting during the course of the year on developments and progress.

Peter Bance

Chief Executive Officer

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 30 June 2005

	Year ended 30 June 2005	11 month period ended 30 June 2004
	Unaudited	Audited
Note	£'000	£'000
Turnover	71	-
Research and development costs	(2,324)	(1,455)
Administrative expenses	(1,272)	(699)
Other operating income	366	382
Operating loss	(3,159)	(1,772)
Interest receivable and similar income	508	110
Loss on ordinary activities before taxation	(2,651)	(1,662)
Tax on loss on ordinary activities	-	-
Loss for the financial year / period	6 (2,651)	(1,662)
Loss per £0.05 ordinary share		
- basic and diluted	3 (5.28)p	(3.98)p

CONSOLIDATED BALANCE SHEET as at 30 June 2005

	2005	2004
	Unaudited	Audited
Note	£'000	£'000
Fixed assets		
Tangible assets	1,302	1,181
Current assets		
Debtors: amounts falling due after more than one year	53	53

Debtors: amounts falling due within one year		263	194
Short term investments		15,600	4,400
Cash at bank and in hand		1,444	191
		<u>17,360</u>	<u>4,838</u>
Creditors: amounts falling due within one year		(471)	(108)
Net current assets		<u>16,889</u>	<u>4,730</u>
Total assets less current liabilities		18,191	5,911
Creditors: amounts falling due after more than one year		(10)	(14)
Net assets		<u>18,181</u>	<u>5,897</u>
Capital and reserves			
Called up share capital	4	2,804	2,088
Share premium account		14,199	-
Merger reserve		7,463	7,463
Profit and loss account		(6,285)	(3,654)
Equity shareholders' funds	6	<u>18,181</u>	<u>5,897</u>

CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 June 2005

		Year ended 30 June 2005	11 month period ended 30 June 2004
		Unaudited	Audited
	Note	£'000	£'000
Net cash outflow from operating activities	5	(2,629)	(1,673)
Returns on investments and servicing of finance			
Interest received		508	110
Net cash inflow from returns on investments and servicing of finance		<u>508</u>	<u>110</u>

Taxation	-	172
	<hr/>	<hr/>
Capital expenditure		
Purchase of tangible fixed assets	(338)	(664)
	<hr/>	<hr/>
Net cash outflow for capital expenditure	(338)	(664)
	<hr/>	<hr/>
Net cash outflow before use of liquid resources and financing	(2,459)	(2,055)
Management of liquid resources		
Increase in short-term deposits with banks	(11,200)	(3,400)
Financing		
Issue of ordinary share capital	16,312	5,633
Expenses of share issue	(1,400)	(147)
	<hr/>	<hr/>
Net cash inflow from financing	14,912	5,486
	<hr/>	<hr/>
Increase in net cash	1,253	31
	<hr/>	<hr/>
Reconciliation to net funds		
Opening net funds	4,591	1,160
Increase in net cash	1,253	31
Movement in short term deposits	11,200	3,400
	<hr/>	<hr/>
Closing net funds	17,044	4,591
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Notes to the preliminary announcement

1. Basis of preparation

These preliminary results do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985.

Results for the year ended 30 June 2005 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. The statutory accounts and audit report for the year ended 30 June 2005 have not yet been signed by the directors or the auditors respectively.

2. Principal accounting policies

These preliminary results for the year ended 30 June 2005 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 preliminary results for the year ended 30 June 2005:

(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 year ended 30 June 2005 and the comparative amounts are presented on the same basis.

Intra-group transactions, profits / losses and balances are eliminated in full on consolidation.

(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. Loss per share

Basic and diluted loss per £0.05 ordinary share are calculated by dividing the loss for the financial year / period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year / period.

The loss for the financial year ended 30 June 2005 is £2,650,602 (2004: £1,661,863) and the weighted average number of £0.05 ordinary shares in issue during the year ended 30 June 2005 is 50,232,830 (2004: 41,763,060).

The comparative figures have been restated to reflect the sub-division of shares which took place on 13 July 2004, whereby each issued ordinary share of £1 was sub-divided into 20 ordinary shares of £0.05 each. For the purpose of calculating the loss per share, and in accordance with merger accounting principles, the 41,763,040 ordinary shares of £0.05 each issued by the Company to acquire Ceres Power Limited on 3 September 2004 are deemed to have been in issue throughout the current and prior financial periods.

4. Called up share capital

	2005 Unaudited		2004 Audited	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £0.05 each	100,000,000	5,000	-	-
Allotted, called up and not paid				
Ordinary shares of £0.05 each	4,000	-	-	-
Allotted, called up and fully paid				
Ordinary shares of £0.05 each	56,072,293	2,804	41,763,040	2,088
	56,076,293	2,804	41,763,040	2,088

The Company was incorporated on 8 July 2004 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. As the Company was not incorporated as at 1 July 2004, no comparatives have been shown for authorised share capital.

On 13 July 2004, the Company 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, the Company issued 41,763,040 ordinary shares of £0.05 each to the shareholders of Ceres Power Limited in consideration for the transfer to the Company of the entire issued share capital in Ceres Power Limited. The allotted, called up and fully paid share capital at 30 June 2004 represents the shares issued by the Company to acquire Ceres Power Limited, which has been recognised under the principles of merger accounting.

On 25 November 2004, the Company 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 (before issue expenses of £1,399,801).

Between 2 December 2004 and 27 June 2005, 819,113 ordinary shares of £0.05 each were issued on the exercise of employee share options for cash consideration of £248,931. An amount of £2,400 remained unpaid at 30 June 2005.

On 28 January 2005, the Company issued 500 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £350.

On 11 March 2005, the Company issued 160,287 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £65,397.

5. Net cash outflow from operating activities

Reconciliation of operating loss to net cash outflow from operating activities:

	Year ended 30 June 2005 Unaudited	11 month period ended 30 June 2004 Audited
	£'000	£'000
Operating loss	(3,159)	(1,772)
Depreciation charge (net of loss on disposals)	346	155
Share option compensation charge	20	26
(Increase) in debtors	(67)	(153)
Increase in creditors	231	71
Net cash outflow from operating activities	(2,629)	(1,673)

6. Reconciliation of movements in shareholders' funds

	2005 Unaudited	2004 Audited
	£'000	£'000
Loss for the financial year / period	(2,651)	(1,662)
Proceeds of issue of ordinary share capital	16,315	5,633
Share issue costs	(1,400)	(147)
Share option compensation charge	20	26
Net change in shareholders' funds	12,284	3,850
Opening shareholders' funds	5,897	2,047
Closing shareholders' funds	18,181	5,897

Opening shareholders' funds of £5,897,000 relate to Ceres Power Limited and are included in the Group's reserves under merger accounting principles.

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