
# ZENERGY POWER plc

## Interim Results 2008




ZENERGY POWER

# Zenergy Power plc
## ('Zenergy' or the 'Group')

## Interim Results

### for the Six Month Period ended 30 June 2008

Zenergy Power plc (AIM:ZEN.L), the specialist manufacturer and developer of commercial applications for high-temperature superconductive (`HTS') materials, is pleased to present its Interim Results for the Six Month Period Ended 30 June 2008 (`the Period').

### Highlights

- Following the commercial launch of the first of the Group's energy efficient HTS products in 2007, the Group secured a second commercial order for an HTS induction heater for copper heating;
- Increase in turnover in the period to €1,043,000 as compared to the first half of 2007 of €94,000;
- Increased patent protection, notably the receipt of the certification of a core utility patent relating to the overall design and operating process of our ground-breaking HTS induction heater;
- Commercial upgrade of the world's first HTS hydro-power generator requested by E.ON Wasserkraft GmbH ('E.ON WK');
- Promotion of the world's first HTS hydro-power generator from 'back-up' generator to 'pole position' generator announced by E.ON WK;
- Commercial contract awarded under a Department of Homeland Security project to carry out a technology employment study of the Group's Fault Current Limiter ('FCL') to evaluate its performance in the New York electricity grid operated by Consolidated Edison;
- Winner of the 2008 Hermes technology award, presented by the German Minister of Research and Education, Mrs. Schawahn; and
- Winner of the 2008 CleanEquity Monaco award, presented by H.S.H. Prince Albert II of Monaco

### Since period end

- Successful installation into industrial premises of the world's first HTS induction heater, which is now fully operational under real-world conditions for client Weseralu GmbH & Co. ('Weseralu') and available for demonstration to further potential customers;
- Board of directors is strengthened with the appointment of Chris Nash, a seasoned environmental sustainability sector figure and Karen Chandler, Chief Financial Officer, as executive directors; and
- Commencement of extension work to increase the size of the Group's manufacturing facilities by 50% in anticipation of increased commercial order flow following the receipt of positive feedback from potential customers reviewing the Group's HTS induction heater.

# Zenergy Power plc
## ('Zenergy' or the 'Group')

Michael Fitzgerald, Chairman, commented:
'One of our key objectives last year was to bring to market the first of our energy efficient industrial products based around our core HTS technology. We did this with great success and went on to achieve the commercial order of the world's first industrial scale HTS device. The speed with which the Group has been able to convert its technical accomplishments into commercial success has been extremely encouraging and I was very pleased to see us secure a second commercial order for our HTS induction heater in the first half of this year.

This rapid transition from development to commercial success confirms the ability of our HTS equipment to compete with conventional technologies in the real-world and on commercial terms. We continue to progress the development of further products based on HTS materials and I look forward to them having a similar impact in their target markets to that of our induction heater.'

# Chairman's statement

## Chairman's Statement

It gives me great pleasure to report on a period during which we continued to achieve significant technical and commercial successes, and for which the defining achievement must be regarded as securing the second order for our ground-breaking HTS induction heater just ten months after its initial launch.

### Induction Heaters

Induction heaters are used globally in the metals industry to heat and soften large quantities of metal bulk so that they can be manipulated and shaped. They also devour electricity; as much as 1% to 5% of the total annual electricity consumed in an industrialised country can be directly attributed to their operation. In the face of increasing global energy costs and diminishing profit margins, it is thus understandable that our HTS induction heater – which uses less than half of the energy consumed by conventional machines – is generating a great deal of commercial interest from global metals producers.

Since installation in July 2008, the HTS induction heater sold to Wesseralu has been fully operational in real-world conditions and has performed to the absolute satisfaction of both ourselves and our customer. We thus consider that we have successfully brought to market the first of our energy efficient industrial scale machines based on our HTS core technology. The significance of the technical accomplishments of the HTS induction heater were strongly endorsed and validated by the receipt of several awards during the first half of this year, which in turn has led to significant additional potential customer interest.

### Key drivers for success

The speed with which the Group has been able to convert its technical accomplishments into commercial success has largely been brought about by two main factors:

The first is the way in which the Group has positioned itself within its target markets; we work closely with potential customers during the development of all our products creating a burgeoning sales pipeline and a strengthening market presence.

The second is the appetite being generated within these markets for the type of energy efficient industrial devices being developed by the Group as a consequence of a number of extraneous factors. In particular, as global metals producers experience continued growth in the demand for their products in an environment of escalating commodity and energy prices, downward pressure on profit margins of those producers is strikingly evident. This has manifested itself in a number of high profile merger and acquisition scenarios as the industry seeks to protect margins whilst reducing underlying operating costs. These compelling operational objectives are having a positive impact on our marketing and sales efforts, particularly in relation to the energy efficiencies of the HTS induction heater.

Beyond the metals industry, issues of energy production, distribution and consumption continue to dominate the decision making processes of a growing number of corporations, governments and consumers alike. Thus, throughout the first half of this year, we witnessed continued regulatory change, high-profile business energy commitments, new government targets and an overall increasing focus on an extensive number of the energy issues which are directly addressed by our HTS technology. When combined with the pragmatic combination of increasing energy prices and long-term pressure to lower carbon emissions, prevailing market trends have been integral in fostering favourable trading conditions for our energy efficient products.

# Chairman's statement

## Deepening our interaction with customers and partners

Throughout the period we extended the level of engagement enjoyed with our customers and collaborative partners alike, sustaining the increasing visibility of our brand and the knowledge of the importance and potential of our HTS development activities.

At the heart of our commercial proposition rests a group of materials capable of conducting electricity without offering any electrical resistance to its flow. The physical properties of HTS materials and their power density, confers exceptional utility for the carrying of electrical energy and makes them 100 times more efficient than their copper equivalents. The commercial appeal of the conceptual properties of HTS materials cannot be questioned; the challenge for us – and others in this sector – has always been to take these materials and to develop industrial scale commercial devices around them. We have done this with great success and are very proud that we were able to announce the world's first commercial order of an industrial scale device employing HTS materials last year. Building on this commercial landmark we went on to achieve a second order during the first half of this year. We also achieved another world first when we completed the installation of the first machine into the commercial premises of our industrial customer, Weseralu.

Looking forward we are well advanced in the development and bringing to market a range of industrial devices which exploit these attributes to substantially improve the production, distribution and consumption of electrical energy.

As with the development of our HTS induction heater, we are encouraged by the level of co-operation, commercial interest and commitment which we are receiving from a number of potential customers and collaborative partners alike. Coupled with growing support and interest from a number of government bodies in Europe and the USA, this leads the Board to share a high degree of confidence in the Group's ability to commercialise products which present Zenergy with multibillion Euro opportunities in markets where we face very little competition and enjoy the protection of significant barriers to entry for potential competitors.

As we move into the second half of the year, I feel that we can look to the future with great confidence. To date, we have seen the successful launch of the first of our commercial products, received growing commercial interest from customers and potential collaborative partners alike, we progressed the development of further HTS products and have secured adequate cash resources to fund the commercialisation of our technologies through to reaching anticipated positive operational cash flow in 2010.

Michael Fitzgerald
Chairman
5 September 2008

# Chief Executive's operating report

## Chief Executive's operating report

I take pleasure in updating shareholders on what has been a progressive first half of the year for both Zenergy in particular and the high-temperature superconductivity industry as a whole. Throughout the period, we continued our technical developments on schedule and to our complete satisfaction. We also made further and significant inroads in developing and maturing the commercial relationships we enjoy with current and prospective commercial partners and customers of the Group, from whom we have received keen interest in all three of our initial HTS products. Most importantly, we have continued to demonstrate the incredible potential that HTS materials have to improve the efficiency with which electricity is generated, distributed and consumed. I am thrilled that all our efforts have been met with growing recognition and acknowledgement from all those with whom we have been engaged in our target markets.

### HTS Induction Heaters

It will be recalled that in May of last year, we completed the development and testing of our first industrial scale commercial device employing HTS materials; the HTS induction heater. Shortly after, we secured the world's first commercial order for a full scale industrial HTS unit from the German based aluminium producer, Weseralu.

Building from this, we intensified our commercial activities during the first half of this year and quickly secured the order for the sale of a second industrial scale HTS induction heater, which we were retained to commercially adapt by one of our customers – a multibillion Euro global metals producer – to enable it to undertake large-scale, volume intensive industrial heating of a range of copper and copper metal billets. Having succeeded in this exercise we are now able to serve customers in both the aluminium and copper processing industries. The order of a second unit signifies a remarkable success for our groundbreaking HTS induction heater technology, which enables the accelerated heating and softening of large quantities of metal bulk in readiness for their shaping into various products including installation pipes and profile shells for the automotive, aerospace and machine building industries.

Our engineering team recently completed the installation of an HTS induction heater into the commercial premises of our industrial customer Wesseralu; another world first for the Group. I can report with great pleasure that, since installation, the HTS induction heater has been fully operational and has exceeded expectations and is operating to the client's complete satisfaction under extremely demanding industrial conditions. To be the first company in the world to have taken HTS technology through its design, engineering and commercialisation stages and into real-world operating conditions is a landmark achievement and I congratulate our engineering team on their incredible effort, expertise and professionalism that made this possible.

From an operational perspective, I am also particularly pleased to report that the installation proved extremely straightforward, successful and timely. Specifically, we were able to complete the installation several days quicker than is usual for the installation of a conventional heater. This is of particular importance to our customers as it eliminates the need to shut down industrial extrusion lines for extended periods of time which is a very costly expense for them. Our ability to install the HTS induction heater so quickly is testament to the simplicity of its design and the keen attention to customer concerns that we adopt in designing our products.


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ZENERGY POWER

# Chief Executive's operating report

Initial feedback following the installation is that the unit has been well received and its ease of use has been highly commended. Dramatic improvements in productivity have been demonstrated from its first operation; scrap rates are lowered, the extrusion process has speeded up and significant energy savings are being made – power consumption is reduced by 63% when compared to conventional machines.

Further to these performance characteristics, the HTS induction heater benefits from far less costly maintenance requirements than conventional machines and each machine reduces CO2 emissions by up to 300 tonnes each year - the equivalent of 150 households.

We also continued through the period to diligently expand our patent portfolio to protect our technical and commercial achievements. In May of this year, for example, we received final certification for the core utility patent relating to the overall design and operating process of our HTS induction heater, which now enjoys sufficient protection over several core design specifications that are key to the high efficiency and productivity levels of the machine.

Strengthening the order book and securing sales outside Europe are now the key focus points for the coming year and these will define the broader commercialisation of our HTS induction heater technology. The widespread interest shown by the more than 20-plus customers that are testing the HTS induction heater, including market leaders, gives me huge confidence that we will soon become a major player in this global €2bn per annum market.

In order to capitalise on our ground-breaking technology and to grow the order book we have augmented our sales teams in our initially targeted geographic locations and now have a team of two in Germany, two in the USA and a sales consultant in Australia.

## HTS Fault Current Limiters

During the period, the development and commercialisation work on the second of our industrial products based around HTS technology – the HTS FCL – progressed well. Importantly, we continued to work closely with the engineering and design teams of both Southern California Edison ('SCE') and the Consolidated Edison Company of New York ('ConEd') on two ground-breaking commercial projects. Accordingly, we continued our rapid development of the HTS FCL device and are on schedule to become the world's first installer of an industrial scale HTS FCL directly into the United States electricity grid.

The Group's proprietary HTS FCL is designed to protect electrical grid equipment in national grid systems and is capable of absorbing huge amounts of unwanted and highly damaging electrical power by fault currents without having to interrupt the steady supply of power to downstream grid users. In doing this, the Group's HTS FCL also prevents the common cascading effect causing blackouts that occur when one part of the grid fails resulting in an 'over-spill' of power to an adjacent grid.

The ground-breaking installation of the Group's machine into the US power grid is to be partly funded by the Californian Energy Commission and is scheduled to be delivered in December of this year. Work on the project progressed very well in the period and our engineering team, in collaboration with SCE, completed the development of the necessary electronic and communication protocols that will support the HTS FCL's operation once installed into the grid. Further to this, our engineers successfully implemented a number of performance and design improvements that were identified as a result of our testing programme carried out at the end of last year.

Elsewhere, work continued on our detailed technical analysis of the New York power grid for which we were commercially commissioned as part of a US$39m US Department of Homeland Security project. Our engineering team completed and delivered analysis during the period and are now in detailed technical discussions with ConEd and other third parties concerning the evident and substantial benefits to grid performance that can be derived from the installation of HTS FCLs. The project, named 'Hydra', is aimed at developing power grids in the United States that can keep centres of commerce on line under all conditions – including grid events related to severe weather, accidents or terrorist attacks.

Working with two of the world's largest and most technically advanced utility companies at this stage of the development of our medium-voltage HTS FCL is providing an opportunity for our technical team to rapidly develop industrial scale devices that can be very simply installed in the grids of these utilities. It is also providing the Group with the ideal means to enter into a market confidently predicted to be worth up to €5bn per annum.

Looking further to the future, our five-year development programme of a high-voltage FCL designed for transmission level installations also progressed well during the period. In particular our development work being carried out under an US$11m project funded by the US Department of Energy commenced and is progressing to schedule.

# Chief Executive's operating report

## Renewable energy generators

Good progress with both the technical development of our next generation of renewable energy generators and our growing engagement with commercial customers for those products continued in the period. Of particular note, we were delighted to receive confirmation from E.ON WK of its decision to upgrade the size of the HTS hydro-generator that we are currently developing for it for use at its commercial hydro-electric dam in Bavaria, Germany. This is obviously a strong endorsement not only of our technology, but of the overall potential impact that HTS materials can have on the efficiency of renewable energy generators.

Our work for E.ON-WK in conjunction with our collaborative partner, Converteam SAS ('Converteam') is progressing on schedule and we expect our respective engineering teams to complete installation of the world's first HTS commercial generator in 2009. In conjunction with the installation, E.ON-WK will replace the power plant's existing turbines with higher capacity blades – at E. ON-WK's cost – designed specifically to drive the HTS generator. In addition, E.ON-WK will promote the upgraded HTS generator to be the hydropower station's 'pole position' generator; responsible for not just additional power during peak usage but to provide the ongoing 'base load' supply of electrical power to over 3,000 homes in the local area.

The HTS generators being developed by Converteam based on Zenergy technology can generate electrical energy with significantly higher efficiency than conventional copper-based generators and it is estimated that retrofitting with HTS generators will generate in aggregate 14GW of electricity 'for free' from existing hydro-dam structures – the equivalent to the electricity produced by approximately 40 conventional power stations, and will do so without any further environmental impact.

Whilst hydropower is currently the largest and most mature source of renewable energy, contributing to about 19% of electricity production worldwide, the Group is also working with Converteam to manufacture a new generation of highly compact, lightweight and efficient wind power generators that will be capable of reducing ongoing offshore wind generation costs by up to 25%. Moreover, using our HTS power generators significantly reduces tower and foundation costs. With Converteam, we continued work on the ground-breaking project to produce an 8MW, direct-drive wind power generator. Part funded by the UK Department for Business Enterprise & Regulatory Reform, we are currently building a scaled version of the eventual 8MW machine which will be used to further evaluate the eventual design specifications of the final machine. In 2007 Zenergy received a €0.9million contract for the delivery of HTS coils for the scaled machine.

The UK offshore wind market is the largest worldwide within it Zenergy and Converteam are very well positioned, government supported and technically advanced.

## 2G HTS wire

We have for a number of years been developing our own unique processes for the production of a new generation of HTS wire intended to dramatically reduce the overall cost of our proprietary commercial products. This second generation HTS wire ('2G') is able to achieve substantial cost savings by eliminating the use of silver in its production and also by adopting continual roll-to-roll mass-manufacturing 'all chemical' processes in its manufacture (as opposed to lengthy, low-yielding and restrictive batch processes associated with the production of 1G wire).

Although the decision to pursue our own 2G solution was largely based on the dramatic cost savings it offers, we also recognise the importance of developing our own processes for the manufacture of HTS wire quickly and on an industrial scale. As a result of

this focus and the significant technical achievements of our in-house development team we believe we are now the only Group in the world to have the capability of producing 2G HTS using a continuous proprietary roll-to-roll process.

It will be recalled that we signed a five year exclusive collaboration agreement with ThyssenKrupp VDM GmbH ('ThyssenKrupp') in October of last year. As highlighted at the time of the agreement, ThyssenKrupp is the sole industrial supplier of textured nickel tape in the world which is a key component in the manufacture of 2G HTS. Our collaborative arrangement with ThyssenKrupp was established so we could develop our techniques and processes in conjunction with the company and in the full knowledge of the behaviour of its materials. In return, ThyssenKrupp is able to ensure it produces the nickel tape in a way that is ideal for use with our 'all-chemical' techniques. Accordingly, through the period I am pleased to report that our respective engineering teams worked closely and work continues to progress well.

Accordingly, we can state that Zenergy is well positioned to address the huge market of HTS coils for the wind and hydro market – supported by our innovative 2G wire programme.

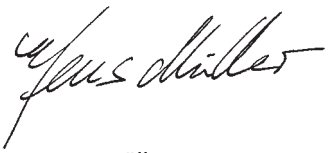
## Industry Endorsements

The Group was pleased to be presented the 2008 Hermes Award, regarded as one of the most prestigious annual technology prizes, for its ground-breaking HTS induction heater at the opening of the 2008 Hannover Fair. The Hermes Award is acknowledged as the most generous international industrial prize as it includes a €100,000 prize and is presented to the most exceptional new technical product that demonstrates substantial commercial benefit and has either undergone rigorous industrial trials or reached the industrial application stage.

Earlier in the year, Zenergy also claimed the CleanEquity Monaco 2008 Award for Excellence in the Field of Environmental Technology Development which was presented to the Group by H.S.H. Prince Albert II of Monaco at the prestigious annual conference held in Monaco.

## Outlook

Technical and commercial progress has been very encouraging in the first half of this year and I have no doubt that we have the technical know-how, commercial relationships and ground-breaking products to capitalise on our position through the second half of this year and beyond. I look forward to securing further commercial orders for the first of our fully developed HTS products and continuing with technical development of our other products.



Dr. Jens Müller
Chief Executive Officer
5 September 2008

# Consolidated income statement
## For the six months ended 30 June 2008

| | Note | Unaudited Six months to 30 June 2008 €000 | Unaudited Six months to 30 June 2007 €000 | Audited Year ended 31 December 2007 €000 |
|---|---|---|---|---|
| Revenue | 2 | 1,043 | 94 | 268 |
| Cost of sales | | (802) | (67) | (221) |
| Gross profit | | 241 | 27 | 47 |
| Other operating income | | 307 | 206 | 578 |
| Sales and marketing expenses | | (498) | (179) | (519) |
| Administrative expenses | | (1,721) | (1,420) | (2,703) |
| Research & development expenses | | (1,428) | (632) | (2,644) |
| Loss before research & development, depreciation & amortisation & equity settled share based payments | | (1,179) | (864) | (1,586) |
| Research & development expenses | | (1,428) | (632) | (2,644) |
| Depreciation & amortisation | | (307) | (272) | (603) |
| Equity settled share-based payment expenses | | (185) | (230) | (408) |
| Operating loss | 3 | (3,099) | (1,998) | (5,241) |
| Financial income | 4 | 539 | 141 | 295 |
| Financial expenses | 4 | (30) | - | (554) |
| Net financing income/(expense) | 4 | 509 | 141 | (259) |
| Loss before tax | | (2,590) | (1,857) | (5,500) |
| Taxation | | 92 | 13 | 263 |
| Loss for the period attributable to equity holders of the Parent | 3 | (2,498) | (1,844) | (5,237) |
| Earnings/(loss) per share (Euros) | | | | |
| Basic and fully diluted loss per share | 5 | (0.06) | (0.05) | (0.13) |

# Consolidated statement of recognised income and expense

## For the six months ended 30 June 2008

| | Note | Unaudited Six months to 30 June 2008 €000 | Unaudited Six months to 30 June 2007 €000 | Audited 12 months to 31 December 2007 €000 |
|---|---|---|---|---|
| Foreign exchange translation differences | 8 | (1,323) | (40) | (338) |
| Net income recognised directly in equity | 8 | (1,323) | (40) | (338) |
| Loss for the period | 8 | (2,498) | (1,844) | (5,237) |
| Total recognised income and expense | 8 | (3,821) | (1,884) | (5,575) |
| Total recognised income and expense for the period attributable to the equity holders of the parent | 8 | (3,821) | (1,884) | (5,575) |

# Consolidated balance sheet

| | Note | Unaudited 30 June 2008 €000 | Unaudited 30 June 2007 €000 | Audited 31 December 2007 €000 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Property, plant and equipment | 6 | 2,080 | 1,484 | 1,671 |
| Goodwill | 7 | 1,228 | 1,391 | 1,303 |
| Other intangible assets | 7 | 3,801 | 2,997 | 3,176 |
| | | 7,109 | 5,872 | 6,150 |
| Current assets | | | | |
| Inventories | | 501 | 339 | 543 |
| Trade and other receivables | | 947 | 786 | 753 |
| Research & development tax credit receivable | | 232 | - | 150 |
| Cash and cash equivalents | | 12,580 | 7,488 | 17,746 |
| | | 14,260 | 8,613 | 19,192 |
| Total assets | | 21,369 | 14,485 | 25,342 |
| Current liabilities | | | | |
| Trade and other payables | | (1,658) | (844) | (1,966) |
| Non current liabilities | | | | |
| Deferred tax liabilities | | (594) | (718) | (653) |
| Total liabilities | | (2,252) | (1,562) | (2,619) |
| Net assets | | 19,117 | 12,923 | 22,723 |
| Equity attributable to equity holders of the parent | | | | |
| Share capital | 8 | 646 | 595 | 645 |
| Share premium | 8 | 31,701 | 18,409 | 31,672 |
| Translation reserve | 8 | (1,708) | (87) | (385) |
| Warrant reserve | 8 | 200 | 200 | 200 |
| Retained loss | 8 | (11,722) | (6,194) | (9,409) |
| Total equity attributable to shareholders | | 19,117 | 12,923 | 22,723 |

# Consolidated cash flow statement
## For the six months ended 30 June 2008

| | Note | Unaudited Six months to 30 June 2008 €000 | Unaudited Six months to 30 June 2007 €000 | Audited Year ended 31 December 2007 €000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Loss for the period | | (2,498) | (1,844) | (5,237) |
| Adjustments for: | | | | |
| Depreciation and amortisation | 6,7 | 307 | 272 | 603 |
| Foreign exchange gains | | 168 | 12 | 12 |
| Gain on sale of fixed assets | | - | - | (39) |
| Financial income | | (539) | (141) | (295) |
| Financial expenses | | 30 | - | 554 |
| Equity settled share-based payment expenses | | 185 | 230 | 408 |
| Taxation | | (92) | (13) | (263) |
| **Operating loss before changes in working capital and provisions** | | (2,439) | (1,484) | (4,257) |
| Increase in trade and other receivables | | (128) | (237) | (167) |
| Increase in stock | | 42 | (216) | (420) |
| Increase in trade and other payables | | (299) | (322) | 801 |
| **Cash absorbed by operations** | | (2,824) | (2,259) | (4,043) |
| Tax received/(paid) | | - | - | 86 |
| **Net cash from operating activities** | | (2,824) | (2,259) | (3,957) |
| **Cash flows from investing activities** | | | | |
| Interest received | | 389 | 53 | 237 |
| Proceeds from the sale of fixed assets | | - | - | 307 |
| Acquisition of property, plant and equipment | | (689) | (542) | (1,275) |
| Development expenditure capitalised and other intangible assets acquired | | (859) | (984) | (1,426) |
| **Net cash from investing activities** | | (1,159) | (1,473) | (2,157) |
| **Cash flows from financing activities** | | | | |
| Proceeds from the issue of share capital | 8 | 30 | 8,426 | 21,739 |
| **Net cash from financing activities** | | 30 | 8,426 | 21,739 |
| Net increase/(decrease) in cash and cash equivalents | | (3,953) | 4,694 | 15,625 |
| Cash and cash equivalents at start of period | | 17,746 | 2,722 | 2,722 |
| Effect of exchange rate fluctuations on cash held | | (1,213) | 72 | (601) |
| **Cash and cash equivalents at end of period** | | 12,580 | 7,488 | 17,746 |

# Notes

## 1. Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2008 have been prepared under applicable International Financial Reporting Standards adopted by the European Union ('IFRS'), which include International Accounting Standards ('IAS') and interpretations issued by the International Accounting Standards Board ('IASB') and its committees, which are expected to be endorsed by the European Union.

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985. The comparative figures for the year ended 31 December 2007 are extracted from the statutory financial statements for that financial period which have been filed with the Registrar of Companies and on which the auditor gave an unqualified report, without any statement under section 237(2) or (3) of the Companies Act 1985.

## 2. Acounting policies

The interim financial statements have been prepared under the same accounting policies as those used for the financial statements for the year ended 31 December 2007 with the follow additions:

### Foreign currency

The functional currency of the parent company was deemed to have changed from Euros to Sterling from 1 January 2008 following the Sterling placing in December 2007, resulting in the parent company having a predominately Sterling based cash position and cost base. The results of the Group continue to be presented in Euros.

### Revenue

### Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to the percentage of costs incurred to date compared to the expected costs to complete the contract. An expected loss on a contract is recognised immediately in the income statement.

### Goods sold

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenues represent the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

# 3. Segmental reporting

## Geographic segments

For management purposes, the Group is currently organised into four geographical regions based on the location of the Group's assets – Germany, USA, Australia and UK. These geographical regions are the basis on which the Group reports its primary segment information.

## Business segment

The Group has one business segment, being the development and production of high temperature superconducting wires, components and applications.

| Six months to 30 June 2008 | Germany €000 | USA €000 | Australia €000 | UK €000 | Eliminations €000 | Consolidated €000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Total revenue | 964 | 79 | - | - | - | 1,043 |
| **Result** | | | | | | |
| Segment result being loss from operations | (1,723) | (703) | (141) | (503) | (29) | (3,099) |
| Net financial income | 10 | (27) | 1 | 525 | - | 509 |
| Loss before tax | (1,713) | (730) | (140) | 22 | (29) | (2,590) |
| Tax | - | - | 81 | - | 11 | 92 |
| Loss for the period | (1,713) | (730) | (59) | 22 | (18) | (2,498) |
| **Other information** | | | | | | |
| Capital additions | 963 | 304 | 281 | - | - | 1,548 |
| Depreciation and amortisation | (183) | (103) | (21) | - | - | (307) |
| **Balance sheet** | | | | | | |
| Segment assets | 4,352 | 1,242 | 1,021 | 29,765 | (15,011) | 21,369 |
| Segment liabilities | (1,308) | (70) | (92) | (187) | (595) | (2,252) |
| Net assets/(liabilities) | 3,044 | 1,172 | 929 | 29,578 | (15,606) | 19,117 |

# Notes

| Six months to June 2007 | Germany €000 | USA €000 | Australia €000 | UK €000 | Eliminations €000 | Consolidated €000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Total revenue | 180 | - | - | - | (86) | 94 |
| **Result** | | | | | | |
| Segment result being loss from operations | (745) | (674) | (189) | (353) | (37) | (1,998) |
| Net financial income | - | 1 | 1 | 140 | (1) | 141 |
| Loss before tax | (745) | (673) | (188) | (213) | (38) | (1,857) |
| Tax | - | - | - | - | 13 | 13 |
| Loss for the period | (745) | (673) | (188) | (213) | (25) | (1,844) |
| **Other information** | | | | | | |
| Capital additions | 798 | 592 | 119 | 17 | - | 1,526 |
| Depreciation and amortisation | (161) | (98) | (13) | - | - | (272) |
| **Balance sheet** | | | | | | |
| Segment assets | 2,208 | 926 | 310 | 19,076 | (8,035) | 14,485 |
| Segment liabilities | (420) | (1,998) | (633) | (213) | 1,702 | (1,562) |
| Net assets/(liabilities) | 1,788 | (1,072) | (323) | 18,863 | (6,333) | 12,923 |

# 4. Finance income and expense

| | Six months to 30 June 2008 €000 | Six months to 30 June 2007 €000 | 12 months to 31 December 2007 €000 |
|---|---|---|---|
| **Financial income** | | | |
| Interest income - bank | 370 | 74 | 275 |
| Foreign exchange gain | 84 | 67 | - |
| Gain on forward contracts held at fair value | 85 | - | 20 |
| Financial income | 539 | 141 | 295 |
| **Financial expense** | | | |
| Foreign exchange loss | (30) | - | (554) |
| Financial expenses | (30) | - | (554) |
| **Net financial income/(expense)** | 509 | 141 | (259) |

# 5. Earnings per share

## Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the loss attributable to ordinary shareholders of €2,498,000 (Six months ended 30 June 2007: €1,844,000) and a weighted average number of Ordinary Shares outstanding during the period of 44,014,000 (Six months ended 30 June 2007: 37,535,000) calculated as follows:

| Thousand of shares | Six months to 30 June 2008 | Six months to 30 June 2007 | 12 months to 31 December 2007 |
|---|---|---|---|
| Issued ordinary shares at start of period | 43,948 | 36,091 | 36,091 |
| Placing - May 2007 | - | 1,444 | 2,853 |
| Placing - December 2007 | - | - | 254 |
| Share options exercised | 66 | - | - |
| Weighted average number of ordinary shares | 44,014 | 37,535 | 39,198 |

## Diluted earnings per share

Share options and warrants have not been included in the calculation of fully diluted earnings per share since these are anti-dilutive. 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:

| Thousand of shares | 30 June 2008 | 30 June 2007 | 31 December 2007 |
|---|---|---|---|
| Warrants issued in respect of the working capital facility from Cloverleaf Holdings Limited (issued 16 August 2006) | 160 | 160 | 160 |
| Share options | 1,402 | 1,220 | 1,346 |
| Total potential dilutive instruments | 1,562 | 1,380 | 1,506 |

55,008 share options have lapsed in the period 1 January 2008 to 30 June 2008.

# 6. Property, plant and equipment

| | Technical plant and equipment €000 | Office and business equipment €000 | Assets under construction €000 | Total €000 |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 1 January 2007 | 1,186 | 259 | 65 | 1,510 |
| Additions | 284 | 39 | 219 | 542 |
| Effects of movements in foreign exchange | (5) | 2 | - | (3) |
| Balance at 30 June 2007 | 1,465 | 300 | 284 | 2,049 |
| Balance at 1 January 2008 | 1,676 | 365 | 210 | 2,251 |
| Additions | 432 | 61 | 196 | 689 |
| Effect of movements in foreign exchange | (37) | (3) | - | (40) |
| Balance at 30 June 2008 | 2,071 | 423 | 406 | 2,900 |
| Depreciation | | | | |
| Balance at 1 January 2007 | (279) | (76) | - | (355) |
| Depreciation charge for the period | (164) | (48) | - | (212) |
| Effects of movement in foreign exchange | 2 | - | - | 2 |
| Balance at 30 June 2007 | (441) | (124) | - | (565) |
| Balance at 1 January 2008 | (427) | (153) | - | (580) |
| Depreciation charge for the period | (179) | (75) | - | (254) |
| Effect of movements in foreign exchange | 14 | - | - | 14 |
| Balance at 30 June 2008 | (592) | (228) | - | (820) |
| Net book value | | | | |
| At 30 June 2007 | 1,024 | 176 | 284 | 1,484 |
| At 30 June 2008 | 1,479 | 195 | 406 | 2,080 |

No assets are held under finance leases.

## 7. Intangible assets

| | Goodwill €000 | Patents and Trademarks €000 | Development rights €000 | Total €000 |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 1 January 2007 | 1,415 | 855 | 1,317 | 3,587 |
| Additions | - | 68 | 916 | 984 |
| Effects of movements in foreign exchange | (24) | (20) | (31) | (75) |
| Balance at 30 June 2007 | 1,391 | 903 | 2,202 | 4,496 |
| Balance at 1 January 2008 | 1,303 | 866 | 2,488 | 4,657 |
| Additions | - | 51 | 808 | 859 |
| Effect of movements in foreign exchange | (75) | (54) | (135) | (264) |
| Balance at 30 June 2008 | 1,228 | 863 | 3,161 | 5,252 |
| Amortisation | | | | |
| Balance at 1 January 2007 | - | (46) | (4) | (50) |
| Amortisation charge for the period | - | (40) | (20) | (60) |
| Effects of movement in foreign exchange | - | 2 | - | 2 |
| Balance at 30 June 2007 | - | (84) | (24) | (108) |
| Balance at 1 January 2008 | - | (133) | (45) | (178) |
| Amortisation charge for the period | - | (41) | (12) | (53) |
| Effect of movements in foreign exchange | - | 8 | - | 8 |
| Balance at 30 June 2008 | - | (166) | (57) | (223) |
| Net book value | | | | |
| At 30 June 2007 | 1,391 | 819 | 2,178 | 4,388 |
| At 30 June 2008 | 1,228 | 697 | 3,104 | 5,029 |

Amortisation and impairment charge

The amortisation charge is recognised in administrative expenses. Patents and Trademarks are amortised over a 15 year period. Development rights are amortised over a five to ten year period, commencing when the product under development is available for sale.

### Goodwill

Goodwill is allocated as follows: Zenergy Power GmbH €170,000, Zenergy Power, Inc. €975,000 and Zenergy Power Pty Ltd. €83,000, the entities are considered to be the smallest cash generating unit to which goodwill can be allocated. Goodwill is tested annually for impairment. Goodwill is denominated in the currency of the acquired entity.

## 8. Capital and reserves

### Reconciliation of movement in capital and reserves

| | Share capital €000 | Share premium €000 | Translation reserve €000 | Warrant reserve €000 | Retained earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2007 | 532 | 10,046 | (47) | 200 | (4,580) | 6,151 |
| Total recognised income and expense | - | - | (40) | - | (1,844) | (1,884) |
| Equity-settled share based payment transactions | - | - | - | - | 230 | 230 |
| Paid in share capital | | | | | | |
| - Placing | 63 | 8,363 | - | - | - | 8,426 |
| Balance at 30 June 2007 | 595 | 18,409 | (87) | 200 | (6,194) | 12,923 |

| | Share capital €000 | Share premium €000 | Translation reserve €000 | Warrant reserve €000 | Retained earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2008 | 645 | 31,672 | (385) | 200 | (9,409) | 22,723 |
| Total recognised income and expenses | - | - | (1,323) | - | (2,498) | (3,821) |
| Equity settled share based payments transactions | - | - | - | - | 185 | 185 |
| Paid in share capital - share options exercised | 1 | 29 | - | - | - | 30 |
| Balance at 30 June 2008 | 646 | 31,701 | (1,708) | 200 | (11,722) | 19,117 |

The aggregated current and deferred tax relating to items that are charged or credited to equity is €Nil.

# Notes

## Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

## Warrant reserve

The warrant reserve comprises the fair value of the equity component of warrants issued by the Group.

## Share capital

| | 30 June 2008 | 30 June 2007 | 31 December 2007 |
|---|---|---|---|
| Ordinary shares in thousands of shares | | | |
| On issue at start of period | 43,948 | 36,091 | 36,091 |
| Placing - May 2007 | - | 4,285 | 4,285 |
| Placing - December 2007 | - | - | 3,572 |
| Share options exercised | 90 | - | - |
| On issue - fully paid | 44,038 | 40,376 | 43,948 |

| | 30 June 2008 £000 | 30 June 2008 €000 | 30 June 2007 £000 | 30 June 2007 €000 | 31 December 2007 £000 | 31 December 2007 €000 |
|---|---|---|---|---|---|---|
| Authorised | | | | | | |
| Ordinary shares of £0.01 each | 1,000 | 1,264 | 1,000 | 1,484 | 1,000 | 1,359 |
| Allotted, called up and fully paid | | | | | | |
| Ordinary shares of £0.01 each | 440 | 646 | 404 | 599 | 439 | 645 |
| Shares classified in equity | | 646 | | 599 | | 645 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

On 3 May 2007, 4,285,746 new Ordinary Shares were issued at £1.40 per share raising £5.8 million (net of fees of £0.2 million), which at the exchange rate prevailing on the date was equivalent to €8.4 million (net of fees of €0.4 million).

On 12 December 2007, 3,571,484 new Ordinary Shares were issued at £2.80, raising £9.7 million (net of fees of £0.3 million), which at the exchange rate prevailing at the date was equivalent to €13.3 million (net of fees of €0.5 million).

On 25 January 2008, 73,119 new Ordinary Shares were issued in respect of an exercise of options resulting in proceeds of £17,998 (€24,289).

On 6 May 2008, 6,873 new Ordinary Shares were issued in respect of an exercise of options resulting in proceeds of £1,500 (€1,905).

On 11 June 2008, 10,417 new Ordinary Shares were issued in respect of an exercise of options resulting in proceeds of £3,125 (€3,950).

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