

Ceres Power Holdings plc
("Ceres", "Ceres Power" or "the Group")

Interim results for the six months ended 31 December 2007

Ceres Power Holdings plc announces its interim results for the six months ended 31 December 2007.

Highlights:

During the period:

- Successful demonstration of an integrated wall-mountable CHP Unit
- CHP Product value engineering programme commenced
- Product design concept completed for residential energy security application with EDF Energy Networks
- Growth in commercial revenues to £0.3m
- Volume cell manufacturing processes established in new Product Facility
- Volume component and equipment suppliers selected for CHP Product manufacture
- £9.4m in cash and cash equivalents at 31 December 2007

Since the period end:

- Centrica plc invests £20m for a 9.999% equity stake at 300 pence per share
- Volume forward order from British Gas for minimum 37,500 CHP Products
- £5m funded development and trialling programme secured with British Gas with £1m already received for the first phase
- Chairmen of Siemens UK and Motorola UK join board as Non-Executive directors

Brian Count, Chairman, commented:

“I am delighted to assume the Chairmanship of Ceres Power during a transformational period for the Group. Ceres has developed a unique, innovative and environmentally friendly technology which I am confident will deliver significant shareholder value. The focus of the Group going forward is to deliver a commercially viable product that can address the mass markets in the UK and overseas. During this financial year we have made significant progress in terms of product development, with the demonstration of a CHP Unit, and commercial traction with a major new agreement with British Gas. We are now extremely well positioned with leading technology, a clear plan for the commercial roll out of our CHP Product, and a strong cash position.”

For further information contact:

Brian Count, Chairman
Peter Bance, Chief Executive
Rex Vevers, Finance Director
Ceres Power

+44 (0) 1293 400 404

Patrick d'Ancona
M: Communications

+44 (0) 207 153 1530

Chairman's Statement

Introduction

I am pleased to report that Ceres Power has made substantial progress in the half year ended 31 December 2007. The successful demonstration in September of an integrated wall-mountable CHP Unit marked the transition of Ceres into a product business with the potential to address global market opportunities. Following this demonstration, the Group announced in January 2008 that it had signed a major new agreement with British Gas, including a funded trialling programme and a volume forward order for residential CHP products. In addition, Centrica subscribed for new shares representing 9.999% of the Company's enlarged issued share capital at a price of 300 pence per share, providing a cash injection of around £20 million.

Ceres' unique fuel cell technology at the core of the CHP Unit has enabled the Group to design a compact, wall-mountable Unit capable of generating electricity and all of the hot water and central heating required for a typical UK home, without the need for a separate boiler. This achievement places the Group in an ideal position to address developing micro-generation market opportunities.

The UK Government has estimated that over time micropower products have the potential to supply over one-third of Britain's total electricity needs and to help the country improve its energy security, meet its environmental obligations and deliver energy savings to consumers. The Energy Saving Trust in a report on micro-generation published in December 2007 recognised that a 1kW fuel cell CHP is an important technology in delivering CO₂ savings in the home.

In the announcement of the commercial agreement with Ceres, British Gas estimated that based on 5.6 million UK homes having a fuel cell CHP unit installed by 2020, savings would result equivalent to the CO₂ emissions from eight (750 MW) new Combined Cycle Gas Turbine power stations.

Financial Results

These interim financial results are the first results following the adoption of International Financial Reporting Standards as adopted by the European Union (“IFRS”).

I am pleased to report that for the six month period ended 31 December 2007 the Group delivered growth in commercial revenues to £279,000 (2006: £30,000). This growth in revenue has been achieved through the continued technical progress and the successful delivery on the Group’s commercial contracts. Other operating income remains significant at £431,000 (2006: £469,000) with an increasing proportion of the Group’s overall income coming from commercial revenues reflecting the commercialisation of the Group’s technology.

Research and development and administration expenses increased 17% to £4,027,000 (2006: £3,434,000) reflecting the continued investment in the Group’s product development and commercial capabilities and the increase in headcount in 2007. Interest receivable increased by 5% as the Group benefited from the effect of rising short term interest rates on short term cash deposits held with financial institutions. The loss for the period attributable to shareholders increased by 25% to £3,017,000 (2006: £2,406,000) as the Group continues to invest in developing its engineering and manufacturing capabilities ahead of mass market uptake of its fuel cell technology.

The net decrease in cash and cash equivalents for the period increased by £879,000 to £1,785,000 (2006: £906,000). This increase is attributable to an increase in cash used in operations of £225,000, a decrease in income tax received of £320,000 and an increase in capital expenditure of £249,000 primarily due to the fit out of the Product Facility. The Group continues to maintain a strong balance sheet with £9.4m in cash and cash equivalents. In accordance with the Group’s treasury policy, all funds are invested in short term low risk cash deposits with financial institutions with the primary objective being to preserve the Group’s capital.

After the period end, the Group has substantially strengthened the balance sheet and liquidity position. In February 2008, the Group received £20,015,514 from the issue of 6,671,838 new shares at a price of 300 pence per share to GB Gas Holdings Limited (a subsidiary of Centrica plc). In addition, the Group received £1,000,000 from British Gas Services Limited, being the first milestone payment under the initial phase of the development, supply and distribution agreement announced in January 2008. The Group now has a robust financial position to commercialise its CHP design.

Commercial

The Group has continued to meet its obligations under commercial contracts with British Gas Services Limited and EDF Energy Networks Limited, resulting in the significant increase in commercial revenue during the half year. It is anticipated that this progress will continue during the second half resulting in further growth in commercial revenues.

Since the end of the period, the Group has secured a £5 million funded trialling and development programme with British Gas, following on from the existing contract with British Gas (part funded by the DTI, now BERR) to design, build and test a CHP Unit. British Gas is committing its operational resources (in addition to the financial payments) to support the programme including training, installation, servicing and logistics.

Ceres has also secured a volume forward order from British Gas to deliver in aggregate a minimum of 37,500 CHP Products on an escalating basis over a four-year period. Both Ceres and British Gas have agreed to promote the Ceres CHP Product with the intention of achieving substantially greater levels of annual sales over the four-year period. Approximately 1.5 million boilers are installed each year in the UK and it is forecast by industry bodies that residential CHP could take 30% of this market by 2015 (see SBGI 2006).

The agreement with British Gas provides Ceres with a volume channel to the residential market for its integrated CHP Product in Mainland UK. The Group retains the right to sell and distribute the CHP Product anywhere else in the world and is developing channels to market internationally as a key priority for the Group.

During the half year, the Group completed the product design concept of a prototype energy security device for use in residential applications in the UK, under the contract for on-site power with EDF Energy Networks. The product embodiment consists of a fuel cell power device hybridised with an electrical storage unit. This is part of the Group's strategy to develop on-site power generation from cylinder gas for applications such as uninterruptible power supplies, load-shedding support, remote power generation and battery charging.

Technology and Product Engineering

During the half year, the Group completed the successful demonstration of an industry-leading integrated wall-mountable CHP Unit, being a key deliverable under the existing contract with British Gas (part-sponsored by the DTI, now BERR). With more than 78% of all residential boilers sold in Western Europe being wall-mounted, the Group's CHP design is a key differentiator, enabling the Group to address the new build and replacement markets both in UK and overseas.

As previously announced at the CHP demonstration in September, the focus of value engineering has been on fuel cell module component development and integration. Significant part-count and weight reductions have already been achieved for the fuel cell module to enable delivery of the 20% size and weight reductions for the CHP Product.

Value engineering activities have also involved extensive evaluation and testing of balance of plant components. This has resulted in selection of key components from volume manufacturers that will enable achievement of product performance and cost targets.

Based on the value engineering achievements to date the Group is on track to deliver the first phase of the new development and trialling programme with British Gas.

The Group will provide further updates on value engineering progress during 2008.

Manufacturing Operations

During the half year, the Group has successfully completed the commissioning of the Product Facility. This facility has been fitted-out with key machines used for the validation of key volume manufacturing processes for fuel cells and stacks. Progress on manufacturing scale-up in the Product Facility has enabled detailed planning for a new Mother Plant facility to be completed.

Manufacturing scale-up has been supported by the South East England Development Agency (“SEEDA”) in the form of grant funding towards manufacturing development for assembly and testing of fuel cell stacks and complete CHP Units.

As previously announced it is anticipated that a site will be secured during calendar year 2008.

Intellectual Property

Protection, management and exploitation of the Group’s valuable intellectual property portfolio remains a major focus. The Group continues to invest heavily in ensuring that its unique technology is protected through patents, trademarks, know-how and trade secrets. The Group, through its wholly-owned subsidiary Ceres Intellectual Property Company Limited (CIPCO), is actively engaged in expanding the IP portfolio to encompass materials, product designs, key components and manufacturing processes.

To support the commercialisation of its products, the Group’s investment in its IP portfolio will increase with an increasing focus on branding and ensuring clear channels to market. We continue to ensure that our IP is properly protected in all our commercial contracts.

People

The Group has continued to recruit high calibre personnel with experience in developing and managing a global supply chain, delivering on commercial contracts and building a volume production capability. We will continue to build our capability in all areas and this will be a key focus during 2008/09.

I would like to thank Philip Holbeche, who retired as Executive Chairman on 2 January 2008, for his contribution to Ceres. Philip formed Ceres in 2001 to develop and commercialise the unique materials technology transferred from Imperial College. Philip, as executive chairman, oversaw the successful development of Ceres from a small private company into a public company quoted on AIM in 2004 and its continued development thereafter.

I would also like to thank John Gunn, who stepped down from the Board in February 2008, for his contribution to Ceres. He and his family were founding shareholders in

Ceres in 2001 and his support has been a significant factor in the successful development of the Group.

On behalf of the board, I would like to wish both Philip and John every success in their future endeavours.

The board has now been re-shaped to meet the future challenges with the appointments in February 2008 of Sir David Brown (Chairman of Motorola UK) and Alan Wood (Chairman of Siemens UK) as Non-Executive Directors. Their experience of building and running high growth technology businesses will be invaluable as Ceres progresses towards mass market delivery of its products.

Outlook

Continued technical and commercial progress has provided the basis to deliver on our priorities for calendar year 2008:

- Value engineering of the CHP Unit to deliver performance, size and weight improvements under the first phase of the new CHP programme with British Gas
- Securing an appropriate site for the Mother Plant facility, based on detailed planning completed during the period.
- Demonstration of a prototype energy security device under the contract with EDF Energy Networks
- Growing revenues with existing partners and establishing new market channels

Dr Brian Count
Chairman

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2007

		Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
		Unaudited	Unaudited	Unaudited
Note	£'000	£'000	£'000	£'000
Continuing operations				
Revenue		279	30	98
Research and development expenses		(2,606)	(2,395)	(4,942)
Administrative expenses		(1,421)	(1,039)	(2,024)
Other operating income		431	469	970
Operating loss		(3,317)	(2,935)	(5,898)
Interest receivable and similar income		300	287	597
Loss before income tax		(3,017)	(2,648)	(5,301)
Income tax credit		-	242	416
Loss for the period attributable to shareholders		(3,017)	(2,406)	(4,885)
Losses per share expressed in pence per share:				
Basic and diluted loss per share	2	(5.05)p	(4.10)p	(8.27)p

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	31 December 2007	31 December 2006	30 June 2007
	Unaudited	Unaudited	Unaudited
Note	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	1,836	1,800	1,842
Other receivable	53	53	53
Total non-current assets	1,889	1,853	1,895
Current assets			
Trade and other receivables	540	439	628
Cash and cash equivalents	9,357	13,115	11,142
Total current assets	9,897	13,554	11,770
Liabilities			
Current liabilities			
Trade and other payables	(1,351)	(802)	(855)
Net current assets	8,546	12,752	10,915
Non-current liabilities			
Other payables	(32)	(24)	(22)
Net assets	10,403	14,581	12,788
Equity			
Share capital	3	3,003	2,968
Share premium account		15,854	15,470
Other reserves		7,463	7,463
Profit and loss account		(15,917)	(11,320)
Total shareholders' equity		10,403	14,581
		12,788	12,788

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2007

	Share capital (unaudited) £'000	Share premium account (unaudited) £'000	Other reserves (unaudited) £'000	Profit and loss account (unaudited) £'000	Total (unaudited) £'000
At 1 July 2006	2,925	15,137	7,463	(9,535)	15,990
Issue of shares, net of costs	43	333	-	-	376
Net loss for the period	-	-	-	(2,406)	(2,406)
Share-based payments charge	-	-	-	621	621
At 31 December 2006	2,968	15,470	7,463	(11,320)	14,581
Issue of shares, net of costs	13	124	-	-	137
Net loss for the period	-	-	-	(2,479)	(2,479)
Share-based payments charge	-	-	-	549	549
At 30 June 2007	2,981	15,594	7,463	(13,250)	12,788
Issue of shares, net of costs	22	260	-	-	282
Net loss for the period	-	-	-	(3,017)	(3,017)
Share-based payments charge	-	-	-	350	350
At 31 December 2007	3,003	15,854	7,463	(15,917)	10,403

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2007

	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
Note	Unaudited £'000	Unaudited £'000	Unaudited £'000
Cash flows from operating activities			
Cash used in operations	4	(1,887)	(1,662)
Income tax received		-	320
Net cash used in operating activities		(1,887)	(1,342)
Cash flows from investing activities			
Interest received		301	285
Purchases of property, plant and equipment		(474)	(225)
Net cash (used in)/generated from investing activities		(173)	60
Cash flows from financing activities			
Proceeds of issue of shares (net of expenses)		275	376
Net cash from financing activities		275	501
Net decrease in cash and cash equivalents		(1,785)	(906)
Cash and cash equivalents at beginning of period		11,142	14,021
Cash and cash equivalents at end of period		9,357	13,115

Notes to the interim financial statements for the six months ended 31 December 2007

1. Basis of preparation

These interim financial statements are the first interim financial statements following the adoption of International Financial Reporting Standards as adopted by the European Union (“IFRS”). As the Group has not previously published its financial statements under IFRS, this announcement contains reconciliations from previously reported amounts under UK Generally Accepted Accounting Principles (“UK GAAP”) together with explanations of the changes. The comparative figures in respect of prior periods have been restated to reflect the adoption of IFRS. Also included in Appendix I are the restated Group accounting policies that the Directors anticipate will be complied with in the annual financial statements for the year ending 30 June 2008.

The financial information has been prepared in accordance with all IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that had been published by 31 December 2007 as endorsed by the European Union (EU). The Standards that will be applicable for the year ending 30 June 2008 are not known with certainty at the time of preparing the interim results. Accordingly, the accounting policies for that accounting period will be determined finally only when the annual financial statements for the year ending 30 June 2008 are prepared.

This interim report, which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes, is unaudited and does not constitute audited accounts within the meaning of the Companies Act 1985. The accounts for the year ended 30 June 2007, on which the auditors gave an unqualified audit opinion, were prepared in accordance with UK GAAP and not in accordance with IFRS and have been filed with the Registrar of Companies.

2. Loss per share

	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
	Unaudited	Unaudited	Unaudited
	£'000	£'000	£'000
Loss per £0.05 ordinary share			
Loss for the period attributable to shareholders	(3,017)	(2,406)	(4,885)
Weighted average number of shares in issue	59,753,341	58,625,285	59,057,064
Basic and diluted loss per share	(5.05)p	(4.10)p	(8.27)p

3. Called up share capital

Ceres Power Holdings plc had called-up share capital totalling 59,618,027 ordinary shares of £0.05 each at 30 June 2007 as disclosed in the statutory financial statements of Ceres Power Holdings plc for the year ended 30 June 2007.

During the six months ended 31 December 2007, the Company issued 52,490 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £36,743, 380,062 ordinary shares of £0.05 each on the exercise of employee share options for cash consideration of £238,598, and 2,638 ordinary shares of £0.05 each were issued as remuneration for non-executive director services. The value of the shares on the days of issue totalled £7,276.

4. Cash used in operations

	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
	Unaudited	Unaudited	Unaudited
	£'000	£'000	£'000
Loss before income tax	(3,017)	(2,648)	(5,301)
Adjustments for:			
Interest receivable	(300)	(287)	(597)
Depreciation of property, plant and equipment	371	317	674
Share-based payment expense	350	621	1,170
Share-based remuneration for services	7	-	12
Operating cash flows before movements in working capital	(2,589)	(1,997)	(4,042)
Decrease / (increase) in trade and other receivables	90	40	(129)
Increase in trade and other payables	612	295	277
Decrease in working capital	702	335	148
Cash used in operations	(1,887)	(1,662)	(3,894)

Independent review report to Ceres Power Holdings plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2007, which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

This interim report has been prepared in accordance with the basis set out in Note 1. As disclosed in note 1, the next annual financial statements of the company will be prepared in accordance with IFRS's as adopted by the European Union. The accounting policies are consistent with those that the directors intend to use in the next annual financial statements.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2007 is not prepared, in all material respects, in accordance with the basis set out in Note 1 and the AIM Rules for Companies.

PricewaterhouseCoopers LLP

Chartered Accountants
Cambridge

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.

Transition to International Financial Reporting Standards

These interim financial statements are the first financial statements following the adoption of International Financial Reporting Standards (“IFRS”).

As the Group has not previously published a full set of financial statements under IFRS, this release contains reconciliations from previously reported amounts under UK Generally Accepted Accounting Principles (“UK GAAP”). These restated financial figures will be the principal comparative figures in the 2008 financial statements and have been released to provide a more detailed analysis of the impact of adopting IFRS on the Group.

1. Introduction

For all periods up to and including 30 June 2007, the Group has prepared its financial statements in accordance with UK GAAP. However, for accounting periods commencing after 1 January 2007 AIM quoted Groups are required to prepare consolidated accounts in accordance with IFRS. Therefore, the Group’s first published Interim Financial Statements under IFRS are in respect of the six months ended 31 December 2007 and the first Annual Report and Accounts prepared on this basis will be for the year ending 30 June 2008.

This document presents previously published UK GAAP information restated on an IFRS basis. It is important to recognise that the move from UK GAAP to IFRS does not change the cash flows of the Group nor does it impact Group strategy or commercial decisions.

2. Summary of changes

The changes required to the financial statements of the Group arising from the adoption of IFRS are:

- the recording of a holiday pay accrual;
- the restatement of treatment of lease incentives; and
- the recording of forward foreign exchange contracts at fair value.

The restated accounting policies and reconciliations between financial statements previously presented under UK GAAP and the IFRS presentation are included in the following appendices:

Appendix 1:	Restatement of Group accounting policies
Appendix 2:	Restatement of the balance sheet as at 1 July 2006
Appendix 3:	Restatement of the income statement for the year ended 30 June 2007
Appendix 4:	Restatement of the balance sheet as at 30 June 2007
Appendix 5:	Explanation of material adjustments to the cash flow statement

3. Summary of Impacts to Financial Statements

3.1 Summary income statement impact for the six months ended 31 December 2006

The table below shows the impact of IFRS adoption on the Group consolidated income statement for the six months ended 31 December 2006:

	Before Tax	After Tax	Loss per share
	Unaudited	Unaudited	Unaudited
	£'000	£'000	Pence
Reported loss – UK GAAP	(2,667)	(2,425)	(4.14)p
IFRS adjustments			
IAS 19 “Employee Benefits”	23	23	0.04p
IAS 17 “Leases”	(4)	(4)	-
IAS 39 “Financial Instruments: Recognition and Measurement”	-	-	-
Sub total of adjustments	19	19	0.04p
Restated loss – IFRS	(2,648)	(2,406)	(4.10)p

3.2 Summary income statement impact for the year ended 30 June 2007

The table below shows the impact of IFRS adoption on the Group consolidated income statement for the year ended 30 June 2007:

	Before Tax	After Tax	Loss per share
	Unaudited	Unaudited	Unaudited
	£'000	£'000	Pence
Reported loss – UK GAAP	(5,282)	(4,866)	(8.24)p
IFRS adjustments			
IAS 19 “Employee Benefits”	(10)	(10)	(0.02)p
IAS 17 “Leases”	(8)	(8)	(0.01)p
IAS 39 “Financial Instruments: Recognition and Measurement”	(1)	(1)	-
Sub total of adjustments	(19)	(19)	(0.03)
Restated loss – IFRS	(5,301)	(4,885)	(8.27)p

3.3 Net asset adjustments

The table below shows the impact of IFRS adoption on the Group consolidated net assets at 1 July 2006, 31 December 2006 and 30 June 2007:

	As at 1 July 2006	As at 31 December 2006	As at 30 June 2007
	Unaudited	Unaudited	Unaudited
	£'000	£'000	£'000
Total shareholders' equity – UK GAAP	16,060	14,632	12,877
IFRS adjustments			
IAS 19 “Employee Benefits”	(52)	(29)	(62)
IAS 17 “Leases”	(18)	(22)	(26)
IAS 39 “Financial Instruments: Recognition and Measurement”	-	-	(1)
Sub total of adjustments	(70)	(51)	(89)
Total shareholders' equity - IFRS	15,990	14,581	12,788

4. Details of changes

4.1 IAS 19 “Employee Benefits”

IAS 19 requires companies to make an accrual for holiday pay. At the date of transition a £52,000 holiday pay accrual was recognised with a corresponding adjustment being made to retained earnings.

4.2 IAS 17 “Leases”

IAS 17 requires that any benefits received and receivable as an incentive to sign an operating lease are spread from the inception to the termination of the lease, whereas under UK GAAP the incentives are spread over the period to the first rent review. At the date of transition a £18,000 non current liability was recognised with a corresponding adjustment being made to retained earnings.

4.3 IAS 39 “Financial Instruments: Recognition and Measurement”

Ceres uses forward foreign exchange contracts to hedge against foreign currency denominated purchase commitments. Under UK GAAP, these forward foreign exchange contracts were held off balance sheet at period ends. Under IFRS, the fair value of all forward foreign exchange contracts is recognised on the balance sheet. At the date of transition, no fair value adjustment was required. During the year ended 30 June 2007, a fair value payable of £1,000 was recognised with a corresponding debit to the income statement.

Appendix 1: Restatement of Group accounting policies

Introduction

The following are the restated Group accounting policies that the Directors have established in order to produce the interim financial statements in accordance with IFRS, as adopted by the EU, and which the Directors anticipate will be complied with in the annual financial statements for the year ending 30 June 2008, the Group's first IFRS financial statements. There is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adapted for use in the EU. The IFRS Standards and IFRIC interpretations that will be applicable and adopted for use in the EU at 30 June 2008 are not known with certainty at the time of preparing this financial information.

The consolidated financial statements will be prepared on a historical cost basis except for certain items which will be measured at fair value, as discussed in the accounting policies below.

Basis of consolidation

The consolidated financial statements include the financial statements of Ceres Power Holdings plc and all of its subsidiary undertakings.

The financial statements of Ceres Power Limited have been consolidated under merger accounting rules. The financial statements of Ceres Intellectual Property Company Limited have been consolidated under acquisition accounting rules.

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

The Group has taken the exemption not to apply IFRS 3, "Business Combinations", retrospectively to business combinations that took place before 1 July 2006.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Leasehold improvements	10%
Plant and machinery	33%
Computer equipment	33%
Fixtures and fittings	33%

Depreciation for assets under construction commences when the asset is installed and ready for its intended use.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts that is made when the full amount is no longer considered probable. Actual bad debts are written off when identified.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group. Revenue in respect of the sale of goods is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue in respect of the sale of services is recognised over the period that the related work is performed and when the specific conditions in the agreement have been met.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Company's functional and presentational currency. Transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Exchange differences are included in the income statement.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses forward foreign exchange contracts to hedge against foreign currency denominated purchase commitments.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Government grants

Revenue grants are credited to the income statement (as other operating income) on a case-by-case basis. For revenue grants with no technical milestones, and where recovery is assured, the revenue is recognised on an accruals basis in order to match the associated expenditure with the grant income. For revenue grants with technical milestones, revenue is recognised only when the relevant milestone has been achieved and the associated cash has been received.

Pension scheme arrangements

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The pension costs charged represent contributions paid by the Group to individual pension plans and are charged to the income statement as they become payable.

In addition, a stakeholder pension scheme is also available to employees.

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Share-based payments

Employees receive remuneration in the form of equity-settled share-based payments. The fair value at the date of grant of equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

Fair value is measured by the use of a Black-Scholes model. The expected life used in the model has been adjusted, based on the directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Research and development expenditure

Research costs are expensed as incurred. Development expenditure is capitalised when it can be separately measured and its future recoverability can be reasonably regarded as assured. Following initial recognition, the related asset is amortised over the period of expected future sales with impairment reviews being carried out at least annually. The asset is carried at cost less any accumulated amortisation and impairment losses. The Group has not yet capitalised any development costs as the criteria set out in IAS 38, "Intangible assets", have not been met.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on straight-line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are amortised over the full lease term.

New accounting standards

The following new standards, amendments to standards or interpretations are mandatory for the first time for the year ending 30 June 2008:

IFRIC 10, 'Interim financial reporting and impairment', is effective for annual periods beginning on or after 1 November 2006. This interpretation has not had any impact on the timing or recognition of impairment losses.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', is effective for annual periods beginning on or after 1 March 2007. Management do not expect this interpretation to have any effect on the Group as it already accounts for group share transactions using principles consistent with IFRIC 11.

IFRS 7, 'Financial instruments: Disclosures', is effective for annual periods beginning on or after 1 January 2007. As this interim report contains only condensed financial statements, the full IFRS 7 disclosures are not required at this stage. The full IFRS 7 disclosures will be given in the annual financial statements.

Amendment to IAS 1, 'Capital disclosures', is effective for annual periods beginning on or after 1 January 2007. As this interim report contains only condensed financial statements, the full disclosures relating to the amendment to IAS 1 are not required at this stage. The full disclosures will be given in the annual financial statements.

Use of assumptions and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Material estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group and in recognising grant revenue where there are no technical milestones in the agreement.

Appendix 2**Restatement of the balance sheet as at 1 July 2006 from UK GAAP to IFRS**

	Reformatted UK GAAP as previously reported £'000	Employee Benefits IAS 19 £'000	Leases IAS 17 £'000	As restated in accordance with IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment	1,870	-	-	1,870
Other receivable	53	-	-	53
Total non-current assets	1,923	-	-	1,923
Current assets				
Trade and other receivables	554	-	-	554
Cash and cash equivalents	14,021	-	-	14,021
Total current assets	14,575	-	-	14,575
Liabilities				
Current liabilities				
Trade and other payables	(438)	(52)	7	(483)
Net current assets	14,137	(52)	7	14,092
Non-current liabilities				
Other payables	-	-	(25)	(25)
Net assets	16,060	(52)	(18)	15,990
Equity				
Share capital	2,925	-	-	2,925
Share premium account	15,137	-	-	15,137
Other reserves	7,463	-	-	7,463
Profit and loss account	(9,465)	(52)	(18)	(9,535)
Total shareholders' equity	16,060	(52)	(18)	15,990

Appendix 3

Restatement of the income statement for the year ended 30 June 2007 from UK GAAP to IFRS

	Reformatted UK GAAP as previously reported £'000	Employee Benefits IAS 19 £'000	Leases IAS 17 £'000	Financial instruments IAS 39 £'000	As restated in accordance with IFRS £'000
Continuing operations					
Revenue	98	-	-	-	98
Research and development expenses	(4,922)	(12)	(8)	-	(4,942)
Administrative expenses	(2,025)	2	-	(1)	(2,024)
Other operating income	970	-	-	-	970
Operating loss	(5,879)	(10)	(8)	(1)	(5,898)
Interest receivable and similar income	597	-	-	-	597
Loss before income tax	(5,282)	(10)	(8)	(1)	(5,301)
Income tax credit	416	-	-	-	416
Loss for the period attributable to shareholders	(4,866)	(10)	(8)	(1)	(4,885)
Losses per share expressed in pence per share:					
Basic and diluted loss per share	(8.24)p	(0.02)p	(0.01)p	-	(8.27)p

Appendix 4**Restatement of the balance sheet as at 30 June 2007 from UK GAAP to IFRS**

	Reformatted UK GAAP as previously reported £'000	Employee Benefits IAS 19 £'000	Leases IAS 17 £'000	Financial instruments IAS 39 £'000	As restated in accordance with IFRS £'000
Assets					
Non-current assets					
Property, plant and equipment	1,842	-	-	-	1,842
Other receivable	53	-	-	-	53
Total non-current assets	1,895	-	-	-	1,895
Current assets					
Trade and other receivables	628	-	-	-	628
Cash and cash equivalents	11,142	-	-	-	11,142
Total current assets	11,770	-	-	-	11,770
Liabilities					
Current liabilities					
Trade and other payables	(788)	(62)	(4)	(1)	(855)
Net current assets	10,982	(62)	(4)	(1)	10,915
Non-current liabilities					
Other payables	-	-	(22)	-	(22)
Net assets	12,877	(62)	(26)	(1)	12,788
Equity					
Share capital	2,981	-	-	-	2,981
Share premium account	15,594	-	-	-	15,594
Other reserves	7,463	-	-	-	7,463
Profit and loss account	(13,161)	(62)	(26)	(1)	(13,250)
Total shareholder's equity	12,877	(62)	(26)	(1)	12,788

Appendix 5

Explanation of material adjustments to the cash flow statement

Income taxes received of £320,000 in the six months ended 31 December 2006 and £494,000 in the year ended 30 June 2007 are classified as part of operating cash flows under IFRS's, but were included in a separate category of Taxation under UK GAAP. Cash and cash equivalents includes short-term deposits under IFRS's. Under UK GAAP movements in short-term deposits were included under a separate management of liquid resources category. There are no other material differences between the cash flow statement presented under IFRS's and the cash flow statement presented under UK GAAP.