

Ceres Power Holdings plc  
27 March 2007

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

Interim results for the six months ended 31 December 2006

Ceres Power Holdings plc announces its interim results for the six months ended 31 December 2006.

Highlights:

- British Gas CHP programme milestones achieved
- Stack technology frozen, performance and durability demonstrated
- Fuel Cell Module engineered for volume manufacture
- Funded contract secured with EDF Energy Networks for on-site power
- New Product Facility expansion and plans for mass manufacture on track
- Brian Count, ex-Innogy plc CEO, appointed Non-Executive Director
- Income from private and public sector contracts up 119% to £0.5 million
- Strong balance sheet with cash and short term investments of £13.1 million

Interim Results Summary

	Six months ended 31 December 2006 £'000	Six months ended 31 December 2005 £'000
Turnover	30	80
Other operating income	469	148
*Operating loss	(2,333)	(1,973)
Interest income	287	334
*Adjusted Loss for the financial period	(1,804)	(1,639)
**Adjusted diluted loss per share	(3.08)p	(2.90)p
Net cash outflow	(906)	(1,643)

\* calculated before FRS 20 Share-based Payments charge (operating loss and loss for the financial period including share-based payments are £2,954,000 (2005: £2,084,000) and £2,425,000 (2005: £1,750,000) respectively)

\*\* Loss per share calculated before FRS 20 Share-based Payments charge (see note 3 to the interim financial information)

Philip Holbeche, Chairman, commented:

"I am delighted to report that the Group's continued technical progress has resulted in key milestones being achieved for our core CHP programme with British Gas, income growth from contracts and important manufacturing improvements that should underpin our Company's future. Ceres' new funded

contract with EDF Energy Networks to design, build and evaluate prototype home energy security products strongly endorses our commercially-led approach to delivering cost-effective, efficient and reliable solutions using our advanced fuel cell technology. It also highlights our ability to readily adapt Ceres' core technology platform - the Fuel Cell Module - to different applications and markets. We look forward to the future with confidence as Ceres approaches commercialisation."

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Chairman's Statement

Introduction

Ceres Power continued to make significant progress in the half year ended 31 December 2006. The technical capabilities in the Group, together with the unique Ceres' fuel cell technology, have underpinned progress in our core CHP programme, new commercial engagement, income growth, intellectual property capture and facilities expansion.

Issues surrounding climate change, energy efficiency and security are high on both national and global agendas, and the Group is ideally placed to provide the solutions required in a variety of applications and markets. Ceres continues to contribute to strategic energy initiatives through high-level engagement with the UK government and major international companies. We believe that fuel cell micro-power generation products, with high efficiencies and low carbon footprints, can offer cost-effective solutions to mass markets worldwide.

Financial Results

Total income for the six month period ended 31 December 2006 increased by 40% to £786,000 (2005: £562,000). Technical progress achieved by the Group helped produce a 119% increase in income from private and public sector contracts to £499,000 (2005: £228,000). Operating expenses (before share-based payments charges) increased by 28% over the comparable period last year, reflecting the continued investment in growing the Group's product development and commercial capabilities. This investment also resulted in interest on cash balances falling by 14% to £287,000 (2005; £334,000). The adjusted loss for the period (before share-based payments) increased by 10% to £1,804,000 (2005: £1,639,000).

Capital expenditure during the period totalled £225,000, reflecting the investment in the fit-out of the 'Product Facility'. Capital expenditure in the second half of the financial year will relate to investment in machinery for the key fuel cell manufacturing processes.

The Group continues to maintain a strong balance sheet with £13.1m in cash and short-term investments. Net cash outflow during the period fell by 45% to only £906,000 (2005: £1,643,000). This reduction in net cash outflow is primarily attributable to cash inflows of £320,000 from R&D tax credits, an increase of £153,000 from the exercise of warrants and share options, a reduction in capital expenditure of £371,000 and maintaining cash outflows from operating activities in line with the comparable period last year.

The Group has adopted the newly introduced accounting standard FRS 20, "Share-based Payment", in line with current reporting standards and has changed its accounting policy with respect to equity-settled share-based payments provided to employees under the Company's share option scheme. This has resulted in a charge of £621,000 in the current period and a prior year adjustment of £108,000 for the six months ended 31 December 2005. This charge has no impact on the Group's cash flow or net assets.

#### Commercial Engagement

The Group's proven product engineering capabilities and commercially-driven approach to business have enabled progress to be reported on existing relationships and an important new contract to be secured. The core technology's inherently attractive techno-economics and its proven ability to operate on natural gas and LPG fuels have been important in establishing potential routes to a number of mass market applications.

The Group's core Combined Heat and Power (CHP) programme with British Gas, part funded by the DTI, continues to deliver all technical milestones on time including:

- Fuel Cell Module constructed and assembled
- Components designed, procured and tested
- Wall mountable CHP system design confirmed

The success of this project has resulted in a significant increase in income from private and public sector contracts in the half year, with the current programme expected to continue until the end of 2008. Future milestones include the demonstration of a CHP unit during mid-year 2007. It is expected that as the CHP opportunities are proven in the British market, consideration will be given to expansion into international markets.

Work has also continued under a third contract with BOC. This has focused upon on-site generation from cylinder gases available in a number of international markets. The contract, together with the two previous pieces of work, confirmed the technical capability of Ceres' fuel cells and the attractive market opportunities available to this proposition. The results of recent work indicate that a Ceres Power solution could provide advantages over existing products in terms of efficiency, lifetime costs and emissions. The confirmation of this fuel versatility and efficiency has already provided benefits in the form of a new funded contract with a major European utility-owned network operator.

The Group has been awarded a funded contract by EDF Energy Networks (EDF) to design, build and evaluate prototype 'energy security' products for the UK residential market. The initial two year phase of the programme has a budget of approximately £1.2 million and should deliver initial prototype units for evaluation in 2008 and 2009. This will provide income of over £600,000 from EDF to Ceres, representing 50% of the costs with all intellectual property arising from the work being retained by Ceres. The product being developed for EDF is based upon the Ceres' Fuel Cell Module, and is designed to provide reliable back-up electricity from cylinder gas.

EDF Energy Networks is a division of EDF, an integrated energy operator present in all sectors of the electricity industry with over 40 million customers

worldwide. In the UK it has approximately 5 million customers, and is also the UK's largest electricity distributor, providing power to a quarter of the UK's population via its distribution networks in London, the South East and the East of England.

The residential product being developed will initially target the approximately 100,000 vulnerable or 'at risk' customers on EDF's UK network. Over time there is the possibility of tailoring the product to meet the needs of European and overseas customers. Building on this important niche, homeowners with small office home office (SOHO) lifestyles dependant on reliable power can also be targeted. An exciting growth opportunity for a variant of this product exists in many parts of the affluent developing world, where demand for power is outstripping supply - users are demanding more effective solutions to so-called 'load-shedding' where utilities are forced to disconnect their homes for hours at a time.

## Technical Review

Technical progress has been a key driver for increasing income from private and public sector contracts. This trend reflects a growing recognition of the potential benefits derived from the Ceres' differentiated technology in a broad range of market applications. In addition to the Group's continued focus on natural gas fed CHP, the technology's ability to provide high efficiency solutions from cylinder gas fuels has recently stimulated significant interest for on-site power applications.

Technical progress continues to build on the Group's unique fuel cell technology position. This has enabled the development of a differentiated fuel cell stack and module technology which provides a common platform as the basis of compelling propositions for a range of mass market opportunities.

The Group announced in December 2006 that following the successful testing programme, the core stack technology had been frozen. On-going extended testing beyond the 7,500 hours reported has continued to reinforce the robustness and durability of the patented stack design. The innovative stack sealing architecture has demonstrated its ability to withstand repeated thermal cycling over extended use and so meet the needs of demanding residential micro-CHP applications. The design has been value engineered to minimise raw material requirements and part count which are reflected in its compact size, low mass and commercial cost.

Development of a compact Fuel Cell Module for volume manufacture has involved highly beneficial collaboration with major component suppliers. Development of relationships with key suppliers has enabled extensive experience in component design, materials, and volume manufacturing processes to be harnessed, thereby minimising development lead time, cost and technical risk.

This supplier engagement for key balance of plant (BOP) has enabled important progress to be made towards development of a cost-effective micro-CHP product for mass market residential applications. All technical milestones have been met under the collaborative programme with British Gas. Building on earlier prototype systems, successful testing of Fuel Cell Module components at the heart of the CHP product has demonstrated the basis of a commercially viable wall-mounted design.

## Manufacturing Scale-up

Preparation of a new Product Facility has been completed on time and within budget and the effectiveness of the planning and delivery process is important as more substantial expansion is planned. This facility now accommodates expanded design and manufacturing resources to develop customer-tailored

products for target market applications. A main function of this facility is to scale-up and thoroughly test volume manufacturing processes, before transfer to a fuel cell mass manufacturing plant, and also to produce prototype products for field trials.

Significant progress has been made towards developing key fuel cell and stack manufacturing processes for volume manufacture. Major reductions in processing times of up to twenty-fold have recently been achieved, for example in the laser drilling process. Ceres is working with key machinery suppliers to configure the equipment to Ceres' specification. Initial equipment will be installed and commissioned during 2007 and will be used to validate these key manufacturing processes during the second half of the year.

A new 'Mother Plant', expected to initially have the capacity to manufacture one million fuel cells per annum, is in the planning phase which will continue throughout 2007. It is expected that commissioning will take place in 2008 with operations commencing in 2009. Initial financial and technical projections indicate that it will be possible to have step-wise capacity increases as demand for the fuel cells increases, thereby limiting the initial financial commitment and on-going scale-up expenditure.

### Intellectual Property (IP)

Ceres' fuel cells are based on a unique technology, operating in the range 500-600 degrees C using ceramic layers deposited on stainless steel. These attributes allow very efficient delivery of electrical power and heat, combined with a competitive cost base and suitability to mass production.

From the time of the company's formation in 2001, a major focus has been to protect this valuable intellectual property in a highly professional manner. Much of the technology has been protected legally with patents filed and granted in relevant countries around the world, whilst other technology is protected as know-how and retained as trade secrets. The IP portfolio continues to expand rapidly and attention has also been given to trademarks and branding.

The uniqueness of the technology has allowed the Group to establish a strong IP position, not only in its core technology but also encompassing product design, key components and manufacturing processes and market applications. A wholly-owned subsidiary, Ceres Intellectual Property Company Limited (CIPCo) has been formed to hold all of the patents and trademarks for the Group and to help professionally manage, protect and exploit the Group's IP.

### People

The Group has continued to strengthen its capabilities by attracting high calibre people with both the expertise and experience to develop products, manage technical and commercial relationships with supply chain partners, deliver major revenue bearing contracts and to expand manufacturing operations.

Appointments to the Ceres Power board reflect the strategic direction of the business and relationships being developed with public and private organisations, key to the Group's success.

I am pleased to report that Rex Vevers joined the Group in September 2006 as Finance Director. He provides a wealth of experience from senior financial roles in global companies and of particular importance for Ceres is his extensive involvement in the expansion of manufacturing facilities and commercial joint ventures in international locations. Rex is a qualified accountant and corporate treasurer, and has substantial expertise in the financing of business expansion.

The board has also been strengthened by the appointment in March 2007 of Brian

Count as a Non-Executive Director. He rose to become Managing Director of National Power's UK business, and subsequently Chief Executive of Innogy plc. Following the acquisition of Innogy plc by RWE, Brian then became CEO of RWE Trading in Essen, Germany before retiring in 2005. He is currently a Non-Executive Director of Eskom, the South African electricity utility and Chairman of the clean coal venture Progressive Energy. He is a member of the Department of Trade and Industry's Industrial Development Advisory Board in Britain. He is an advisor to Climate Change Capital and the Amsterdam Power Exchange, and is a well-respected figure in the European utility sector. His insights, advice and guidance will be invaluable as Ceres progresses towards commercialization and mass market delivery.

I would like to thank Harry Fitzgibbons, who stepped down from the Board in March 2007, for his contribution to Ceres during its transition from a private to a substantial public company.

## Review and Outlook

During the last six months, Ceres has made substantial technical and commercial progress, and has continued to put in place the facilities, equipment and personnel necessary to move towards substantial production and commercial uptake. The freezing of the core stack technology and the successful construction of an integrated Fuel Cell Module using balance of plant developed with volume component suppliers, has demonstrated that Ceres' unique technology has the ability to deliver durable, efficient, compact cost effective mass market solutions.

The key focus for the Group for the remainder of 2007 involves:

- Demonstration of a natural gas fed micro-CHP unit
- Validation of the key fuel cell volume manufacturing processes and machines
- Delivery of contract milestones with British Gas, BOC, EDF and other partnerships
- Completion of planning for the Mother Plant

I look forward to reporting upon further progress throughout 2007.

Philip Holbeche, Chairman

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 31 December 2006

	Six months ended 31 December 2006 Unaudited	Six months ended 31 December 2005 Unaudited (as restated)	Year ended 30 June 2006 Audited (as restated)
	Note    £'000	£'000	£'000
Turnover	30	80	110
Operating expenses including share-based payments	(3,453)	(2,312)	(5,235)
Other operating income	469	148	636
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Operating loss before share-based payments		(2,333)	(1,973)	(3,888)
Share-based payments charge	3	(621)	(111)	(601)
Operating loss		(2,954)	(2,084)	(4,489)
Interest receivable and similar income		287	334	630
Loss on ordinary activities before taxation		(2,667)	(1,750)	(3,859)
Tax credit on loss on ordinary activities	5	242	-	78
Loss for the financial period / year	3	(2,425)	(1,750)	(3,781)
Weighted average number of shares in issue		58,625,285	56,432,218	57,039,938
Basic and diluted loss per share	4	(4.14)p	(3.10)p	(6.63)p

#### CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	Note	31 December 2006 Unaudited £'000	31 December 2005 Unaudited £'000	30 June 2006 Audited £'000
Fixed assets				
Tangible assets		1,800	1,728	1,870
Current assets				
Debtors: amounts falling due after more than one year		53	53	53
Debtors: amounts falling due within one year		439	344	554
Short term investments		11,500	14,100	11,900
Cash at bank and in hand		1,615	1,301	2,121
		13,607	15,798	14,628
Creditors: amounts falling due within one year		(775)	(758)	(438)
Net current assets		12,832	15,040	14,190
Total assets less current liabilities		14,632	16,768	16,060
Creditors: amounts falling due after more than one year		-	(5)	-
Net assets		14,632	16,763	16,060
Capital and reserves				
Called up share capital	6	2,968	2,838	2,925
Share premium account		15,470	14,386	15,137
Other reserve		7,463	7,463	7,463
Profit and loss account		(11,269)	(7,924)	(9,465)
Total shareholders' funds	8	14,632	16,763	16,060

## CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 December 2006

		Six months ended 31 December 2006	Six months ended 31 December 2005	Year ended 30 June 2006
	Note	Unaudited £'000	Unaudited £'000	Audited £'000
Net cash outflow from operating activities	7	(1,662)	(1,604)	(3,613)
Returns on investments and servicing of finance				
Interest received		285	334	630
Net cash inflow from returns on investments and servicing of finance		285	334	630
Taxation		320	-	-
Capital expenditure				
Purchase of tangible fixed assets		(225)	(596)	(1,099)
Net cash outflow for capital expenditure		(225)	(596)	(1,099)
Net cash outflow before management of liquid resources and financing		(1,282)	(1,866)	(4,082)
Management of liquid resources				
Decrease in short term deposits with banks		400	1,500	3,700
Financing				
Issue of ordinary share capital		376	173	1,009
Net expenses of share issue		-	50	50
Net cash inflow from financing		376	223	1,059
(Decrease) /increase in net cash		(506)	(143)	677
Reconciliation to net funds				
Opening net funds		14,021	17,044	17,044
(Decrease) / increase in net cash		(506)	(143)	677
Movement in short term deposits		(400)	(1,500)	(3,700)
Closing net funds		13,115	15,401	14,021

Notes to the interim financial statements for the six months ended 31 December 2006

### 1. Basis of preparation

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

The results for the six months ended 31 December 2006 and 31 December 2005 have not been audited. The results for the year ended 30 June 2006 have been extracted from the statutory financial statements of Ceres Power Holdings plc for that year, that have been filed with the Registrar of Companies and upon

which the auditors have reported without qualification.

## 2. Principal accounting policies

These interim financial statements for the six months ended 31 December 2006 have been prepared in accordance with the accounting policies set out in the statutory financial statements of Ceres Power Holdings plc for the year ended 30 June 2006, with the exception of the adoption of Financial Reporting Standard (FRS) 20, 'Share-based Payment'. The adoption of FRS 20 constitutes a change in accounting policy. Therefore, the impact has been reflected as a prior year adjustment in accordance with FRS 20. Note 3 sets out the effect of adopting FRS 20.

## 3. FRS 20 Share-based Payments

The Group is required to adopt FRS 20, 'Share-based Payment', for the first time for accounting periods commencing on or after 1 January 2006. In accordance with the transitional provisions of FRS 20, the Group is required to recognise an expense in respect of options granted after 7 November 2002 that were unvested as of 1 January 2006. This expense, which is calculated by reference to the fair value of the options granted, is recognised on a straight line basis over the performance period based on the Group's estimate of options that will eventually vest. The charge is then credited back to reserves. The adoption of this Standard has no effect on the Group's cash flow or net assets.

Comparative figures for the six months ended 31 December 2005 and the year to 30 June 2006 have been restated to apply the provisions of FRS 20, increasing expenses and the loss for those periods as shown below:

	Six months ended 31 December 2006 Unaudited £'000	Six months ended 31 December 2005 Unaudited (as restated) £'000	Year ended 30 June 2006 Audited (as restated) £'000
Loss for the financial period / year FRS 20	(2,425)	(1,750)	(3,781)
Share-based payments	621	111	601
Adjusted loss for the financial period / year before FRS 20 Share-based payments	(1,804)	(1,639)	(3,180)

## 4. Loss per share

	Six months ended 31 December 2006 Unaudited £'000	Six months ended 31 December 2005 Unaudited (as restated) £'000	Year ended 30 June 2006 Audited (as restated) £'000
Loss per £0.05 ordinary share Loss for the financial period / year	(2,425)	(1,750)	(3,781)

FRS 20			
Share-based payments	621	111	601
Adjusted loss for the financial period / year before FRS 20			
Share-based payments	(1,804)	(1,639)	(3,180)
Weighted average number of shares in issue	58,625,285	56,432,218	57,039,938
Basic and diluted loss per share	(4.14)p	3.10)p	(6.63)p
Adjusted basic and diluted loss per share before FRS 20			
Share-based payments	(3.08)p	(2.90)p	(5.58)p

#### 5. Tax credit on loss on ordinary activities

The tax result for the period has arisen as a result of tax losses surrendered in respect of research and development expenditure in 2005.

#### 6. Called up share capital

Ceres Power Holdings plc had called-up share capital totalling 58,504,885 ordinary shares of £0.05 each at 30 June 2006 as disclosed in the statutory financial statements of Ceres Power Holdings plc for the year ended 30 June 2006.

During the six months ended 31 December 2006, the Company issued 729,795 ordinary shares of £0.05 each on the exercise of warrants for cash consideration of £337,076, and 126,325 ordinary shares of £0.05 each on the exercise of employee share options for cash consideration of £39,150.

#### 7. Net cash outflow from operating activities

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

	Six months ended 31 December 2006 Unaudited	Six months ended 31 December 2005 Unaudited (as restated)	Year ended 30 June 2006 Audited (as restated)
	£'000	£'000	£'000
Operating loss	(2,954)	(2,084)	(4,489)
Depreciation charge	317	239	494
FRS 20 Share-based payments	621	111	601
Loss on disposal of fixed assets	-	-	1
Decrease /(increase) in debtors	40	(83)	(213)
Increase /(decrease) in creditors	314	213	(7)

Net cash outflow from operating activities	(1,662)	(1,604)	(3,613)
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#### 8. Reconciliation of movements in shareholders' funds

	Six months ended 31 December 2006 Unaudited £'000	Six months ended 31 December 2005 Unaudited (as restated) £'000	Year ended 30 June 2006 Audited (as restated) £'000
Loss for the financial period / year	(2,425)	(1,750)	(3,781)
Proceeds of issue of ordinary share capital	376	171	1,009
FRS 20 Share-based payments	621	111	601
Share issue costs	-	50	50
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Net change in shareholders' funds	(1,428)	(1,418)	(2,121)
Opening shareholders' funds	16,060	18,181	18,181
Closing shareholders' funds	14,632	16,763	16,060

#### Independent review report to Ceres Power Holdings plc

##### Introduction

We have been instructed by the company to review the financial information for the six months ended 31 December 2006 which comprises the consolidated interim balance sheet as at 31 December 2006 and the related consolidated interim statements of income and cash flows for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

##### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Market Rules 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.

##### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data

and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2006.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Cambridge  
27 March 2007

#### Notes:

(a) The maintenance and integrity of the Ceres Power Holdings plc web site 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 web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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