Ceres Power Limited

Annual report and financial statements

Registered number 04222409

30 June 2019

Contents

Directors and advisors

Directors

Mr Philip Caldwell (Chief Executive Officer)
Mr Richard Preston (Chief Finance Officer)
Dr Mark Selby (Chief Technical Officer)
Mr James Falla (Chief Operations Officer)

Company Secretary

Ms Caroline Buchan

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Strategic report

The Directors present their strategic report for Ceres Power Limited ("Ceres Power", "Ceres", "the Company") for the year ended 30 June 2019.

Review of the Business

Strategy

The Company's strategy is to create a fuel cell for the mass market by embedding the technology in the products of global engineering companies. The Company is targeting the commercial, transportation and residential markets globally with a current focus in Asia, Europe and North America. Ceres Power Holdings plc and its subsidiaries (the "Group") offers engineering services to help product development and licenses the technology to receive royalty income on future product sales.

Overview of performance

We can look back on the 2019 financial year ("FY2019") with a great deal of pride. The collective effort of our teams, the strength of our technology and the important foundations laid in previous years all combined to see us double our revenues – an achievement we have now recorded for four successive years.

This progress has been broadly based. Commercially, we continue to attract new partners in new dynamic territories, such as South Korea, and to deepen relationships with world-class manufacturers who will give our technology the global platform it deserves.

Operationally, we are scaling up, and the fit-out of our new Redhill manufacturing reference facility is on schedule to commence production in January 2020. Technologically our R&D continues to find measurable ways in which our products can deliver even more.

As a result, we finished the year with revenues and other income up by 133% to £16.4 million. The Company also has a strong order book[1] of £28.4 million, a pipeline[2] worth more than £50 million and an investment programme that is fully funded with Group cash, cash equivalents and short-term deposits of £71.3 million at the year end.

Market dynamics

Just as climate change and its threats are now being recognised by governments worldwide, so fuel cell technology is regarded as a key asset in mitigating the causes of climate change and air pollution.

Our SteelCell® product is a solid oxide fuel cell (SOFC) – a technology that has multiple applications providing decentralised electricity for offices, homes and powering datacentres as well as for electric vehicles.

With its key attributes of conversion efficiency, versatility and exceptionally competitive production cost, SteelCell® met with notable success during the year in becoming a technology of choice with world-class OEMs. Critically, Ceres Power also has firm relationships in the main territories where SOFC technology is growing rapidly: these include Japan, China, the US, the EU and, perhaps the most active market for fuel cells, South Korea.

Commercial Progress

Ceres' growth strategy is driven by licensing our technology to global OEM partners, and generating royalties as those partners achieve full-scale commercialisation. We therefore benefit from an asset-light business model with a favourable margin.

Our success is directly linked to that of our licensees, and our teams can regularly be found on-site at customers' sites in Germany, China, Japan and Korea, helping to implement technology transfer and drive application development.

[1] Order book is the contracted commercial revenue and grant income scheduled to be realised in future years.

[2] Pipeline is contracted revenue and other income which management estimate is contingent upon options not under the control of Ceres.

Strategic report (continued)

During the year, we achieved significant steps forward in our commercial deals with four licensees:

- **Bosch**. We had been working with Robert Bosch through a joint development agreement (JDA) in the previous financial year, and in FY2019 we strengthened that relationship with a Collaboration and Licence Agreement. This provides significant staged revenues to Ceres from the date of contract signing in August 2018 to the end of 2020, amounting to around £20 million.

  Bosch also made a £9 million strategic equity investment during the year, becoming a 4% shareholder in the Group, aligning them to the future success of the business.

  The collaboration injects momentum and resources as we develop our technology, while also establishing low-volume production of our SteelCell® technology at Bosch in Germany – the precursor to a potential scale-up to high volume production.

- **Weichai Power**. This major Chinese automotive and equipment manufacturer has a market cap in excess of US$10 billion, and among multiple interests, its output includes some 600,000 engines a year.

  In December 2018, we were proud to finalise a long-term strategic collaboration with Weichai that was initially announced in May 2018. The landmark deal includes a licence agreement, a joint development agreement worth £9 million to Ceres, and a commitment to form a JV to invest in a new high-volume fuel cell manufacturing facility. The licence agreement will generate technology transfer payments of up to £30m for the Group, separate from ongoing future royalties.

  Following a successful technology transfer and the licensing of system-level technology, we announced in September 2019 that the combined team has produced a first prototype 30kW SteelCell® range extender system for demonstration in an electric city bus utilising widely available compressed natural gas fuel.

  This successfully marks the completion of the initial joint development agreement between Ceres and Weichai and our teams are now focused on developing the next stage system to go on bus field trials in 2020. Following these field trials, Weichai and the Group intend to establish a fuel cell manufacturing joint venture in Shandong Province, China to manufacture SteelCell® SOFC systems.

  Like Bosch, Weichai is also a direct investor in the Group; raising its shareholding in the business to 20%, bringing its total equity investment to £48.1 million.

- **Miura Co., Ltd.** Japan's largest industrial boiler manufacturer has been working with Ceres since 2016 to develop an SOFC CHP unit for the commercial market. Operating on the main gas supply and capturing heat as hot water, the overall efficiency of the system reaches 90%, delivering both major energy savings and a lower carbon footprint. This product will have a soft market launch in Q4 2019, marking a milestone for Ceres as the first commercialisation of our SteelCell® technology.

- **Doosan.** Immediately following the financial year-end, Doosan Corporation signed a two-year collaboration and licensing agreement with Ceres. Doosan has established itself as a world leader in the fuel cell industry and the agreement with Ceres brings solid oxide technology to its current fuel cell portfolio. Doosan's existing stationary fuel cell business exceeded 1 trillion won (c. $850 million) in orders for the first time in 2018. The deal is worth £8 million to Ceres over two years and marks our entry into the progressive Korean market with the potential to expand the partnership to new applications and manufacturing.

We continued to make good progress with leading players Cummins and Honda in joint development programmes. Separately, there was a participant change to a Ceres programme funded by the UK's Advanced Propulsion Centre (APC). Our original planned partner Nissan chose not to proceed for its own business reasons, but we were pleased to announce that Weichai has come on board in their place. The project focuses on our fuel cell technology for EVs and, in particular, larger commercial vehicles.

Strategic report (continued)

Technology Update

As a technology licensing company, we are judged on our capacity to innovate. In essence, this requires us to excel in two areas. Firstly, we must continually mature and refine the products we have already created and ensure our licensees are getting the very best from them. Secondly, we must break new ground, applying restless and rigorous R&D maintaining our leading position in SOFC.

Our R&D team continues to develop the next generation (V6) of our core technology, with a focus on reducing manufacturing stages and increasing power density, whilst reducing cost. We are also engineering the next design of our 5kW stacks, as well, utilising our capabilities in energy conversion technology.

Operations Update

Our strategy is not for Ceres Power to become a mainstream fuel cell manufacturer, but an asset-light creator and licensor of our technology. However, a certain manufacturing scale is required to service our partners, and to define and prove processes that they can then replicate on a much greater scale – such as our current technology transfer programme with Bosch in Bamberg, Germany.

To meet these needs, which require more than we can service with our existing R&D lines in Horsham, we have installed the UK's first SOFC manufacturing blueprint plant in Redhill, UK. CP2 will have an initial capacity of 2MW per year – sufficient to meet our near-term needs, and act as a reference design for our partners - who will typically be looking to install volumes 100 times that capacity per site, using our licensing model. CP2 is on track to commence fuel cell production in January 2020.

Financial

The business achieved excellent commercial growth of revenue and other income of 133% in the reporting year, driven principally by licence revenues from our main partners.

We expect licence fees to represent a high proportion of our revenues over time, which is significant as they deliver excellent gross margins. This period, a higher proportion of license activity delivered gross margin of 74%, substantially ahead of our target of maintaining margins above 50%.

The Group also successfully raised £77.1 million of new equity from strategic partners and via a private placing with institutions during the year. This leaves us in the strong position of being fully-funded for our investment plans and frees the management team to focus on growing the business.

However, we are also looking to grow sustainably, striking a careful balance between targeting profitability and making essential investments for our long-term future – such as in the new CP2 facility, additional talent and further R&D. Our underlying operational cash outflow has reduced significantly, reflecting our increasing revenues and the careful balance we are striking.

People

During the year we welcomed around 70 new professionals into the business, predominantly technicians and engineers. We have now doubled our workforce since 2017 to 240, a figure that includes 30 different nationalities and a positive gender split.

I would like to place on record my thanks to this exceptional team, who have excelled on every front: from serving the needs of our main licensees, here in the UK and away on-site; to the design, project management and build of CP2; to the performance increases achieved with our technology and achieving high quality manufacturing of fuel cells for our partners; to attracting new licensees including, at the close of the year, the global leader Doosan.

Strategic report (continued)

Outlook

We are absolutely focused on the needs and expectations of our licensees, for whom operational excellence, added value and robust delivery are key. Alongside this, we are aware and prepared for the challenges of scaling up, launching CP2, and not only refining our technology but adapting it for further and future applications.

We are proud to be setting the pace and standards for SOFC technology and playing our part in addressing the major challenges of climate change and air quality and look forward to extending our technology to a widening portfolio of global partners and applications.

Risk management process

The Group's Board is responsible for the risk framework; they ensure that the Group and Company's ability to achieve its objectives is matched with the risk exposure. However, the Group's risk management programme can only provide reasonable, not absolute, assurance that principal risks are managed to an acceptable level.

The Directors are responsible for identifying, managing and mitigating the risks to the Company. The Audit Committee of Ceres Power Holdings plc reviews the processes and controls for ensuring material business risks are identified and managed appropriately. The various Board committees of Ceres Power Holdings plc review these risks and mitigations. Technical and operational risks are reviewed regularly by the Technical and Operations Committee. These risks, along with financial, commercial and other risks, are reviewed by the Audit Committee twice a year and subsequently put to the Board annually for inclusion in the Annual Report.

Key business risks and mitigations in place are set out as follows:

Risk	Description	Mitigation	Change
Core Technology	There is a risk that we will not be able to successfully develop and apply the Group's core fuel cell technology to potential products at the right cost point or performance, in the time frame anticipated. The level of this risk has been reduced because we have greater confidence based on long-term trials and ongoing validation.	Ceres Power's prime focus is to i) deliver its technology for customers, and ii) continually improve the technology to maintain technological advantage. We have continued to make progress during the year in both these respects.	Decreasing
Stack and system technology	This risk has increased as we validate the stack technology in tandem with issuing it to customers for trials. Technical failure at customer trials could affect customer sentiment in some applications.	Targeting new markets that require different technical attributes and working in close collaboration with partners continues to mitigate these risks.	Increasing

Risk	Description	Mitigation	Change
Competitive and market	The value proposition of our technology may become eroded, impacting on the Company's future profitability and growth opportunities. This risk is net unchanged as more customers validate the technology; new markets such as EV recharging emerge; and a climate of changing legislation and trends against fossil fuels emerges, which is offset by some current misconceptions that Ceres technology only works with hydrocarbons.	Our strategy addresses different geographical markets and we have broadened the applications available, mitigating failure in a single market or product. We continuously monitor competitor activity, diversification of applications and market developments. The Company is also beginning to show that Ceres technology can make a significant and valuable contribution to a net zero-carbon future.	No change
Intellectual Property protection	The Group and Company's competitive advantage could be at risk from successful challenges to its patents, unauthorised parties using the Group's technology in their own products, or others infringing existing intellectual property rights (IPRs). This risk has risen due to increasing information and cybersecurity threats as our technology gets closer to commercialisation, and as we increasingly disclose more of our technology to partners and the supply chain. There is also a risk that the Group and Company will unwittingly infringe valid IPRs of others, which could limit full commercialisation of the technology.	We have internal procedures and controls in place to capture and exploit all intellectual property (IP) as well as to protect, limit and control disclosure to third parties and partners. Contractual provisions with partners and IP insurance provide additional protection to the Group for agreement, pursuit and defence of IP. We have also recently focused efforts to improve our information and cybersecurity. We continually perform freedom-to operate searches to minimise this risk.	Increasing
Commercial	Our partners may choose not to use our technology in their products or go to market slower than anticipated. This risk has reduced with the continued commercial progress and interest from customers.	We continue to increase our pipeline of customers and have expanded market applications, mitigating the risk of individual customers choosing not to move forward. Customers have continued to meet our expectations with their go-to-market ambitions.	Decreasing

Risk	Description	Mitigation	Change
Operational	The Company may be unable to satisfy customer contracts due to supply chain, growth management, short-term manufacturing or technical issues. This includes the risk of disruption to our supply chain under some Brexit scenarios. This risk is net unchanged because our planned increase in manufacturing capacity, which reduces risk, is offset in the short-term by associated growth challenges.	We continually monitor our manufacturing processes and resources to best deliver programmes. We work with suppliers to ensure quality standards and timely delivery. We continue to monitor the Brexit situation closely and have taken mitigating action including stockpiling, foreign currency hedging and contingency planning. We have made a significant investment in a new manufacturing facility to provide capacity for customer development while separating development activities.	No change
Supplier dependence	Our supply chain partners may be unable or unwilling to co-develop or supply key components. This risk has increased as we scale up manufacturing, although we expect this to reduce as our manufacturing partners become more active with their considerable supply chain strength.	We continue to work closely with our suppliers and partners, aiming to put in place strategic partnerships, where appropriate, and reduce the number of key single-source suppliers. We also buy stock in advance. We accept the risk for now that some suppliers will be single-source.	Increasing
Access to capital	There is a risk that the group will be unable to attract further equity funding. This risk has reduced as we are now well capitalised.	The Group successfully raised £77.1 million through equity issues in the year.	Decreasing

Richard Preston
Director
11 December 2019

Directors' report

The Directors present their Directors' Report and the audited financial statements of the Company for the year ended 30 June 2019.

Principal activity

The Company's principal activity is commercialisation and development of the Group's fuel cell technology.

Research and development

During the year, the Company incurred expenditure of £13,273,311 (2018: £10,903,711) on research and development ("R&D"), which was expensed to the profit and loss account and other comprehensive income. In addition, £1,275,286 of development costs, relating to the design, development and configuration of the Company's core technology and manufacturing processes, were capitalised as a development intangible in the year (2018: £46,718). The Strategic Report illustrates the R&D progress made during the year.

Financial instruments

At the end of the year, the Company does not have any complex financial instruments. The financial instruments it does have primarily comprise cash and liquid resources, forward and option exchange contracts and other various short-term assets and liabilities such as trade receivables and trade payables which are used to manage the Company's operations.

Results and proposed dividend

The Company made a loss for the financial year of £3,915,593 (2018: £8,379,166).

The Directors are unable to recommend the payment of a dividend.

Going concern

Notwithstanding net current liabilities of £107,707,806 as at 30 June 2019 and a loss for the year then ended of £3,915,593, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing this report which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, Ceres Power Intermediate Holdings Limited, to meet its liabilities as they fall due for that period. The company fulfils a key role within the group as the trading entity which develops the technology for the Group's target market, including the production and sale of fuel cell products to customers.

Those forecasts are dependent on Ceres Power Intermediate Holdings Limited and Ceres Power Holdings plc not seeking repayment of the amounts currently due to the group, which at 30 June 2019 amounted to £112,899,568, and providing additional financial support during that period. Ceres Power Holdings plc, in light of the equity fundraisings completed during the year, has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

Directors' report (continued)

Our approach to risk

There are a number of risks and uncertainties that could potentially have an impact on the execution of the Group and Company strategy, as well as on its short-term results. The Directors regularly review the risks facing the Company and the Board is in the process of building on the existing risk framework, which applies to the Company as well as the Group. The Board has identified the risks that are deemed principal to its business due to their potential severity. These principal risks are identified in the Strategic Report, along with the mitigations the Company and Group use to manage any possible impact.

Financial risk management

The financial risks faced by the Company include credit risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

Credit risk

The Company's exposure to credit risk arises from if a counterparty or customer fails to meet its contractual obligations. Trade receivables at the year end relate to six customers (2018: nine) of which £1,818,000 relates to the Europe geographic region, £84,000 to North America and £502,000 to Asia (2018: £2,000 related to the Europe geographic region, £589,000 to North America and £1,153,000 to Asia).

Credit risk (continued)

Contract assets at the year end related to three customers of which £49,000 relates to the Europe geographic region, £86,000 to North America and £171,000 to Asia.

The Group's customers are large multinational companies or research institutions and are consequentially not considered to add significantly to the Group's credit risk exposure. All trade receivables are due within the agreed credit terms for the current and preceding years and are consequently stated at cost.

Foreign currency risk

The Company's primary transaction currency is pound sterling. Exposures to foreign currency denominated contracted receivables and commitments arise from the Company's overseas sales and purchases, which are primarily denominated in Euros, US dollars, Canadian dollars and Japanese yen. The Company seeks to mitigate its foreign currency exposure by entering into forward currency exchange contracts, and in limited circumstances, currency options in accordance with the Group's treasury policy. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward currency exchange contracts and options are primarily entered into for significant foreign currency exposures that are not expected to be offset by other currency transactions.

The Group's objectives and policies are largely unchanged in the reporting periods under review.

Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its financial obligations. The Group manages the liquidity needs by preparing cash flow forecasts, including forecasting of the Company's liquidity requirements, to ensure the Company has sufficient cash to meet its operational needs.

Note 18 in the Annual Report of Ceres Power Holdings plc, which does not form part of this report, highlights the other financial risks faced by the wider Group and how these are managed at a group level.

Directors

The Directors of the Company, who served throughout the year and up to the date of signing the financial statements, unless otherwise shown, are as follows:

Mr Philip Caldwell (Chief Executive Officer)
Mr Richard Preston (Chief Finance Officer)
Dr Mark Selby (Chief Technical Officer)
Mr James Falla (Chief Operations Officer)

The directors benefit from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

Directors' report (continued)

Charitable and political contributions

The Company made no charitable or political donations or incurred any political expenditure during the year (2018: £nil).

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirmed that so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 2 to 7.

Auditor

KPMG LLP were appointed as the Company's external auditor in 2015. In line with good governance practice to regularly review the external auditor, the Group's Audit Committee has determined to put the external audit out to tender. Following the tender process, the auditor appointed by the Board will be subject to approval by Shareholders.

By order of the Board:

Richard Preston
Director
Viking House, Foundry Lane
Horsham, RH13 5PX
11 December 2019

Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Ceres Power Limited

Opinion

We have audited the financial statements of Ceres Power Limited ("the company") for the year ended 30 June 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Independent auditor's report to the members of Ceres Power Limited

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Gemma Hancock (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate, Brighton road
Crawley, RH11 9PT
11 December 2019

Profit and Loss Account and Other Comprehensive Income for the year ended 30 June 2019

	Notes	2019	2018
Turnover	2	**15,300,084**	6,329,098
Cost of sales		**(3,804,426)**	(3,096,957)
Gross Profit		**11,495,658**	3,232,141
Other operating income	3	**1,064,870**	680,448
Operating costs	4	**(19,017,824)**	(14,253,337)
Operating loss		**(6,457,296)**	(10,340,748)
Interest receivable and similar income		**3,828**	425
Loss before taxation	4	**(6,453,468)**	(10,340,323)
Tax on loss	7	**2,537,875**	1,961,157
Loss for the financial year and total comprehensive loss		**(3,915,593)**	(8,379,166)

The notes on pages 17 to 34 form an integral part of these Financial Statements.

All amounts included in the profit and loss account relate to continuing operations.

Balance Sheet
as at 30 June 2019

	Notes	2019	2018
			£
Fixed assets			
Tangible assets	8	9,769,199	2,197,189
Intangible assets	9	1,322,004	46,718
		11,091,203	2,243,907
Current assets			
Debtors (including £741,448 (2018: £nil) due after more than one year	10	8,940,366	6,990,735
Contract assets	2	722,274	-
Inventories	11	1,403,181	1,400,000
Cash at bank and in hand		1,362,553	1,498,154
		12,428,374	9,888,889
Trade and other payables	12	(116,917,121)	(106,216,586)
Contract liabilities	2	(3,061,131)	-
Provisions for liabilities	13	(157,928)	-
Current liabilities		(120,136,180)	(106,216,586)
Net current liabilities		(107,707,806)	(96,327,697)
Total assets less current liabilities		(96,616,603)	(94,083,790)
Other liabilities	14	(332,896)	-
Provisions for liabilities	13	(991,669)	(851,000)
Non-current liabilities		(1,324,565)	(851,000)
Net liabilities		(97,941,168)	(94,934,790)
Capital and reserves			
Called up share capital	16	4,176	4,176
Share premium account		9,547,273	9,547,273
Profit and loss account		(107,492,617)	(104,486,239)
Total shareholders' deficit		(97,941,168)	(94,934,790)

The notes on pages 17 to 34 form an integral part of these Financial Statements.

The financial statements on pages 14 to 34 were approved by the board of Directors on 11 December 2019 and were signed on its behalf by:

Richard Preston
Director

Ceres Power Limited
Registered Number: 04222409

Statement of Changes in Equity
for the year ended 30 June 2019

	Notes	Share capital £	Share premium account £	Profit and loss account £	Total £
At 30 June 2017		4,176	9,547,273	(97,027,234)	(87,475,785)
Comprehensive income					
Loss for the financial year and total comprehensive loss		-	-	(8,379,166)	(8,379,166)
Total comprehensive loss		-	-	(8,379,166)	(8,379,166)
Transactions with owners					
Share-based payment charge	4	-	-	920,161	920,161
Total transactions with owners		-	-	920,161	920,161
At 30 June 2018		4,176	9,547,273	(104,486,239)	(94,934,790)
Comprehensive income					
Loss for the financial year and total comprehensive loss		-	-	(3,915,593)	(3,915,593)
Total comprehensive profit		-	-	(3,915,593)	(3,915,593)
Transactions with owners					
Share-based payment charge	4	-	-	909,215	909,215
Total transactions with owners		-	-	909,215	909,215
At 30 June 2019		**4,176**	**9,547,273**	**(107,492,617)**	**(97,941,168)**

The profit and loss reserve includes an amount of £504,000 (2018: £504,000) that is non-distributable. The non-distributable amount is the result of the disposal of intellectual property to a group undertaking.

The notes on pages 17 to 34 form an integral part of these Financial Statements.

Notes to the Financial Statements

1 Accounting policies

Basis of preparing the financial statements

Ceres Power Limited (the "Company") is a private company limited by shares, incorporated, domiciled and registered in England in the UK. The registered number is 04222409 and the registered address is Viking House, Foundry Lane, Horsham. RH13 5PX. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Ceres Power Holdings plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Ceres Power Holdings plc are prepared in accordance with International Financial Reporting Standards and are available to the public on the Group's website (https://www.cerespower.com/) and may be obtained from Viking House, Foundry Lane, Horsham, West Sussex, RH13 5PX.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Comparative period reconciliations for share capital, intangible assets and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Ceres Power Holdings plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company has adopted the following IFRSs in these financial statements:

- IFRS 15: Revenue from Contract with Customers
- IFRS 9: Financial Instruments

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through the profit or loss.

Going concern

Notwithstanding net current liabilities of £107,707,806 as at 30 June 2019 and a loss for the year then ended of £3,915,593, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing this report which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, Ceres Power Intermediate Holdings Limited, to meet its liabilities as they fall due for that period. The company fulfils a key role within the group as the trading entity which develops the technology for the Group's target market, including the production and sale of fuel cell products to customers.

Those forecasts are dependent on Ceres Power Intermediate Holdings Limited and Ceres Power Holdings plc not seeking repayment of the amounts currently due to the group, which at 30 June 2019 amounted to £112,899,568, and providing additional financial support during that period. Ceres Power Holdings plc, in light of the equity fundraisings completed during the year, has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately 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 the timing and value of evaluation and development revenue recognised.

Revenue from customer contracts

There are significant management judgements and estimates when classifying, valuing and recognising revenue in relation to customer contracts.

Customer contracts typically include engineering services, access to or sale of technology hardware and licenses. Revenue is allocated to these key components based on initial cost estimates to deliver the obligations under the contract and established margins for the different components. Management has established a range of margins to apply to contract components where the costs can be reliably estimated. Given the sometimes complex and long-term nature of customer contracts, these forecast cost estimations and margins are considered a significant area of judgement when valuing and allocating revenue to key components.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Critical accounting estimates and judgements (continued)

<u>*Revenue from customer contracts (continued)*</u>

In determining the revenue recognition for license components of customer contracts, judgements must be made as to the nature of the licenses (right to access or right to use) and the number and timing of performance obligations associated with those licences. These judgements are made based on the interpretation of key clauses and conditions within each customer contract.

Revenue for engineering services is recognised based on the percentage of completion method and is measured based on the total contract costs at each reporting period compared to the estimated total contract costs to deliver the service over the contract life. The assessment of the total project costs to deliver the contracted service are updated during the term of the contract by project managers and are subject to internal reviews, including comparison to previous forecasts and past experience.

Material differences in the amount of revenue in any given period may result if the judgements or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgements and estimates.

<u>*Capitalisation and amortisation of development costs*</u>
When determining the criteria for starting, and subsequently ceasing, the capitalisation of development costs as an internally generated asset, IAS 38 requires that strict criteria are met; in particular, that it is probable that future economic benefits will result from the development asset.

Management's view has always been that this probability threshold needed to be sufficiently high, such that development costs would not be capitalised before the Group could demonstrate the inflow of future economic benefits from significant "go-to-market" licence contracts with customers.

Following the successful agreement of contracts with Robert Bosch and Weichai Power in September and December 2018 respectively, management believes that this threshold of probability has been met. As a result, from 1 January 2019 management has put in place processes to review and assess all customer and internal development programme expenditure to ascertain whether it is appropriate to capitalise development costs under IAS 38.

Determining when capitalisation should commence and cease is a critical judgement, as is the basis for amortising the capitalised costs.

Within the Group there is an established Technology and Product Development Process with gated milestones that assesses the technology and product viability and maturity. Until a programme has passed the required milestone gate, all expenditure is deemed "Research" and expensed as incurred. Expenses incurred after the milestone gate is passed are capitalised within the parameters set out in the accounting policy. Once a programme has passed the milestone gate, confirming a production design version is approved or development activities are completed, the capitalisation of costs is stopped and further expenditure is expensed.

Management assess the period of amortisation over the deemed useful life of each asset to ensure that the amortisation cost is matched by the inflow of future economic benefits expected to be received from customers in the form of license and royalty income.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Financial Instruments

IFRS 9 replaces the previous guidance relating to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 had no impact on the opening balance sheet of the Company.

Non-derivative financial instruments (policy applicable from 1 July 2018)

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Impairment

Financial assets (including trade and other receivables)

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets.
The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Details of the Company's trade and other receivables and contract assets including the assessment of quantitative and qualitative information in relation to credit risk are included in note 10 of these financial statements.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements (continued)

2 Turnover

The Company adopted IFRS 15 with a date of initial application of 1 July 2018. The revenue recognition accounting policy applied in preparation of the results for the current financial year reflects the application of IFRS 15 and is detailed below. The Group has elected to adopt the standard using the cumulative effect transition method. Under this transition method, the new standard has been applied as at the date of initial application without restatement of comparative amounts. There is no cumulative impact on the opening balance of equity as at 1 July 2018 as a result of the initial application of the new standard. The comparative information has not been adjusted and therefore continues to be reported under IAS 18, 'Revenue Recognition'.

Revenue comprises the fair value of the consideration received or receivable for the provision of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value added tax, other sales taxes and after eliminating sales within the Group.

Revenue primarily consists of amounts received or receivable under evaluation, development, supply and licence contracts. The nature of goods and services provided under these contracts consists of engineering services, access to or sale of technology hardware and licenses to access and use intellectual property (IP).

Engineering services are provided under evaluation and development agreements. The nature of the work typically comprises engineering staff time for design, development, modelling and test analysis. The performance obligation in relation to this work is deemed to be satisfied over time based on a percentage of completion basis.

Technology hardware is provided to customers under evaluation, development and supply agreements. Where access to the hardware is provided under an evaluation agreement, the performance obligation is deemed to be satisfied on a straight-line basis over the period that the customers preferred technology performance attributes are verified under the evaluation agreement. Where access to the hardware is provided under development and supply agreements, the performance obligation is satisfied at the point in time that the hardware is delivered.

Access to intellectual property (IP) is provided to customers under licence agreements. The nature of the licenses (right to access or right to use) is determined based on the interpretation of key clauses and conditions within each customer contract. The performance obligation is the disclosure of IP under the licence and is based on the number and timing of disclosures associated with those licences. For a right to use license the performance obligation is satisfied at a point in time when the IP is disclosed. For a right to access license the performance obligation is satisfied over the time that access is granted to IP developed.

Revenue is allocated to engineering services and access to or sale of technology hardware based on initial cost estimates to deliver the obligations under the contract and established margins for the different components (cost-plus margin). Management has established a range of margins to apply to contract components where the costs can be reliably estimated. Given the sometimes complex and long-term nature of customer contracts, these forecast cost estimations and margins are considered a significant area of judgement when valuing and allocating revenue to key components.

Revenue is allocated to licences on a stand-alone selling price basis where observable. Where the licence forms part of a wider contract for the provision of engineering services and technology hardware, the Group uses a cost-plus margin approach for revenue allocated to engineering services and technology hardware components and a residual approach for allocating revenue to licences.

Revenue allocated to key components of contracts is recognised when performance obligations in relation to the key components are satisfied. Performance obligations are deemed to be satisfied as follows:

- Access to technology hardware – either on delivery or over time access is granted
- Sale of technology hardware – on delivery
- Engineering services – percentage of completion
- Right-to-use license – at the point in time the IP is disclosed
- Right-to-access – over time that access is granted to IP developed

Notes to the Financial Statements (continued)

2 Turnover *(continued)*

Percentage of completion is measured based on the total contract costs at each reporting period compared to the estimated total contract costs to deliver the service over the contract life. The assessment of the total project costs to deliver the contracted service are updated during the term of the contract by project managers and are subject to internal reviews, including comparison to previous forecasts and past experience.

Material differences in the amount of revenue in any given period may result if the judgements or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgements and estimates.

The revenue recognition is subject to certainty of receipt of cash, or when any specific conditions in agreements have been met. Where there is a timing difference between the recognition of revenue and invoicing under a contract, a contract asset or liability is recognised.

All costs incurred in fulfilling the key components of a customer contract are recognised in line with the associated revenue and recorded as a cost of sale. Where there is a timing difference between when the contract fulfilment costs are incurred and when the revenue is recognised, a contract asset is recognised. These include costs such as direct labour, direct materials, and, where applicable, an allocation of overheads that relate directly to the contract. If a loss is expected in respect of a contract, the entire loss is recognised immediately in the Statement of Profit and Loss and Other Comprehensive Income. The Group expenses pre-contract legal costs which are incurred regardless of whether a contract is awarded.

The Company's revenue is disaggregated by geographical market and major product/service lines:

Geographical market:

	2019	2018
	£	£
Europe	**10,553,102**	610,498
Asia	**4,441,168**	4,313,406
North America	**305,815**	1,405,194
	15,300,085	6,329,098

Major product/service lines:

	2019	2018
	£	£
Engineering services and provision of technology hardware	**7,888,048**	5,420,005
Licenses	**7,412,037**	909,093
	15,300,085	6,329,098

Notes to the Financial Statements (continued)

2 Turnover *(continued)*

The contract assets and liabilities as of 1 July 2018 and 30 June 2019 are as follows:

	Note	30 June 2019 £	1 July 2018 £
Trade receivables	10	2,403,913	1,743,769
Contract assets – accrued income		305,514	708,785
Contract assets – deferred costs		416,760	625,344
		3,126,187	3,077,898
Contract liabilities – deferred income		(3,061,131)	(932,564)
Provision for loss making contracts	13	(64,743)	-
Provision for warranties	13	(93,185)	-
		(3,219,059)	(932,564)

There were no impairment losses recognised against trade receivables in either the current or prior years relating to the adoption of IFRS 9 Financial Instruments.

The contract assets – accrued income – primarily relate to consideration for work completed but not billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

The contract assets – deferred costs – relates to the cost to provide hardware to customers under evaluation agreements. The cost is deferred and recognised on a straight-line basis over the period of access as the customers preferred technology performance attributes are verified under the agreement.

The contract liabilities – deferred income – primarily relate to the advance consideration received from customers. There are no significant financing components associated with deferred income.
Contract assets - accrued income - at the year end related to three customers of which £48,741 relates to the Europe geographic region, £85,514 to North America and £171,259 to Asia.

Revenue recognised in the current year that was included in the contract liabilities – deferred income – balance at the beginning of the period was £663,766.

There were no significant amounts of revenue recognised in the year ended 30 June 2019 arising from performance obligations satisfied in previous periods.

Trade receivables at the year end relate to six customers (2018: nine) of which £1,818,208 relates to the Europe geographic region, £83,923 to North America and £501,782 to Asia (2018: £2,000 related to the Europe geographic region, £589,000 to North America and £1,153,000 to Asia).

The Group's customers are large multinational companies or research institutions and are consequentially not considered to add significantly to the Group's credit risk exposure. All trade receivables are due within the agreed credit terms for the current and preceding years and are consequently stated at cost.

Notes to the Financial Statements (continued)

2 Turnover *(continued)*

Changes in accounting policies

The Company adopted IFRS 15 using the cumulative effect transition method with a date of initial application of 1 July 2018. The comparative information has not been adjusted and therefore continues to be reported under IAS 18, 'Revenue Recognition'. There is no cumulative impact on the opening balance of equity as at 1 July 2018 as a result of the initial application of the new standard.

Balance sheet

The impact of adopting IFRS 15 on the Balance sheet for the year ended 30 June 2019 compared to the revenue determined in accordance with IAS 18 is as follows:

	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
	£	£	£
Current assets			
Debtors (including £741,448 (2018: £nil) due after more than one year	8,940,366	305,514	9,245,880
Contract assets	722,274	(722,274)	-
Inventories	1,403,181	416,760	1,819,941
Cash at bank and in hand	1,362,553	-	1,362,553
	12,428,374	-	12,428,374
Trade and other payables	(116,917,121)	(3,061,131)	(119,978,252)
Contract liabilities	(3,061,131)	3,061,131	-
Provisions for liabilities	(157,928)	-	(157,928)
Current liabilities	(120,136,180)	-	(120,136,180)

Other than the impact noted above on adopting IFRS 15, there were no further changes to the Balance sheet for the year ended 30 June 2019.

Statement of profit and loss and other comprehensive income

There is no impact on the statement of profit and loss and other comprehensive income as a result of the adoption of IFRS 15 for the year ended 30 June 2019 compared to the revenue determined in accordance with IAS 18.

3 Other operating income

Grants are recognised on a case-by-case basis. Revenue grants are recognised in the Statement of Profit and Loss and Other Comprehensive Income as other operating income as the related costs are incurred and expensed. The reimbursement of the cost of an item of plant and equipment or intangible by way of a capital grant is presented as deferred income and recognised in the Statement of Profit and Loss and Other Comprehensive Income as other operating income on a basis consistent with the depreciation or amortisation of the asset over its estimated useful life.

For grants with no technical milestones, and where recovery is reasonable, the grant is recognised on an accruals basis in order to match the associated expenditure with the grant income. For grants with technical milestones, these grants are held on the Consolidated Statement of Financial Position as deferred income and are recognised only when the relevant milestone has been achieved and the associated cash has been received.

	2019	2018
	£	£
Government grants	**1,064,870**	680,448

Notes to the Financial Statements (continued)

4 Loss before taxation

Research and Development

The Company undertakes research and development activities either on its own behalf or in conjunction with customers.
Company and customer funded expenditure on research, and on development activities not meeting the conditions for capitalisation (see note 9), are written off as incurred and charged to the Statement of Profit and Loss and Other Comprehensive Income.

Operating lease payments

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 Statement of Profit and Loss and Other Comprehensive Income on a 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.

Interest receivable

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Included in the ordinary activities before taxation are the following:

	2019	2018
	£	£
Operating costs are split as follows:		
Research and development costs	**13,273,311**	10,903,711
Administrative expenses	**3,976,826**	2,547,132
Commercial	**1,767,687**	802,494
	19,017,824	14,253,337

	2019	2018
	£	£
Loss before taxation is stated after charging/(crediting):		
Depreciation charge on tangible fixed assets (note 8)	**1,024,562**	1,170,456
Net loss/(gain) on financial instruments designated as fair value through profit or loss	**41,682**	(3,374)
Loss/(gain) on foreign exchange	**67,035**	(28,831)
Share-based payment charge	**909,215**	920,161

Auditor remuneration:		
Audit services		
- remuneration receivable by the Company's auditor for the auditing of the financial statements	**41,400**	41,750
Other services		
- taxation compliance services	-	2,800
- audit related assurance services – government grants	**3,588**	11,700

Notes to the Financial Statements (continued)

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2019	2018
	Number	Number
By activity:		
Research and development	**112**	94
Prototype production	**50**	23
Administration	**24**	20
Commercial	**5**	6
	191	143

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£	£
Staff costs (for the above persons):		
Wages and salaries	**8,973,819**	6,853,864
Social security costs	**957,727**	718,438
Share-based payments	**909,215**	920,161
Contributions to defined contribution plans	**665,719**	474,796
	11,506,480	8,967,259

Employee Benefits

Defined contribution plans
The Company operates a defined contribution pension plan for employees. The assets of the scheme are held separately from those of the Company in independently administered funds. The plan is a post-employment benefit plan under which the Company pays fixed contributions during the employee's service and will have no legal or constructive obligation to pay amounts after the employee's service ends. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Profit and Loss and Other Comprehensive Income in the period during which services are rendered by employees.
The pension charge represents contributions payable by the Company to the funds and amounted to £665,719 (2018: £474,796). A total of £102,528 was payable in respect of pension contributions by the Company at the year end (2018: £77,718).

Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions
Share-based payment arrangements in which the Company receives services as consideration for equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company. The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled

Notes to the Financial Statements (continued)

6 Directors' remuneration

	2019	2018
	£	£
Directors' remuneration	**1,000,394**	843,890
Company contributions to defined contribution plans	**55,601**	55,996
Gain on exercise of share option	**181,308**	-
	1,237,303	899,886

Highest paid Director

	2019	2018
	£	£
Aggregate emoluments	**405,872**	303,490
Company contributions to defined contribution pension schemes	**18,163**	17,129
Gain on exercise of share option	**29,125**	-
	453,160	320,619

Three Directors of the Company are also directors of other Group companies and the direct costs of these Directors have been recharged to other Group companies based on an apportionment of their daily activities undertaken in respect of each Group company. The emoluments included above are the total costs incurred by the Company and are not reduced by any costs recharged to other Group companies. The value of the recharges relating to Directors emoluments in the year is £160,023 (2018: £145,912).

Four Directors (2018: four) have retirement benefits accruing under defined contribution pension schemes.

Four Directors (2018: four) held options in the ultimate holding company, Ceres Power Holdings plc, at 30 June 2019. Four Directors exercised options and subsequently held the shares in the holding company during the year (2018: None).

7 Taxation

The taxation credit for the year comprises current and deferred tax and any adjustment to tax payable or receivable in respect of previous years. Tax is recognised in the Statement of Profit and Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax receivable is the expected tax receivable on the activities for the year, using tax rates enacted or substantively enacted at the year end. The current tax receivable represents the Directors' best estimate of tax due to the Company at the year end under the SME and large company R&D tax credit regimes.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Recognised in the profit and loss account	**2019**	2018
	£	£
UK corporation tax – R&D tax credit	**2,292,000**	1,900,000
Adjustment in respect of prior years – R&D tax credit	**245,875**	61,157
Tax credit on loss on ordinary activities	**2,537,875**	1,961,157

No corporation tax liability has arisen during the year (2018: £nil) due to the losses incurred. A tax credit has arisen as a result of the tax losses being surrendered in respect of research and development expenditure.

Notes to the Financial Statements (continued)

7 Taxation *(continued)*

Reconciliation of effective tax rate

The tax assessed for the year is different from the standard rate of small profits UK corporation tax of 19% (2018: 19%). The differences are explained below:

	2019	2018
	£	£
Loss before taxation	**(6,453,468)**	(10,340,323)
Loss before taxation at the UK tax rate of 19% (2018: 19%)	**(1,226,159)**	(1,964,661)
Effects of:		
Enhanced tax deductions for R&D expenditure	**(1,579,932)**	(1,418,407)
Expenses not deductible for tax purposes	**37,541**	8,508
Fixed asset differences	**(299,698)**	35,433
Losses carried forward	**161,459**	871,405
Share option timing differences	**(166,253)**	(65,132)
Adjustment in respect of prior years – R&D tax credit	**(245,875)**	(61,157)
Difference between R&D tax credit and small company tax rates	**781,042**	632,854
Total current tax credit	**(2,537,875)**	(1,961,157)

Deferred taxation

At the balance sheet date, the Company had deferred tax assets as follows:

	Amount recognised 2019	Amount recognised 2018	**Amount unrecognised 2019**	Amount unrecognised 2018
	£	£	**£**	£
Tax effect of timing differences because of:				
Difference between capital allowances and depreciation	–	–	**1,211,408**	1,640,732
Deductions relating to share options	–	–	**937,867**	871,646
Losses carried forward	–	–	**9,453,900**	9,285,119
	-	-	**11,603,175**	11,797,497

The deferred tax assets have not been recognised as the Directors consider that it is unlikely that taxable profits will arise in the foreseeable future.

Notes to the Financial Statements (continued)

8 Tangible fixed assets

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Leasehold improvements	10 years or the lease term if shorter
Plant and machinery	Three to ten years
Computer equipment	Three years
Fixtures and fittings	Three to ten years

Assets under construction represent the cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use. The category is temporary, pending completion of the assets and their transfer to the appropriate and permanent category of tangible fixed assets. As such, no depreciation is charged on assets under construction.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

	Leasehold improvements	Plant and machinery	Computer equipment	Fixtures and fittings	Assets under construction	Motor vehicles	Total
	£	£	£	£	£	£	£
Cost							
At 1 July 2018	2,326,488	10,099,425	1,012,785	70,050	347,642	-	13,856,390
Additions	131,949	1,534,639	463,274	-	6,455,210	11,500	8,596,572
At 30 June 2019	**2,458,437**	**11,634,064**	**1,476,059**	**70,050**	**6,802,852**	**11,500**	**22,452,962**
Accumulated depreciation							
At 1 July 2018	2,144,346	8,592,727	852,078	70,050	-	-	11,659,201
Charge for the year	67,857	797,389	158,828	-	-	488	1,024,562
At 30 June 2019	**2,212,203**	**9,390,116**	**1,010,906**	**70,050**	**-**	**488**	**12,683,763**
Net book value							
At 30 June 2019	**246,234**	**2,243,948**	**465,153**	**-**	**6,802,852**	**11,012**	**9,769,199**
At 30 June 2018	182,142	1,506,698	160,707	-	347,642	-	2,197,189

Notes to the Financial Statements (continued)

9 Intangible assets

Research and development

Expenditure incurred on research and development is distinguished as relating to a research phase or development phase with reference to the Company's technology and product development process.

All research phase expenditure is recognised in the Statement of Profit and Loss and Other Comprehensive Income as an expense when incurred.

Development phase expenditure is capitalised from the point that all of the following conditions are met:

- the product or process under development is technically and commercially feasible,
- the Company intends to and has the technical ability and sufficient resources to complete the development,
- future economic benefits are probable, and
- the Company can measure reliably the expenditure attributable to the asset during its development.

Development phase activities involve a plan or design for the production of new or substantially improved products or processes in relation to the Company's core fuel cell and system technology and intellectual property. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs, if appropriate.

Capitalisation of development phase activities continues until the point at which the product or process under development meets its originally mandated technical specification. For product and process development, this is at the point where the production design version is approved or the development is completed.
Subsequent expenditure is capitalised where it enhances the functionality of the asset and demonstrably generates an enhanced economic benefit to the Company. All other subsequent expenditure on the product or process is expensed as incurred.

Where development activities are funded through Government Grants and the cost of those activities is capitalised under this policy, the grants received are considered Capital Grants and are presented as deferred income and recognised in the Statement of Profit and Loss and Other Comprehensive Income as other operating income on a basis consistent with the depreciation or amortisation of the asset over its estimated useful life.

Subsequent to recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives and the estimated useful lives are reviewed and adjusted as appropriate, at each balance sheet date. Intangible assets which are not yet available for use are tested for impairment at each balance sheet date.

	2019	2018
	£	£
Cost		
At 1 July	46,718	-
Additions from internal developments relating to manufacturing site	187,447	46,718
Additions from customer and internal development programmes	1,100,858	-
At 30 June	**1,335,023**	**46,718**
Accumulated amortisation		
At 1 July	-	-
Charge for the year	13,019	-
At 30 June	**13,019**	**-**
Net book value		
At 30 June	**1,322,004**	**46,718**

Notes to the Financial Statements (continued)

9 Intangible assets *(continued)*

Research and development (continued)

The following useful lives are used in the calculation of amortisation:

Capitalised development 2 – 7 years

The development intangible relates to the design, development and configuration of the Company's core fuel cell and system technology and manufacturing processes. Amortisation of capitalised development commences once the development is complete and is available for use.

10 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently held at amortised cost less an allowance for any uncollectable amounts using the expected credit loss model. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.
Derivative financial instruments are recognised at fair value. The gains or losses on remeasurement to fair value are recognised immediately in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as they arise.

	2019	2018
	£	£
Trade receivables	**2,403,913**	1,743,769
Amounts owed by group undertakings under common control	**611,217**	484,732
Corporation tax receivable	**2,291,817**	1,900,000
Other receivables	**2,508,530**	1,255,521
Derivative financial assets – forward foreign exchange contracts	**27,847**	7,895
Prepayments	**890,437**	799,580
Accrued income	**206,605**	799,238
	8,940,366	6,990,735

Trade receivables at the year end relate to six customers (2018: nine) of which £1,818,208 relates to the Europe geographic region, £83,923 to North America and £501,782 to Asia (2018: £2,263 related to the Europe geographic region, £588,722 to North America and £1,152,784 to Asia).

Contract assets at the year end related to three customers of which £48,741 relates to the Europe geographic region, £85,514 to North America and £171,259 to Asia.

The Company's customers are large multinational companies or research institutions and are consequentially not considered to add significantly to the Company's credit risk exposure. All trade receivables are due within the agreed credit terms for the current and preceding years and are consequently stated at cost.

Corporation tax and other receivables primarily consist of amounts invoiced and recoverable in GBP in respect of the UK based grants, rent deposits, VAT and, in the case of Corporation tax receivable, amounts receivable in respect of the Company's R&D tax credit claim. There is no material difference between the fair value of receivables and their carrying values and they are not materially overdue at the year end. There are no expected credit losses and have been no provisions for impairment of receivables during the year (2018: £nil). Other receivables include £741,448 which falls due after more than one year (2018: £nil).

The amounts owed by group undertakings are non-interest bearing and repayable on demand. The Company expects to fully recover these amounts and has no intention to call down these amounts in the foreseeable future. As such, no allowance for expected credit losses has been made.

Notes to the Financial Statements (continued)

11 Inventories

Inventories consist of raw materials and finished goods. Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material cost and, where applicable, direct labour costs and direct overheads that have been incurred. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

	2019	2018
	£	£
Raw materials and finished goods	**1,403,181**	774,656
Work in progress	-	625,344
	1,403,181	1,400,000

Inventories in raw materials and finished goods have increased in line with an increase in manufacturing capacity in the year and management's decision to hold a greater volume of some raw materials as the UK moves closer to a withdrawal from the EU.

12 Trade and other payables

Trade and other payables are recognised initially at fair value plus transaction costs that are directly attributable to its acquisition or issue. Where considered necessary they are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.
Derivative financial instruments are recognised at fair value. The gains or losses on remeasurement to fair value are recognised immediately in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as they arise.

	2019	2018
	£	£
Trade payables	**2,194,021**	1,632,890
Amount owed to ultimate parent undertaking	**66,952,851**	68,528,337
Amount owed to immediate parent undertaking	**45,946,717**	33,916,935
Taxation and social security payable	-	2,913
Other payables	**175,864**	81,161
Derivative financial liability – forward foreign exchange contracts	-	4,774
Accruals	**1,647,668**	1,117,012
Deferred income	-	932,564
	116,917,121	106,216,586

The amounts owed to group undertakings comprise inter-company loans and recharges which are non-interest bearing and repayable on demand.

13 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Dilapidations
Provisions have been made for future dilapidations costs on leased property and on onerous leases. These provisions are the Directors' best estimates as the actual costs and timing of future cash flows are dependent on future events and are updated periodically. These estimates are supported by advice received from professional advisors. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Notes to the Financial Statements (continued)

13 Provisions *(continued)*

Warranties
As at the year end, no technology hardware supplied or sold to customers was provided with contractual warranties. Where a constructive obligation has been created through an expectation or past practise, a provision for the associated costs of future claims has been included at the year end. A provision for constructive obligation warranties is recognised when the underlying products and services are sold. The provision is based on the past performance of the technology hardware, management's knowledge, customer expectations and a weighting of possible outcomes against their associated probabilities.

Contract losses
The Company holds provisions for expected contractual costs that it expects to incur over the life of the contract. Management exercises judgement to determine the value of the costs to be incurred and the amount of the provision to be made. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount to be incurred. Provision is made when the contractual or constructive obligation occurs. The provision is released to the Statement of Profit and Loss and Other Comprehensive Income over time or at the point in time that the actual costs are incurred.

	Property dilapidations	Warranties	Contract losses	Total
	£	£	£	£
At 1 July 2018	851,000	-	-	851,000
Provisions made during the year	140,669	93,185	64,743	298,597
At 30 June 2019	**991,669**	**93,185**	**64,743**	**1,149,597**

	Property dilapidations	Warranties	Contract losses	Total
	£	£	£	£
Current	-	93,185	64,743	157,928
Non-Current	991,669	-	-	991,669
At 30 June 2019	**991,669**	**93,185**	**64,743**	**1,149,597**

The dilapidation provision at the year end represents the present value of costs to be incurred, which is materially the same as the expected costs to be incurred, in making good the leasehold property at the end of its lease. The warranty provision at the year end is the result of a constructive obligation.

14 Other liabilities

	2019	2018
	£	£
Accruals	**332,896**	-

15 Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

Grants received of £705,000 (2018: £705,000), or an element thereof, may require repayment if the Company generates revenue (net of expenses and reasonable overheads) from the intellectual property created from the grant. In such case, the Company may be liable to pay back the grant at a rate of 5% of the net revenue generated in any one year. The Directors of the Company believe it is unlikely that any of the grants received will need to be repaid.

Notes to the Financial Statements (continued)

16 Share capital

	2019	2018
	£	£
Allotted and fully paid		
4,176,306 (2018: 4,176,306) ordinary shares of £0.001 each	**4,176**	4,176

17 Operating leases

The Company leases premises and office equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019		2018	
	Land and Buildings	**Other**	Land and Buildings	Other
Less than one year	**734,615**	**16,883**	429,429	29,053
Between one and five years	**3,052,999**	**12,455**	1,732,128	9,491
More than five years	**23,728**	**-**	456,760	-
	3,811,342	**29,338**	2,618,317	38,544

At the year end the properties have an average lease term of 4.8 years (2018: 6.1 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The office equipment leases have an average term of 1.9 years (2018: 1.1 years).

During the year £679,727 was recognised as an expense in the profit and loss account in respect of operating leases (2018: £365,993).

18 Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £1,115,750 as at 30 June 2019 (2018: £1,307,042).

19 Related party transactions

The Company has taken advantage of exemptions from disclosing related party transactions on the grounds that it is a wholly owned subsidiary of a group headed by Ceres Power Holdings plc, whose financial statements are publicly available. Related party transactions of the Group are disclosed in the Financial Statements of Ceres Power Holdings plc.

20 Ultimate parent company and parent company of larger group

The ultimate parent undertaking and controlling party is Ceres Power Holdings plc and the immediate parent undertaking is Ceres Power Intermediate Holdings Ltd. Both companies are incorporated in England in the United Kingdom.

The largest and smallest group in which the results of the company are consolidated is that headed by Ceres Power Holdings Plc whose registered office address is stated below.

Copies of the consolidated financial statements of Ceres Power Holdings plc are publicly available and can be obtained from the Company Secretary, Ceres Power Holdings plc, Viking House, Foundry Lane, Horsham, West Sussex, RH13 5PX or from the Group's website: https://www.cerespower.com/