

Ceres Power Limited

Annual report and financial statements

Registered number 04222409

Year ended 31 December 2022



Ceres Power Limited

**Annual report and financial statements
for the year ended 31 December 2022**

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Ceres Power Limited

Annual report and financial statements
for the year ended 31 December 2022

Directors and advisors

Directors

Philip Caldwell (Chief Executive Officer)
Eric Lakin (Chief Finance Officer)
Mark Garrett (Chief Operations Officer)
Caroline Hargrove CBE (Chief Technology Officer)
Deborah Grimason (General Counsel and Company Secretary)

Registered office

Viking House
Foundry Lane
Horsham
West Sussex
RH13 5PX

Solicitor

RPC LLP
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St. Katherine's Way
London
E1W 1AA

Independent Auditor

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
RH6 0PA

Banker

National Westminster Bank plc
2nd Floor, Turnpike House
123 High Street
Crawley
West Sussex
RH10 1DQ

Ceres Power Limited

Strategic report
for the year ended 31 December 2022

The Directors present their strategic report for Ceres Power Limited ("Ceres Power", "Ceres", "the Company") for the year ended 31 December 2022.

Review of the Business

Strategy

The following Review of the Business section relates to the Ceres Group (being Ceres Power Holdings plc and its subsidiaries, including Ceres Power Limited) as a whole. As Ceres Power Limited is the primary trading entity of the Ceres Group, substantially all of the commentary below is directly or indirectly relevant to the Company and its situation within the Group.

The strategy of Ceres Power Holdings plc and its subsidiaries (the "Group") is to help sustain a clean, green planet by ensuring there is clean energy everywhere in the world. The Group is a leading developer of clean energy technology for power and green hydrogen, enabling the world's most progressive companies to decarbonise at scale and pace.

Overview of performance

The recent global volatility has only served to highlight the urgency for energy security around the world, from surging inflation, the highly transmissible Omicron variant of Covid-19, Russia's invasion of Ukraine which triggered an energy crisis, to extreme climate events including record breaking heat waves and devastating floods in Pakistan – it was a year marked by political, economic and environmental instability.

The soaring price of energy has highlighted the need for increased levels of national self-sufficiency and provided a greater incentive to increase investment in sustainable energy with governments under increasing pressure to decarbonise their societies and hydrogen now widely acknowledged as an essential part of the route to net zero.

Despite the challenging macroeconomic backdrop, it has been another productive year at Ceres with our first electrolyser modules on test, an exciting new partnership with Shell, and a collaboration with Linde Engineering and Bosch for green hydrogen. We are making good progress on solid oxide fuel cell ("SOFC"), with existing partners Bosch and Doosan scaling production, and steps towards establishing our China joint venture. We have also opened a new test centre with Horiba MIRA in the UK, achieved record cell production at our pilot facility and grown the Ceres team to 570 colleagues.

We need to decarbonise our energy system, but we also need to provide energy security, stable power prices and sustainable employment. There are not many companies that have the opportunity to do something truly impactful on a global scale – but Ceres is one such company. Not only does it have unique clean energy technology that can play an important role in hard-to-decarbonise parts of our energy system, but we sit at the tipping point for our planet, which means the time to act is now.

It is no longer a question of credibility around technology, but credibility of scale

At our reference manufacturing plant in the UK, we are now producing 2MW of capacity, and by the middle of this decade we will have added 100 times that capacity with Bosch and at least another 50MW with Doosan. By the time our partners start planned series production, they will have invested more than €500 million in scaling our SOFC technology.

That same technology run in one direction is a highly efficient fuel cell for power generation, run in reverse enables low cost green hydrogen that provides a vital route to industrial decarbonisation of sectors such as steel, fertilisers and future fuels. We have committed £100 million to the development of its application in solid oxide electrolysis ("SOEC") and the first 100kW electrolyser module is on test ahead of scaling into a 1MW demonstrator. Initial results are positive and give confidence that this technology can deliver green hydrogen at <40kWh/kg, around 25% more efficiently than incumbent lower temperature technologies.

In March 2023, we signed a new agreement with Bosch and Linde Engineering, to assess Ceres' technology for use in large scale industrial applications as a pathway to low-cost green hydrogen. This is our second partnership announcement, following the agreement with Shell to establish a 1MW technology pilot of Ceres' SOEC system at its R&D centre in Bangalore, India. The agreement builds on Bosch's existing expertise in our SOFC technology and combines with Linde Engineering's world-leading capabilities in hydrogen process technology and a global customer

Ceres Power Limited

Strategic report (*continued*)
for the year ended 31 December 2022

footprint in industrial facilities. Our target is to enable the ecosystem of SOEC partners that can make Ceres' technology even more competitive and prepare it for mass adoption at scale.

By the end of this decade, we aim to have multiple factories in place producing multi gigawatts of fuel cell equivalent capacity globally. It is just the start. This is a global challenge and if we want to have a real impact on climate change, technology alone is not enough, we must work with partners to scale globally and at pace.

Collaboration is key

The war in Ukraine has added energy security to the urgency for climate action and in Europe we saw RePower EU's ambitious plans and strong financial incentives to move away from the reliance on gas and support the deployment of green hydrogen. In the US, the Inflation Reduction Act, signed into law last summer saw a record \$369 billion earmarked for energy and climate change policy – in a year when disasters from drought in the West to hurricanes in the East and a nationwide winter storm served as a stark reminder of climate perils.

There is simply no turning back to the world of cheap fossil-based energy. Hydrogen is now widely recognised by most companies and governments as key to enabling the energy transition, at the very least for hard-to-decarbonise industrial sectors that account for around a third of our energy system and more than its share of global emissions. Our partners, Bosch, Doosan, Shell, Weichai and others are among the most progressive companies, seeking and adopting new clean energy technologies at scale and pace, and the good news is that global competition can accelerate us towards achieving net zero. Where previously we spoke about an energy trilemma – where clean, low cost and security of supply were in tension – they now align, and clean energy will be the most secure and affordable into the future.

In 2022, we celebrated our 21st birthday, bringing the entire team together for the first time since before the pandemic. It provided an important pause from the day-to-day challenges to reflect on the past, present and future opportunities for the business and with nearly 500 people in one venue, it was a very visual reminder that we are collaborating with teams of a similar size across our partner organisations at Bosch, Doosan and Weichai.

These first steps towards deployment are vital, but they are not enough. We also seek to grow new partnerships across the globe to enable greater adoption through many more teams of people collaborating on Ceres' technology.

Strongest team in the global industry

Our partners come to us because of our technology, but they stay with us because of our people. They are passionate and brilliant and above all resilient, and they need to be because the science and the engineering challenges they are solving every day are hard. We are also working constantly to attract and retain the best people, ensuring they have training and development opportunities, benefits and access to share in the success of the Company. Many of our employees are also shareholders in Ceres – through Long Term Incentive Plans or through our employee save-as-you-earn scheme.

It is an exciting time to be at Ceres. We have a strong purpose, a talented team, and the opportunity to work alongside some of the most progressive companies globally, driving investment and scaling clean technologies. Success is in our hands, but we are not complacent, and we continue to focus on executing our strategy:

– To enable our licence partners to succeed

Our partners are investing significant time and resources into manufacturing Ceres' solid oxide technology, and we have expanded our engineering and specialist teams to ensure these early adopters are supported and successful in deploying new technology into new market opportunities.

– To build commercial scale

We create commercial scale by generating more demand through increasing commercial partnerships and licences, growing applications and addressing new markets. This year we have increased the Commercial teams' presence in several global locations.

– Maintain our technology leadership

As a licensing company it is imperative that we stay at the leading edge of our technology – and that is why we continue to innovate, from the next generation of our solid oxide technology, continued innovation of our IP for

Ceres Power Limited

Strategic report (*continued*)
for the year ended 31 December 2022

both fuel cell and electrolyser systems, to digitalisation programmes and what further technologies we may need to hit a net zero future.

Strategy and outlook

In March 2021, we set out a clear strategy on which we continue to execute. Investment across the business enables us to build a sustainable competitive advantage in highly differentiated solid oxide technology. We collaborate with world-leading partners and we have built one of the strongest teams in the global industry for fuel cells and green hydrogen. All of this gives me confidence that we will deliver on our ambition to develop and deploy clean energy technology at the scale and pace needed to decarbonise our energy systems, and in doing so make a tangible difference for ourselves, our families and friends, and generations to come.

Risk management process

The Board is responsible for the Group's risk framework and aims to ensure that the Group's ability to achieve its objectives outweighs its risk exposure. However, the Group's risk management programme can only provide reasonable, but not absolute, assurance that principal risks are managed to an acceptable level. The Audit Committee assists the Board in monitoring the effectiveness of our risk management and internal control policies, procedures, and systems.

The Executive Directors are responsible for identifying, managing, and mitigating the risks to the Company. The Executive Directors review the risks facing the Company at Executive committee meetings and with senior management across operations as a core part of day-to-day operations of the business. There is a bi-annual review process to assess the risk register at corporate level, and programme and project specific risks are reviewed at project level.

The Board and its Committees review key risks and mitigations and the Audit Committee subsequently puts them to the Board annually for inclusion in the Annual Report.

Principal business risks and mitigation actions are set out below. This summary is not intended to include all risks that could ultimately impact our business and the risks are presented in no particular order. We have considered possible risks resulting from the conflict in Ukraine, including potential disruption to our supply chain, as well as areas such as cyber security and climate change, and following internal investigations do not believe any new principal risks need to be captured. Beyond these, our business has other operational risks that we manage as part of our daily operations, such as health and safety, environmental, financial, commercial, legal and regulatory.

Principal risks	There is a risk that...	Actions taken by management/mitigations	Change
Core technology development	We will not be able to develop and apply the Group's technology successfully to potential products at the right cost point or performance, in the time frame anticipated.	<p>Management is working to achieve agreed performance level and cost points under ongoing programmes, with full resources and facilities deployed to meet milestone requirements.</p> <p>During the year we have invested in upgrading our test infrastructure and capacity via outsourcing agreements.</p> <p>We have also increased the headcount for technology development activities.</p>	Challenges remain due to short timescales and the risk of late changes driven by development issues, delayed test validation and maturing manufacturing processes.

Ceres Power Limited

Strategic report (continued)
for the year ended 31 December 2022

Principal risks	There is a risk that...	Actions taken by management/mitigations	Change
Partners' market launch	We may not be able to meet the timeframes agreed with the partners for the market launch of the Company's technology, for example due to stack product maturity not keeping up with commercialisation, or technology not meeting requirements.	We continue to work in close collaboration with partners in their trials and early market launches. Project teams on both sides have been enhanced.	No change. Progress has been made towards market launches with our partners. There remains a risk around the development and validation of stack attributes that may take longer than planned, impacting go-to-market timing or revenue linked to specific milestones.
Intellectual Property protection	The 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; Ceres not harvesting IP from partners; and others infringing existing Ceres intellectual property rights (IPRs). Also, a risk that the Group 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. We are implementing IP Centricity, a programme with tools for tracking and managing IP assets. Contractual provisions with partners and IP insurance provide additional protection to the Group for agreement, pursuit and defence of IP. We perform freedom-to-operate searches to minimise this risk.	Progress had been made to ensure we are able to protect and exploit our IP.
Long-term competition and market	The value proposition of our technology may become eroded or it may become irrelevant, impacting on the Group's future profitability and growth opportunities. We may not be successful in our research and development efforts and may not be able to create new intellectual property.	We address different geographical markets, which we believe will decarbonise at different rates, and we are broadening the applications available, mitigating failure in a single market or product. We monitor competitor activity and market developments to identify partner and end-user future requirements. We have dedicated resources for pursuing disruptive innovation, and continue to develop our university network. Our first electrolysis control module is successfully running and producing hydrogen at our site in Horsham, and we are working with our partners to validate the technology.	We continue to increase our pipeline of customers which mitigates the impact of individual customers choosing not to move forward.

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Strategic report (*continued*)
for the year ended 31 December 2022

Principal risks	There is a risk that...	Actions taken by management/mitigations	Change
Commercial	<p>Our partners may choose not to use our technology in their products or go to market slower than anticipated.</p> <p>We may not be able to continually attract new partners.</p> <p>We may be unable to finalise a strategic partnership to access China markets.</p> <p>We may be unable to establish SOEC as a credible technology, in part due to the competition risk.</p>	<p>We work in close partnership with Doosan and Bosch to achieve the 2024 go-to-market timeline.</p> <p>Our commercial progress is continuing with expansion across regions and applications.</p> <p>We plan to ensure SOEC leadership through development, demonstrations, and partnerships.</p> <p>We have invested to expand our commercial teams in key geographies, to align with the greatest interest and support for hydrogen and fuel cell technologies.</p>	<p>Negotiations continue around the joint venture agreements with Bosch and Weichai.</p> <p>Progress in the development of SOEC technology is reducing the risk.</p>
Operational execution	<p>The Company may be unable to satisfy customer contracts and scale-up, with an increasingly complex partner structure.</p> <p>This may be due to organisational growth management, testing capacity, supply chain, short-term manufacturing or technical issues.</p>	<p>We have reinforced our engineering and supply chain teams and established additional processes to support growth.</p> <p>We have created partnerships in engineering and testing to enable scaling up more quickly.</p> <p>We are continuing to expand capacity and capability of our facilities that support research and development activities, developing over time to support the move to a digitalised business environment.</p>	<p>We are building up the business to be in a better position to meet the challenges of our customers' expectations.</p>

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Strategic report (continued)
for the year ended 31 December 2022

Our key performance indicators

The Board monitors the Group's progress against its strategic objectives and the financial performance of the Group's operations. In line with the expanded strategy, the Board has changed some of the non-financial KPIs to be more relevant to the business, and the following details the principal financial and non-financial KPIs used by the Group.

Financial KPIs (Group)

KPI	2022	2021	2020
Revenue	£22.1m	£30.8m	£21.7m
Number of licensing partners at period end (stack/system)	5 (2/3)	5 (2/3)	5 (2/3)
Order backlog at period end	£67.8m	£78.7m	£97.0m

Revenue – revenue has reduced compared to 2021 primarily due to deferral of China joint venture and related licence fee revenue, however Ceres continues to deliver revenue at high margins.

Licensing partners – Doosan and Bosch are our stack manufacturing partners, with Weichai, Doosan and Miura as system partners.

Order backlog – Order backlog refers to confirmed contracted revenue including revenue which management estimates is contingent upon options not under the control of Ceres.

Non-Financial KPIs

KPI	2022 performance
Overall manufacturing capacity	250MW
Partner programmes delivery	Bosch and Doosan programmes on track for 2024
Demonstrate SOEC	Successful demonstration at module level in 2022 and on track for 1MW scale in 2023

Overall manufacturing capacity – planned stack manufacturing capacity from our partners.

Partner programmes delivery – we aim to ensure that our manufacturing partners start mass production as planned.

Demonstrate SOEC – we are looking to demonstrate SOEC at 1MW scale.

Statement by the Directors in performance of their duties in accordance with s172(1) Companies Act 2006

This statement sets out how the Board has had regard to the matters set out in s172(1) Companies Act 2006 ("s172") when performing its duties under s172 for the year ended 31 December 2022.

S172(1) imposes a duty on Directors to act in a way most likely to promote the success of the Company whilst having regard to its many and varied stakeholders. The Board is responsible for the long-term sustainable success of the Company as a whole and inextricably linked to this success are the views and needs of its stakeholders.

The Board has identified the Company's stakeholders as set out in these pages. It believes that it has at all times acted in a way that it considers, in good faith, would benefit the Company as a whole and where stakeholders may be impacted, has considered their views in its decision making.

Through the various engagement mechanisms set out in these pages, the Board ensures that it is cognisant of the views of stakeholders in all its discussions. Examples of how stakeholder views have influenced Board decisions and activity are demonstrated as follows.

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Strategic report (continued)
for the year ended 31 December 2022

Stakeholder group	Key issues	How the Board engages	Outcome
Shareholders	To ensure shareholders understand and have confidence in the Company's strategy and performance, purpose and culture. To build strong relationships with our shareholders and understand the issues that are important to them.	<ul style="list-style-type: none"> – Annual General Meeting – Direct meetings and calls with the Executive Directors, and as necessary with the Chairman and Senior Independent Director – Capital Markets days – Our website – The Annual Report and results announcements and presentations – Meeting analysts and receiving feedback from our brokers – RNS and RNS Reach announcements 	<ul style="list-style-type: none"> – We aim to build a purposeful, successful and sustainable business. We are a leading ESG company, having been awarded the Green Economy Mark by the London Stock Exchange, and as reflected in our ESG & Sustainability policy. – We raised net £179 million through an oversubscribed fundraise, to extend the Group's strategy to include SOEC as well as additional markets in SOFC. – Our communications to shareholders reflect our integrity, culture, values and behaviours and we are clear on our planned strategy and achievement against it. – We apply best practice governance where appropriate and have gone beyond the disclosures necessary in this Annual Report to more closely align with disclosures required on the Main Market.
Suppliers and partners	To ensure the Company, its partners and our supply chain are aligned to the achievement of the Company's strategy, ensuring all parties understand and benefit. To create an ecosystem which will aid the achievement of our goals.	<ul style="list-style-type: none"> – Through regular engagement across the Company including our commercial operations and technical people and the Chairman and CEO, where relevant – We have Company representatives in all the countries where our key partners are located 	<ul style="list-style-type: none"> – Our strategy is transparent to our suppliers and partners, promoting alignment with them. – Ceres aims to be an ethical business which deals fairly with customers and suppliers, as per our Code of Conduct and Business Ethics Policy. We pay our suppliers on time and work with them on fair terms. – We prohibit bribery and corruption and comply with all laws, rules and regulations including the Bribery Act 2010.

Ceres Power Limited

Strategic report (continued)
for the year ended 31 December 2022

Stakeholder group	Key issues	How the Board engages	Outcome
Employees	To attract, develop, incentivise and retain the best people to help us achieve our strategy and vision, and create a strong and supportive culture.	<ul style="list-style-type: none"> – Attending All Hands meetings and all-employee off-site events where possible – New joiner lunch sessions with CEO – Offer share options to employees – Sought feedback from Connect, Ceres' employee working group, on working arrangements during Covid-19 	<ul style="list-style-type: none"> – Strong alignment with our strategy and culture, including employee recognition awards. – Strong communications including an employee newsletter. – Introduced a new Equality and Diversity Policy and health and wellbeing initiatives. – We offer competitive, fair and equitable remuneration and benefits through our remuneration policy, including LTIP participation and an employee Share save scheme. – Rolled out Ceres Academy and began our Senior Leader development programme. These offer talent management and promote opportunities for career progression and development.
Wider society	To generate social and environmental impact, which is part of the Company's core purpose.	<ul style="list-style-type: none"> – Through our website and public reporting – By improving ESG reporting in our Annual Report 	<ul style="list-style-type: none"> – Our strategy is to develop clean energy for a clean world and we aim to build a purposeful, successful and sustainable business with positive societal impact. – Our Equality and Diversity Policy promotes equal opportunities and does not stand for bullying or harassment. – We are setting up a Charitable and Political Contributions Policy where we can give back to the societies where we operate, i.e. those aligned with the Group's purpose or for the benefit of local communities. Ceres does not make political contributions.



Eric Lakin
Director
23 June 2023

Ceres Power Limited

Directors' report for the year ended 31 December 2022

The Directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2022.

Principal activity

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

Research and development

During the year, the Company incurred expenditure of £46,963,015 (2021: £30,699,326) on research and development ("R&D"), which was charged to the statement of profit and loss. In addition, £5,613,232 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 (2021: £4,235,564). 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 £50,262,631 (2021: £33,845,962).

The 2021 and 2020 results have been restated to reflect an adjustment to R&D tax credit claims for certain costs which were inadvertently claimed in 2019 and 2020 under the Small and Medium-sized Enterprise (SME) R&D tax credit schemes, whereas they should have been claimed at a lower claim rate under the RDEC scheme.

As a result, the 2021 taxation credit has been increased by £310,000 to remove a provision that was recognised in 2021 against future tax credits that should have been recognised in 2019 and 2020. The 2021 net loss has therefore reduced from £34,155,962 to £33,845,962. The opening statement of financial position as at 1 January 2021 has also been presented, restated by a net £1,303,646 decrease to current assets reflecting a £1,916,018 decrease in current tax receivable under the SME tax scheme and a £637,512 increase in other receivables under the RDEC tax scheme. The 2021 other receivables increased by £947,512 and the current tax receivable decreased by £1,916,018 giving rise to a net decrease in net assets of £968,506.

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

Going concern

Notwithstanding net current liabilities of £234,786,391 as at 31 December 2022 (2021: £173,164,390) and a loss for the year then ended of £50,262,631 (2021: £33,845,962) the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

At 31 December 2022, the Group held cash and cash equivalents and investments of £182,319,719. The Directors have prepared annual budgets and cash flow projections that extend 15 months from the date of approval of the annual report. The increased operating cash used in the year is in line with the Group's strategy to invest in the development of our electrolysis and fuel cell technology to support future revenue streams. Future projections include management's expectations of the further cash outflows associated with the Group's investment in R&D projects and expansion of manufacturing and testing capacity, together with contracted and anticipated customer contracts and the planned investment in the China collaboration with Bosch and Weichai. The projections were stress tested by applying different scenarios including the loss of significant future revenue, continued adverse macroeconomic factors and a scenario in which the planned joint venture in China do not go ahead. In each case the projections demonstrated that the Group is expected to have sufficient cash reserves to meet its liabilities as they fall due and to continue as a going concern. For the above reasons, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

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. Ceres Power Holdings plc and

Ceres Power Limited

Directors' report (*continued*)
for the year ended 31 December 2022

Going concern (*continued*)

Ceres Power Intermediate Holdings Limited have indicated their intention to continue to make available such funds as are needed by the Company, and that they do not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts, which at 31 December 2022 amounted to £240,899,855 (2021: £173,342,016).

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 have prepared the financial statements on a going concern basis.

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 the risk that a counterparty or customer fails to meet its contractual obligations. Trade receivables at the year end relate to three customers (2021: five) of which £578,966 relates to the Europe geographic region and £2,419,898 to Asia (2021: £696,460 related to the Europe geographic region, £274,231 to North America and £1,641,166 to Asia).

Contract assets at the year end related to four customers of which £427,155 relates to the Europe geographic region and £2,398,703 to Asia. (2021: £1,458,590 related to the Europe geographic region, £201,571 to Asia and £320,741 to North America).

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.

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 Company'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 its 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.

Ceres Power Limited

Directors' report (*continued*)
for the year ended 31 December 2022

Financial risk management (*continued*)

Note 20 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:

Philip Caldwell (Chief Executive Officer)

Eric Lakin (Chief Finance Officer)

Mark Selby (Chief Technical Officer)

(resigned 26 April 2023)

Mark Garrett (Chief Operations Officer)

Caroline Hargrove CBE (Chief Technology Officer)

Deborah Grimason (General Counsel and Company Secretary)

(appointed 26 April 2023)

The Company maintains liability insurance for its Directors and Officers as permitted by the Companies Act 2006.

Charitable and political contributions

The Company made no charitable or political donations or incurred any political expenditure during the year (2021: £nil).

Employee information

The Company engages with employees in a number of ways, including regular 'All Hands' meetings and social events, the Connect employee forum and by providing learning and development opportunities via the Ceres Academy.

The Company encourages diversity and equal opportunity for all people in relation to recruitment, selection and career development. This includes giving full and fair consideration to applications for employment by disabled persons and the continued employment of anyone incurring a disability while employed by the Company.

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.

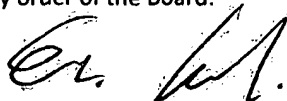
Other information

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 3 to 10.

Re-appointment of auditor

In accordance with section 485 of the Companies Act 2006, a resolution has been accepted for re-appointment of BDO LLP as auditor of the Company.

By order of the Board:



Eric Lakin

Director

Viking House, Foundry Lane
Horsham, RH13 5PX
23 June 2023

Ceres Power Limited

Directors' responsibilities statement for the year ended 31 December 2022

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members Ceres Power Limited

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Ceres Power Limited ("the Company") for the year ended 31 December 2022 which comprise the Statement of profit and loss and other comprehensive income, Statement of financial position, Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's report to the members Ceres Power Limited (*continued*)

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's report to the members Ceres Power Limited (*continued*)

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006 and UK GAAP.
- We agreed the financial statement disclosures to underlying supporting documentation.
- We made enquiries of management and those charged with governance of any known, reported or indications of non-compliance with laws and regulations including fraud occurring within the Company and its operations.
- We reviewed and assessed the accounting estimates for possible bias and obtained an understanding of the business rationale for significant transactions that are outside the normal course of the business for the Company and those that appear to be unusual. There were none.
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We tested journal entries, focusing on journal entries containing characteristics of audit interest.
- We tested and challenged the key estimates and judgements made by management in preparing the financial statements for indications of bias or management override when presenting the results and financial position of the Company.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to management override in relation to inappropriate revenue journals and incomplete or inaccurate revenue recognition through inappropriate treatment of contracts under IFRS 15 or through manual overriding of the revenue recognition spreadsheet.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditor's report to the members Ceres Power Limited (*continued*)

Use of our report

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.

DocuSigned by:



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Michael Philp

(Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Gatwick

23 June 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Ceres Power Limited

Statement of profit and loss and other comprehensive income for the year ended 31 December 2022

	Notes	2022	2021 Restated ¹
		£	£
Revenue	2	13,244,807	13,657,170
Cost of sales		(7,599,311)	(10,132,706)
Gross profit		5,645,496	3,524,464
Other operating income	4	1,332,397	2,227,501
Operating costs	5	(61,643,629)	(42,448,424)
Operating loss		(54,665,736)	(36,696,459)
Finance income		2,065	1,027
Finance expense		(298,811)	(379,935)
Loss before taxation	5	(54,962,482)	(37,075,367)
Tax on loss	8	4,699,851	3,229,405
Loss for the financial year and total comprehensive loss		(50,262,631)	(33,845,962)

¹ The 2021 taxation credit has been restated to increase the credit by £310,000 following the adjustment of prior year R&D tax credit claims and a related tax provision reported in 2021. The 2021 results have further been re-presented to reflect the re-classification of the Company's RDEC tax credit of £1,303,646. This was previously disclosed within cost of sales but is now presented within other operating income to align to the change in presentation applied to the Company's 2022 results. See Note 1 for details.

The notes on pages 22 to 45 form an integral part of these Financial Statements.

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

Ceres Power Limited


Statement of financial position as at 31 December 2022

	Notes	As at 31 Dec 2022 £	As at 31 Dec 2021 Restated ¹ £	As at 31 Dec 2020 Restated ¹ £
Fixed assets				
Tangible fixed assets	9	25,963,617	18,140,094	14,979,068
Right of use assets	10	2,646,984	2,437,850	3,971,488
Intangible assets	11	12,502,540	7,844,871	4,613,752
Investments in subsidiaries	12	100,000	100,000	—
Other receivables	13	741,448	741,448	741,448
		41,954,589	29,264,263	24,305,756
Current assets				
Trade and other receivables	13	17,192,880	10,617,125	8,948,776
Contract assets	2	3,342,231	1,980,902	322,648
Inventories	14	5,714,045	3,144,997	2,107,151
Cash at bank and in hand		5,420,855	3,930,032	7,264,673
		31,670,011	19,673,056	18,643,248
Current liabilities				
Trade and other payables	15	(260,339,344)	(186,715,358)	(147,957,790)
Contract liabilities	2	(4,577,042)	(3,789,553)	(5,105,335)
Lease liabilities	16	(610,596)	(754,014)	(823,012)
Provisions	17	(929,420)	(1,578,521)	(612,497)
		(266,456,402)	(192,837,446)	(154,498,634)
Net current liabilities		(234,786,391)	(173,164,390)	(135,855,386)
Total assets less current liabilities		(192,831,802)	(143,900,127)	(111,549,630)
Non-current liabilities				
Lease liabilities	16	(2,513,790)	(2,285,103)	(3,621,708)
Provisions	17	(1,933,344)	(1,828,208)	(1,610,000)
Non-current liabilities		(4,447,134)	(4,113,311)	(5,231,708)
Net liabilities		(197,278,936)	(148,013,438)	(116,781,338)
Capital and reserves				
Called up share capital	18	4,176	4,176	4,176
Share premium account		9,547,273	9,547,273	9,547,273
Profit and loss account		(206,830,385)	(157,564,887)	(126,332,787)
Total shareholders' deficit		(197,278,936)	(148,013,438)	(116,781,338)

¹2020 and 2021 trade and other receivables and current tax receivable have been restated to reflect an adjustment to prior year R&D tax claims as set out in Note 1.

The notes on pages 22 to 45 form an integral part of these Financial Statements.

The financial statements on pages 19 to 45 were approved by the board of Directors on 23 June 2023 and were signed on its behalf by:


Eric Lakin
Director

Ceres Power Limited
Registered Number: 04222409

Ceres Power Limited

Statement of changes in equity for the year ended 31 December 2022

	Notes	Share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2021 – Restated ¹		4,176	9,547,273	(126,332,787)	(116,781,338)
Comprehensive loss					
Loss for the financial year and total comprehensive loss – Restated ¹		–	–	(33,845,962)	(33,845,962)
Total comprehensive loss – Restated¹		–	–	(33,845,962)	(33,845,962)
Transactions with owners					
Share-based payment charge	6	–	–	2,613,862	2,613,862
Total transactions with owners		–	–	2,613,862	2,613,862
At 31 December 2021 – Restated ¹		4,176	9,547,273	(157,564,887)	(148,013,438)
Comprehensive loss					
Loss for the financial year and total comprehensive loss		–	–	(50,262,631)	(50,262,631)
Total comprehensive loss		–	–	(50,262,631)	(50,262,631)
Transactions with owners					
Share-based payment charge	6	–	–	997,133	997,133
Total transactions with owners		–	–	997,133	997,133
At 31 December 2022		4,176	9,547,273	(206,830,385)	(197,278,936)

¹2020 and 2021 results have been restated to reflect an adjustment to prior year R&D tax claims as set out in Note 1.

The profit and loss reserve includes an amount of £504,000 (2021: £504,000) that is non-distributable. The non-distributable amount is the result of a historical disposal of intellectual property to a group undertaking.

The notes on pages 22 to 45 form an integral part of these Financial Statements.

Ceres Power Limited

Notes to the financial statements for the year ended 31 December 2022

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.

The financial statements of the Company have been prepared on a going concern basis, in accordance with the requirements of the Companies Act 2006. The Company has elected to prepare its entity financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The presentation currency used is sterling.

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 UK adopted international accounting standards and are available to the public on the Group's website (<https://www.ceres.tech/>) 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 and Companies Act 2006 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.

During the year the Company re-classified the presentation of the Research and Development Expenditure Credit ("RDEC") tax credit within the consolidated statement of profit and loss. The RDEC tax credit was previously presented within cost of sales, however in order to better align with our peers and to achieve a more consistent presentation with other items to which we apply government grant accounting to (see Note 4), the Company now presents the RDEC tax credit within other operating income. Prior year comparatives have been re-presented accordingly. The impact of this change was to increase the current year's cost of sales and other operating income by £1,081,257 (2021: £1,303,646).

The 2021 and 2020 results have been restated to reflect an adjustment to R&D tax credit claims for certain costs which were inadvertently claimed in 2019 and 2020 under the Small and Medium-sized Enterprise (SME) R&D tax credit schemes, whereas they should have been claimed at a lower claim rate under the RDEC scheme.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

1. Accounting policies (*continued*)

As a result, the 2021 taxation credit has been increased by £310,000 to remove a provision that was recognised in 2021 against future tax credits that should have been recognised in 2019 and 2020. The 2021 net loss has therefore reduced from £34,155,962 to £33,845,962. The opening statement of financial position as at 1 January 2021 has also been presented, restated by a net £1,303,646 decrease to current assets reflecting a £1,916,018 decrease in current tax receivable under the SME tax scheme and a £637,512 increase in other receivables under the RDEC tax scheme. The 2021 other receivables increased by £947,512 and the current tax receivable decreased by £1,916,018 giving rise to a net decrease in net assets of £968,506.

The accounting policies set out below and at the start of the respective notes have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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 £234,786,391 as at 31 December 2022 (2021: £173,164,390) and a loss for the year then ended of £50,262,631 (2021: £33,845,962) the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

At 31 December 2022, the Group held cash and cash equivalents and investments of £182,319,719. The Directors have prepared annual budgets and cash flow projections that extend 15 months from the date of approval of this report. The increased operating cash used in the year is in line with the Group's strategy to invest in the development of our electrolysis and fuel cell technology to support future revenue streams. Future projections include management's expectations of the further cash outflows associated with the Group's investment in R&D projects and expansion of manufacturing and testing capacity, together with contracted and anticipated customer contracts and the planned investment in the China collaboration with Bosch and Weichai. The projections were stress tested by applying different scenarios including the loss of significant future revenue, continued adverse macroeconomic factors and a scenario in which the planned joint venture in China do not go ahead. In each case the projections demonstrated that the Group is expected to have sufficient cash reserves to meet its liabilities as they fall due and to continue as a going concern. For the above reasons, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

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. Ceres Power Holdings plc and Ceres Power Intermediate Holdings Limited have indicated their intention to continue to make available such funds as are needed by the Company, and that they do not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts, which at 31 December 2022 amounted to £240,899,855 (2021: £173,342,016).

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 have prepared the financial statements on a going concern basis.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

1. Accounting policies (*continued*)

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.

Significant Judgements

The judgements made by management in applying accounting policies that are considered to have the most significant impact on the Company's assets and liabilities are the following:

- Revenue
- Capitalisation and amortisation of development costs
- Determination of the term of the lease as a lessee in the event of agreements with termination options
- Recoverability of intra group balances

Revenue

The Company has recognised revenue from customer contracts of £13,244,807 in the year ended 31 December 2022 (2021: £13,657,170) and net contract liabilities of £1,234,811 (2021: £1,808,651) as at 31 December 2022. Note 2 sets out the Company's accounting policies in respect of revenue from customer contracts.

Customer contracts typically include engineering services, access to or sale of technology hardware and licences. Judgement is required when identifying the performance obligations in a contract as well as when determining the basis on which to allocate revenue between each performance obligation.

In determining the revenue recognition for license components of customer contracts, judgements must be made as to the nature of the licences (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. For example, where a contract infers the customer with the right to benefit from existing background IP as at a specific date, that is generally treated as a right to use licence. In contrast, where a contract infers the customer with the right to benefit from future IP developments as they occur, that would be more likely to be treated as a right to access licence. Judgement is also required when determining the point at which the benefit of the IP is fully transferred to the customer, which can depend on a number of factors including their experience with fuel cell technology.

Capitalisation and amortisation of development costs

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.

Following the signing of commercial contracts with the Group's strategic partners in 2018, management determined that the probability threshold had been met for the Group's fuel cell (SOFC) technology, and the Group implemented processes to continuously review and assess all customer and internal development programme expenditure to ascertain whether it is appropriate to capitalise development costs under IAS 38.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

1. Accounting policies (*continued*)

Critical accounting estimates and judgements (*continued*)

Determining when capitalisation should commence is a critical judgement, as is the basis for the appropriate stage at which to cease capitalising ongoing costs and to commence amortising the capitalised asset.

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 another milestone gate, confirming development activities are completed, the capitalisation of costs ceases. Any further expenditure is expensed, and amortisation of the intangible asset commences.

Application of the above policy requires management's judgement around key areas such as future commercial feasibility of the development and that future economic benefit will be derived from the development. The Executive Board regularly reviews the critical judgements around capitalisation and useful economic life of development projects.

During the year ended 31 December 2022, the application of these judgements resulted in development costs of £5,613,232 (2021: £4,235,564) being capitalised (see Note 11). The net book value of capitalised development costs as at 31 December 2022 increased to £12,502,540 (2021: £7,844,871), and amortisation of £955,563 (2021: £1,004,445) was charged during the year. In addition, judgement was applied to continue to expense the majority of costs involved in our research and development activities around our SOEC technology, given the early stage of our investment.

Determination of the term of the lease as a lessee in the event of agreements with termination options

Ceres determines the term of the lease as the non-cancellable period for which the lessee has the right to use the asset as well as periods covered by termination options if Ceres is reasonably certain that it will not exercise that option. Both leases for premises contain a break clause. Ceres applies judgement in evaluating whether it is reasonably certain that an option to renew will be exercised or that an option to terminate the lease will not be exercised. In this context, Ceres considers all relevant facts and circumstances that create an economic incentive for Ceres to exercise, or not to exercise, the termination option, respectively.

During the year, the Group signed an extension to a property lease and revised the expected term of that lease accordingly. An adjustment of £829,170 was recognised to increase the right-of-use asset, with a corresponding adjustment to the lease liability.

Recoverability of intra group balances

At the 31 December 2022 the Company had balances owed from Ceres Intellectual Property Company Limited of £609,121 (2021: £1,458,365). Management exercises judgement to determine the recoverability of these balances and the amount of provision to be made for expected credit losses. The Company applies the general approach for the impairment review of intra group balances to subsidiaries. Under the General Approach, at each reporting date the Company must determine whether the balance is in Stage 1, Stage 2 or Stage 3 and recognise 12-month expected credit losses or lifetime expected credit losses accordingly. 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. No allowance for expected credit losses has been made.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

1. Accounting policies (*continued*)

Critical accounting estimates and judgements (*continued*)

Significant estimates and assumptions

Determination of period-related revenue recognition over the course of 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 estimation when valuing and allocating revenue to key components.

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. Changes in these estimates may impact revenue recognised at the reporting date.

The actual recognition of wholly or partially unsatisfied performance obligations may ultimately differ from the estimate made at the reporting date and it is reasonably possible that outcomes on these contracts within the next reporting period could differ, adversely or favourably, in aggregate to those estimated. The estimated costs to complete reflect management's best estimate at that point in time and no individual estimate is expected to have a materially different outcome. If the expected costs to complete for the Company's contracts were 10% higher or lower for the year ended 31 December 2022, revenue recognised in 2022 could be up to £600,000 higher or lower as a result.

Recognition and measurement of warranty provisions

As at 31 December 2022, the Company has recognised warranty provisions of £875,300 (2021: £1,253,209). When recognising and measuring provisions, assumptions are required about probability of occurrence, maturity and level of risk. Determining whether a current obligation exists is usually based on review by internal experts. The amount of provision is based on expected expenses, and is either calculated by assessing the specific case in the light of empirical values, outcomes from comparable circumstances, evidence provided from historical commercial settlements, or else estimated by experts.

During the year, following the completion of certain contracts and an additional year's data regarding stack failure and degradation rates, £706,402 of the existing provision was released. Of this amount £306,000 has been disclosed as a contingent liability as although there remains a risk of stacks failing we have determined that this is not probable at the balance sheet date.

Management believes that, based on existing knowledge, it is reasonably possible that warranty costs could be up to 50% higher than expected. This could result in the Company incurring additional costs of up to c.£600,000 over the next 12 months as a result. Note 17 sets out further details around the Company's warranty provisions.

Recognition and measurement of dilapidation provisions

As at 31 December 2022, the Company has recognised dilapidations provisions of £1,933,344 (2021: £1,828,208). The amount of provision is based on the expected cost at the termination of the lease agreements, to bring the leasehold properties back to their original condition. The provision has been based on an independent surveyor's report, however management have applied judgement and interpretation to determine the best estimate of the expenditure required to settle the Company's probable liability based on this valuation, as well as to determining an appropriate discount rate to apply. If total dilapidation costs ended up being 10% higher than expected, additional costs incurred would be in the order of £190,000. Note 17 sets out further details around the Company's dilapidation provisions.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

2. Revenue

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 and other sales taxes.

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 Company 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

Percentage of completion is measured based on the cumulative actual contract costs (or labour hours) at each reporting period compared to the estimated total contract costs (or labour hours) to deliver the service over the contract life. The assessment of the total project costs (or labour hours) 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.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

2. Revenue (*continued*)

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.

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.

If a loss is expected in respect of a contract, the entire loss is recognised immediately in the profit and loss account.

Variable consideration, such as for the achievement of performance targets or variation requests under negotiation with the customer at the reporting date, can be included in the transaction price together with the estimated costs to perform the associated obligations. These estimates of the expected value or most likely amount are recognised to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised in a future reporting period.

Contract modifications are treated as a separate contract if the scope of the contract increases because of the addition of distinct goods or services, and the price of the contract increases by an amount of consideration that reflects the stand-alone selling price of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

Where a contract modification does not meet these criteria, it is accounted for as an adjustment to the existing contract, either prospectively, where the remaining goods or services are distinct from the goods and services transferred before the modification, or through a cumulative catch-up adjustment, where the remaining services are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified.

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

Geographical market:

	2022	2021
	£	£
Europe	7,960,587	7,675,560
Asia	4,867,240	5,629,752
North America	394,480	108,596
Rest of World	22,500	243,262
	13,244,807	13,657,170

Major product/service lines:

	2022	2021
	£	£
Engineering services	5,703,043	4,985,103
Provision of technology hardware	5,397,471	6,442,343
Licenses	2,144,293	2,229,724
	13,244,807	13,657,170

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

2. Revenue (*continued*)

Contract-related assets and liabilities:

	Note	31 Dec 2022 £	31 Dec 2021 £
Trade receivables	13	<u>2,998,864</u>	2,611,857
Contract assets – accrued income		<u>3,342,231</u>	1,660,162
Contract assets – deferred costs		<u>–</u>	320,740
		<u>3,342,231</u>	1,980,902
Total contract-related assets		<u>6,341,095</u>	4,592,759
Contract liabilities – deferred income		<u>(4,577,042)</u>	(3,789,553)

No material expected credit losses were recognised against trade receivables and contract assets in either the current or prior year. Further details regarding the composition of trade receivables can be found in Note 13.

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, which is generally when work is invoiced. The increase in the current year compared with prior year is primarily due to one customer where a significant amount of hardware was shipped in the last quarter.

The contract assets – deferred costs – relate 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 invoices or consideration received in advance from customers. There are no significant financing components associated with deferred income.

Revenue recognised in the current year that was included in the contract liabilities – deferred income – balance at the beginning of the year was £790,608 (year ended 31 December 2021: £1,237,015).

There were no significant amounts of revenue recognised in the year ended 31 December 2022 arising from performance obligations satisfied in previous periods (year ended 31 December 2021: no significant amounts).

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

3. Segmental analysis

The Company has two reporting segments, being Power (SOFC) and Hydrogen (SOEC), and reports revenue, gross profit and Adjusted EBITDA by segment in its internal reporting of management information.

	Power - SOFC	Hydrogen - SOEC	2022
	£	£	£
Revenue	13,064,807	180,000	13,244,807
Cost of sales	(7,590,222)	(9,089)	(7,599,311)
Gross profit	5,474,585	170,911	5,645,496
Other operating income	1,332,397	—	1,332,397
Operating costs (excluding adjusting items)	(31,577,048)	(21,843,903)	(53,420,951)
Adjusted EBITDA	(24,770,066)	(21,672,992)	(46,443,058)
<i>Adjusting items:</i>			
Depreciation and amortisation			(7,061,864)
Share-based payment charge			(997,134)
Net foreign exchange losses			856,359
Fair value adjustment			(1,020,039)
Operating loss			(54,665,736)
Finance income			2,065
Finance expense			(298,811)
Loss before taxation			(54,962,482)
Taxation credit			4,699,851
Loss for the financial year			(50,262,631)

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

3. Segmental analysis (*continued*)

	Power - SOFC	Hydrogen - SOEC	2021 Restated ¹
	£	£	£
Revenue	13,657,170	—	13,657,170
Cost of sales	(10,132,706)	—	(10,132,706)
Gross profit	3,524,464	—	3,524,464
Other operating income	2,227,501	—	2,227,501
Operating costs (excluding adjusting items)	(23,251,691)	(12,183,087)	(35,434,778)
Adjusted EBITDA	(17,499,726)	(12,183,087)	(29,682,813)
<i>Adjusting items:</i>			
Depreciation and amortisation			(5,761,225)
Share-based payment charge			(2,613,862)
Net foreign exchange gains			305,206
Fair value adjustment			1,056,235
Operating loss			(36,696,459)
Finance income			1,027
Finance expense			(379,935)
Loss before taxation			(37,075,367)
Taxation credit			3,229,405
Loss for the financial year			(33,845,962)

¹The 2021 taxation credit has been restated to remove a provision of 310,000 recognised in 2021 against future tax credits, that should have been recognised in 2019 and 2020. Further, the 2021 RDEC tax credit of £1,303,646 has been re-presented to disclose the credit within other operating income rather than within cost of sales. Note 1 sets out the relevant details.

All of the Group's non-current assets are located in the UK (2021: all in the UK).

4. Other operating income

Grants are recognised on a case-by-case basis. Revenue grants are recognised in the Profit and Loss Account 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 Profit and Loss Account 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 Balance Sheet as deferred income and are recognised only when the relevant milestone has been achieved and the associated cash has been received.

	2022	2021
	£	£
Government grants	251,140	923,855
RDEC tax credit ¹	1,081,257	1,303,646
	1,332,397	2,227,501

¹ The 2021 RDEC tax credit has been re-presented to disclose it within other operating income, to be consistent with our presentation of other items accounted for as government grants and the 2022 credit. The 2021 RDEC tax credit of £1,303,646 was previously reported within cost of sales.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

5. 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 11), are written off as incurred and charged to the Statement of profit and loss.

Included in the ordinary activities before taxation are the following:

	2022 £	2021 £
Operating costs are split as follows:		
Research and development costs	46,963,015	30,699,326
Administrative expenses	12,287,715	9,581,208
Commercial	2,392,899	2,167,890
	61,643,629	42,448,424
	2022 £	2021 £
Loss before taxation is stated after charging/(crediting):		
Staff costs, including share-based payments (Note 6)	34,497,775	26,951,801
Cost of inventories recognised as expense (Note 14)	5,023,132	5,866,691
Depreciation charge on tangible fixed assets (Note 9)	5,486,265	4,216,191
Depreciation of right of use assets (Note 10)	620,036	540,589
Amortisation of intangibles (Note 11)	955,563	1,004,445
Net change in fair value of financial instruments at fair value through profit or loss	1,020,039	(1,056,235)
Net foreign exchange loss	(683,530)	(305,206)
	2022 £	2021 £
Auditor remuneration:		
Audit services		
- remuneration receivable by the Company's auditor for the auditing of the financial statements	49,000	22,500
Other services		
- audit related assurance services – government grants	7,000	21,120
- advisory services in relation to the Group's potential move to the Main Market	217,000	96,000

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

6. Staff numbers and costs

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

	2022 Number	2021 Number
By activity:		
Research and development	249	204
Prototype production	177	145
Administration	96	58
Commercial	14	7
	536	414

The aggregate payroll costs of these persons were as follows:

	2022 £	2021 £
Staff costs (for the above persons):		
Wages and salaries	28,280,984	20,576,551
Social security costs	3,289,597	2,387,375
Contributions to defined contribution plans	1,930,061	1,374,013
Share-based payments	997,133	2,613,862
	34,497,775	26,951,801

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 £1,930,061 (2021: £1,374,013). No amount was due payable in respect of pension contributions by the Company at the year end (2021: £219,152).

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.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

7. Directors' remuneration

	2022	2021
	£	£
Directors' remuneration	1,641,544	1,266,936
Company contributions to defined contribution plans	73,514	54,312
Gain on exercise of share option	114,163	97,635
	1,829,221	1,418,883

Highest paid Director

	2022	2021
	£	£
Aggregate emoluments	533,880	478,412
Company contributions to defined contribution pension schemes	29,526	25,032
Gain on exercise of share option	38,054	—
	601,460	503,444

Two 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 £589,246 (2021: £252,722).

Four Directors (2021: four) have retirement benefits accruing under defined contribution pension schemes.

Five Directors (2021: four) held options in the ultimate holding company, Ceres Power Holdings plc, at 31 December 2022. Two Directors exercised options in the holding company during the year (2021: one).

8. Taxation

The taxation credit for the year comprises current and deferred tax and any adjustment to tax payable or receivable in respect of previous periods. Tax is recognised in the Statement of profit and loss 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 balance sheet date. The current tax receivable represents the Directors' best estimate of tax due to the Company at the year end under the SME R&D tax and RDEC 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.

	2022	2021
	£	Restated ¹
Recognised in the statement of profit and loss		
UK corporation tax – R&D tax credit	4,469,627	2,916,535
Foreign tax suffered	—	(23,982)
Adjustment in respect of prior years – R&D tax credit	230,224	336,852
Tax credit on loss on ordinary activities	4,699,851	3,229,405

¹The 2021 taxation credit has been restated to remove a provision recognised in 2021 against future R&D tax credits that should have been recognised in 2019 and 2020. The restatement has increased the adjustment in respect of prior periods by £310,000, from a credit of £26,852 to a credit of £336,852. See Note 1.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

8. Taxation (*continued*)

A tax credit has arisen as a result of expenditure surrendered and claimed under the SME R&D tax credit regime in the current and prior year.

Reconciliation of effective tax rate

The tax assessed for the year is different from the standard rate of UK corporation tax of 19% (2021: 19%). The differences are explained below:

	2022	2021 Restated ¹
	£	£
Loss before taxation	(54,962,482)	(37,075,367)
Loss before taxation at the UK tax rate of 19% (2021: 19%)	(10,442,872)	(7,044,320)
Effects of:		
Enhanced tax deductions for R&D expenditure	(3,310,632)	(5,065,955)
Expenses not deductible for tax purposes	138,086	105,892
Short term timing differences	(1,206,225)	13,596
Fixed asset differences	(216,576)	455,845
Losses carried forward	9,146,734	6,583,562
Share option timing differences	(1,058,096)	(2,846,210)
Adjustment in respect of prior years – R&D tax credit	(230,233)	(336,852)
Difference between R&D tax credit and small company tax rates	1,387,248	5,061,398
Tax on RDEC credit	159,353	(3,539,773)
Effect of group relief surrendered	933,362	3,359,520
Withholding tax suffered	–	23,892
Total current tax credit	(4,699,851)	(3,229,405)

¹The adjustment in respect of prior periods – R&D tax credit has been restated as described above.

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

	Amount recognised year ended 31 Dec 2022 £	Amount recognised year ended 31 Dec 2021 £	Amount unrecognised year ended 31 Dec 2022 £	Amount unrecognised year ended 31 Dec 2021 £
Tax effect of timing differences because of:				
Difference between capital allowances and depreciation	–	–	(15,118)	1,324,760
Deductions relating to share options	–	–	3,838,887	12,693,369
RDEC	–	–	79,822	147,875
Losses carried forward	–	–	39,820,817	28,155,153
	–	–	43,724,408	42,321,157

The deferred tax assets have not been recognised as the Directors consider it unlikely that taxable profit will arise in the foreseeable future. The potential deferred tax assets are calculated using the estimated UK tax rate of 25% (2021: 25%). The gross amount of losses carried forward as at 31 December 2022 was £159,283,269 (31 December 2021: £112,620,612), which do not have an expiry date.

A change in the main UK corporation tax rate, announced in the budget on March 2021, was substantively enacted on 24 May 2021. From 1 April 2023 the main corporation tax rate will increase from 19% to 25% on profits over £250,000. The rate for small profits under £50,000 will remain at 19%. Where the Company's profit falls between £50,000 and £250,000, the lower and upper limits, it will be able to claim an amount of marginal relief providing a gradual increase in the corporation tax rate. This will impact the Company's future tax charge accordingly.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

9. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. All other repairs and maintenance costs are charged to the Statement of profit and loss during the financial year in which they are incurred.

Depreciation is charged to the Statement of profit and loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	Ten 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
Motor vehicles	Three to five years

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

The carrying values of tangible fixed assets are reviewed on an on-going basis for any indication of impairment. Where any indication of impairment exists, the recoverable value of the assets is estimated. An impairment loss is recognised in the Statement of profit and loss whenever the carrying value of a tangible fixed asset exceeds its recoverable amount.

'Assets under construction' represents 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.

	Leasehold improvements	Plant and machinery	Computer equipment	Fixtures and fittings	Assets under construction	Motor vehicles	Total
	£	£	£	£	£	£	£
Cost							
At 1 Jan 2022	7,647,039	26,290,470	2,580,902	348,641	1,975,372	11,500	38,853,924
Additions	1,111,266	5,147,284	202,795	—	6,848,443	—	13,309,788
Transfers	70,726	893,405	—	—	(964,131)	—	—
Disposals	(1,621,041)	(6,669,023)	(830,785)	(72,400)	—	—	(9,193,249)
At 31 Dec 2022	7,207,990	25,662,136	1,952,912	276,241	7,859,684	11,500	42,970,463
Accumulated depreciation							
At 1 Jan 2022	3,475,639	15,193,789	1,802,868	233,847	—	7,687	20,713,830
Charge for the year	936,276	4,031,004	443,537	72,573	—	2,875	5,486,265
Disposals	(1,621,041)	(6,669,023)	(830,785)	(72,400)	—	—	(9,193,249)
At 31 Dec 2022	2,790,874	12,555,770	1,415,620	234,020	—	10,562	17,006,846
Net book value							
At 31 Dec 2022	4,417,116	13,106,366	537,292	42,221	7,859,684	938	25,963,617
At 31 Dec 2021	4,171,400	11,096,681	778,034	114,794	1,975,372	3,813	18,140,094

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

10. Right of use assets

The Company holds material leases for premises and lower value leases for IT equipment, with lease terms ranging from six months to ten years. The Group recognises right-of-use assets and lease liabilities (i.e. leases are recognised on the Consolidated Statement of Financial Position) for all leases other than for short-term leased plant and machinery (i.e. leases that have a term less than 12 months).

Lease liabilities are initially measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate. Subsequently, lease liabilities are measured by adjusting to reflect interest on the lease liability, reducing the liability to reflect lease payments made and to reflect any reassessment or lease modifications, or revised in-substance fixed lease payments (refer to Note 17).

The associated right-of-use asset for property leases and other assets is initially measured at the amount equal to the lease liability adjusted for the amount of any prepaid or accrued lease payments relating to that lease. Subsequently, right-of-use assets are measured at cost less any accumulated depreciation and adjusted for any re-measurement of the lease liability. The re-measured lease liability is calculated by discounting the revised lease payments using a revised discount rate at the effective date of the modification. A corresponding adjustment is also made to the right-of-use asset unless the scope of the lease is decreased, in which case a gain or loss may be recognised.

Right-of-use assets are depreciated over the shorter of the lease term and the relevant useful economic life following the periods set out in the property, plant and equipment depreciation policy. Where the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or the cost of the right of use asset reflects that the lessee will exercise a purchase option, the right-of-use asset is depreciated over its useful economic life.

Right-of-use assets are tested for impairment by applying IAS 36 'Impairment of Assets'. The carrying values of right-of-use assets are reviewed on an on-going basis for any indication of impairment. Where any indication of impairment exists, the recoverable value of the assets is estimated. An impairment loss is recognised in the Statement of profit and loss whenever the carrying value of a right-of-use asset exceeds its recoverable amount.

	Land and buildings £	Computer equipment £	Total £
Cost			
At 1 January 2022	3,694,462	41,569	3,736,031
Adjustment of lease term	829,170	—	829,170
At 31 December 2022	4,523,632	41,569	4,565,201
Accumulated depreciation			
At 1 January 2022	1,288,794	9,387	1,298,181
Charge for the year	606,181	13,855	620,036
At 31 December 2022	1,894,975	23,242	1,918,217
Net book value			
At 31 December 2022	2,628,657	18,327	2,646,984
At 31 December 2021	2,405,668	32,182	2,437,850

During the year, the Company signed an extension to a property lease and revised the expected term of that lease accordingly. An adjustment of £829,170 was recognised to increase the right-of-use asset, with a corresponding adjustment to the lease liability. During the prior year, the Company revised the expected term on one of its property leases, recognising an adjustment of £1,034,618 to reduce the right-of-use asset, with a corresponding adjustment to the lease liability.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

11. Intangible assets

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 as an expense when incurred (see Note 5).

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.

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 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 is presented within operating costs. 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.

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

Capitalised development	Two to seven years
Perpetual software licences	Three years

The carrying values of intangible assets are reviewed on an on-going basis for any indication of impairment. Where any indication of impairment exists, the recoverable value of the assets is estimated. An impairment loss is recognised in the Statement of profit and loss whenever the carrying value of an intangible asset exceeds its recoverable amount.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

11. Intangible assets (*continued*)

	Internal developments in relation to manufacturing site £	Customer and internal development programmes £	Perpetual software licences £	Total £
Cost				
At 1 January 2022	411,165	8,406,321	252,497	9,069,983
Additions	—	5,340,454	272,778	5,613,232
At 31 December 2022	411,165	13,746,775	525,275	14,683,215
Accumulated amortisation				
At 1 January 2022	164,466	1,037,520	23,126	1,225,112
Charge for the year	82,233	747,821	125,509	955,563
At 31 December 2022	246,699	1,785,341	148,635	2,180,675
Net book value				
At 31 December 2022	164,466	11,961,434	376,640	12,502,540
At 31 December 2021	246,699	7,368,801	229,371	7,844,871

The customer and internal development intangibles 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.

12. Investments in subsidiaries

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held by the Company	Type of entity
Ceres Engineering Consulting (Shanghai) Co Ltd	Shanghai, China	£1.00 ordinary shares	100%	Subsidiary

On 23 August 2021, the Group established a Wholly Foreign Owned Entity (WFOE), Ceres Engineering Consulting (Shanghai) Co Ltd in Shanghai, China. The Company is a 100% owned subsidiary of Ceres Power Ltd. The principal activity of the Company is to provide business development and technical support to our business and partners in China.

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Notes to the financial statements (*continued*)
for the year ended 31 December 2022

13. Trade and other receivables

Trade receivables are recognised initially at transaction price and subsequently held at amortised cost using the effective interest method, less loss allowances. Loss allowances are calculated using the simplified approach to determine expected credit losses, taking into account both historical payment profiles and any credit losses experienced, together with forward-looking macroeconomic factors. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable. Payment terms generally range between 30 and 60 days depending on the customer.

Although the Company's past experience of significant credit losses on these assets has been negligible, the impairment assessment performed by the Company considers both past experience and future expectations of credit losses. As a result of this assessment, the Company considers the risk of expected credit losses on trade receivables and contract assets to be immaterial.

Derivative financial instruments are recognised at fair value. The gains or losses on remeasurement to fair value are recognised immediately in the Statement of profit and loss as they arise.

	31 Dec 2022	31 Dec 2021 Restated ¹
	£	£
Current:		
Trade receivables	2,998,864	2,611,857
Amounts owed by group undertakings under common control	609,121	1,458,365
Corporation tax receivable	7,396,263	1,615,324
Other receivables	5,236,853	3,083,125
Derivative financial assets – forward foreign exchange contracts	53,561	1,072,631
Prepayments	810,027	637,077
Accrued income	88,191	138,746
	17,192,880	10,617,125
Non-current:		
Other receivables	741,448	741,448

¹ 2021 other receivables and corporation tax receivable have been restated to reflect the adjustment to prior year R&D tax claims as set out in Note 1. The R&D tax claim receivable has been increased by £947,512 accordingly.

The Company applies the general approach to for the impairment review of loans to subsidiaries. Under the General Approach, at each reporting date the Company must determine whether the loan is in Stage 1, Stage 2 or Stage 3 and recognise 12-month expected credit losses or Lifetime expected credit losses accordingly. 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. No allowance for expected credit losses has been made.

Corporation tax consists of amounts receivable in respect of the Company's SME R&D tax credit claim.

Other receivables primarily consist of amounts invoiced and recoverable in respect of grants, rent deposits, VAT and the RDEC tax credit. There is no material difference between the fair value of receivables and their carrying values and they are not materially overdue at the balance sheet date. There are no expected credit losses and have been no provisions for impairment of receivables during the year (2021: £nil).

Accrued income relates to consideration for work completed on grant funded contracts but not billed at the reporting date. The accrued income is transferred to other receivables when the rights become unconditional.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

14. 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 first in first out (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

	31 Dec 2022	31 Dec 2021
	£	£
Raw materials	1,566,276	1,299,061
Work in progress	1,477,229	969,332
Finished goods	2,670,540	876,604
	5,714,045	3,144,997

Inventories have increased in line with the continued ramp-up in manufacturing capacity in the year and to ensure the Company can satisfy expected customer demand for technology hardware in 2023.

During the year ended 31 December 2022, inventories of £5,023,132 (year ended 31 December 2021: £5,866,691) were recognised as an expense and included in cost of sales. In addition, as at 31 December 2022, a provision of £706,402 (2021: £nil) was recognised following the downgrading of a number of stacks that failed our initial internal quality control testing. These stacks potentially have a more limited life than expected and have therefore been provided against to reflect their lower net realisable value. The calculation of this provision involved estimates, as described in Note 1.

15. Trade and other payables

Trade and other payables are recognised initially at fair value. Where considered necessary they are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments are recognised at fair value. The gains or losses on remeasurement to fair value are recognised immediately in the Statement of profit and loss as they arise.

Accruals are recognised at invoiced cost. There is no material difference between the invoiced value and the value calculated on an amortised cost basis or fair value.

	31 Dec 2022	31 Dec 2021
	£	£
Trade payables	4,734,783	2,455,532
Amounts owed to ultimate parent undertaking	61,033,608	70,333,980
Amounts owed to immediate parent undertaking	179,866,247	103,008,036
Amounts owed to group undertakings under common control	7,771,910	5,191,721
Other payables	129,437	233,153
Derivative financial liability – forward foreign exchange contracts	1,036	66
Accruals	6,030,881	4,477,588
Deferred grant income	771,442	1,015,282
	260,339,344	186,715,358

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

15. Trade and other payables (*continued*)

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

Deferred income consists of grant income deferred in relation to associated development costs which have been capitalised as an intangible asset. Grant income is recognised in the Statement of profit and loss in the same period as the expenditure to which the grant relates.

16. Lease liabilities

The Company leases certain assets under lease agreements. The lease liability consists of leases of premises and computer equipment. The leases expire between March 2022 and November 2028. Full details of the accounting policy under which lease are recognised is detailed in Note 10.

	£
At 1 January 2022	3,039,117
Lease payments	(955,419)
Interest expense	211,518
Adjustment to lease term	829,170
At 31 December 2022	3,124,386
Current	610,596
Non-current	2,513,790
At 31 December 2022	3,124,386
Current	754,014
Non-current	2,285,103
At 31 December 2021	3,039,117

Lease liability contractual maturities (representing undiscounted contractual cash-flows) are set out below.

31 December 2022						
	Carrying amount £	Contractual cash flows £	1 year or less £	1 to 2 years £	2 to 5 years £	>5 years £
Lease liabilities	(3,124,386)	(3,792,772)	(839,920)	(852,895)	(1,850,850)	(249,107)
31 December 2021						
	Carrying amount £	Contractual cash flows £	1 year or less £	1 to 2 years £	2 to 5 years £	>5 years £
Lease liabilities	(3,039,117)	(3,601,690)	(833,448)	(831,600)	(1,302,535)	(634,107)

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

17. Provisions

Contingent liabilities

Contingent liabilities are disclosed where the likelihood of payment of potential future cash outflows is considered more than remote, but is not considered probable or cannot be measured reliably.

Property dilapidations

Provisions have been made for future dilapidation costs on the leased properties. This provision is the Directors' best estimate as the actual costs and timing of future cash flows are dependent on future events and are updated periodically. The estimate is 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.

Warranties

As at the year end, only a small proportion of technology hardware supplied or sold to customers was provided with contractual warranties. The majority of technology hardware supplied or sold to customers has been provided without contractual warranties, however where a constructive obligation is considered to have been created through an expectation or past practice, a provision for the associated costs of future claims has been included at the year end. The Company recognises a provision for both contractual and constructive obligation warranties 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. Where warranty obligations are not considered to be probable, they are not provided for but instead are disclosed as contingent liabilities unless remote.

Contract losses

The Company holds provisions for expected losses on onerous contracts. 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 over time or at the point in time that the actual costs are incurred.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

17. Provisions (*continued*)

The movement in provisions charged to the statement of profit and loss for the year ended 31 December 2022 is set out below along with the value of provisions at 31 December 2022:

	Property dilapidations	Warranties	Contract losses	Total
	£	£	£	£
At 1 January 2022	1,828,208	1,253,209	325,312	3,406,729
Movements in the Statement of profit and loss:				
Amounts used	—	—	(136,550)	(136,550)
Unused Provision Reversed	—	(707,102)	(134,642)	(841,744)
Unwinding of discount	87,282	—	—	87,282
Provisions made during the year	17,854	329,193	—	347,047
At 31 December 2022	1,933,344	875,300	54,120	2,862,764
Current	—	875,300	54,120	929,420
Non-current	1,933,344	—	—	1,933,344
At 31 December 2022	1,933,344	875,300	54,120	2,862,764
Current	—	1,253,209	325,312	1,578,521
Non-current	1,828,208	—	—	1,828,208
At 31 December 2021	1,828,208	1,253,209	325,312	3,406,729

The dilapidation provision at 31 December 2022 represents the present value of costs to be incurred in making good the Group's leasehold properties at the break points of the leases in approximately two to three years' time. The main uncertainty relates to estimating the cost that will be incurred at the end of the respective leases.

The warranty provision at the year end is primarily the result of a constructive obligation and reflects the Directors' best estimate of the cost required to fulfil these obligations with respect to a number of the Group's customer contracts. Subsequent to their initial recognition, warranty provisions are utilised or released over the periods of the various warranty obligations, which are expected to be less than two years. There are several areas of uncertainty supporting the provision, including determining the amount of technology hardware that may require repairing or replacing and respective timing as manufacturing costs are expected to reduce over time. In addition, as most of the Group's warranty provisions relate to constructive rather than contractual obligation and there is limited history of warranty claims with the Group's current customers, any final warranty obligation will be subject to negotiation with the respective customer. The calculation of the warranty provision is subject to certain estimates, as set out in Note 1.

During the year, following the conclusion of certain contracts utilising our fuel cell stacks, and based on a further year's data around stack failure and degradation rates, £707,102 of the existing provision was released to the Consolidated Statement of Profit or Loss. Of this amount, approximately £306,000 was re-classified as a contingent liability as the likelihood of the stacks failing or of the Group paying out on any potential subsequent stack failures for certain stacks that may still be run by customers is no longer considered to be probable, but is considered to be more than remote.

As at 31 December 2022, the contract loss provision relates to one contract for the provision of technology hardware. The existing loss provision at 31 December 2021 was utilised in the year as expected against final customer shipments. The remaining provision relates to an onerous contractual obligation to reimburse our customer to remove installed fuel cell systems from end user properties and to return them to us.

Ceres Power Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2022

18. Share capital

Share capital represents the amount of issued and allotted shares in the company at the year end. Where the price paid per share is in excess of the nominal value share premium is recognised.

	31 Dec 2022	31 Dec 2021
	£	£
Allotted and fully paid		
4,176,306 (2021: 4,176,306) ordinary shares of £0.001 each	4,176	4,176

19. Capital Commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £8,678,835 as at 31 December 2022 (2021: £8,086,177).

20. 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.

21. 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 Limited. 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.ceres.tech/>.