Ceres Power Limited

Annual report and financial statements

Registered number 04222409

18 months ended 31 December 2020

Contents

Directors and advisors

Directors

Mr Philip Caldwell (Chief Executive Officer)
Mr Richard Preston (Chief Finance Officer)
Dr Mark Selby (Chief Technical Officer)
Mr Mark Garrett (Chief Operations Officer) *Appointed 10 August 2020*
Mr James Falla (Chief Operations Officer) *Resigned 31 August 2020*

Company Secretary

Ms Caroline Buchan

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Solicitor

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Strategic report

The Directors present their strategic report for Ceres Power Limited ("Ceres Power", "Ceres", "the Company") for the 18 month period ended 31 December 2020.

Review of the Business

Strategy

The strategy of Ceres Power Holdings plc and its subsidiaries (the "Group") is to bring cleaner energy to the stationary power and transportation markets by embedding our SteelCell® technology in the power products of world-class companies. The Group is also developing its IP for power-efficient electrolysis stacks to produce future fuels cost-effectively and to help decarbonise industrial processes that are carbon-intensive but hard to abate.

Overview of performance

Over the last 18 months we have made excellent progress with key partners and have grown as a business, strengthening our position as one of the world's leaders in solid oxide fuel cell (SOFC) technology. Building on the achievements of 2019, we reached key strategic milestones with two of our most important partners, further validating the high margin, asset-light licensing model we employ.

The Group, has performed strongly in spite of the current pandemic conditions across the globe. This achievement is testament to the calibre of our people, who have responded to the challenges to our business with renewed commitment and professionalism.

Indeed, during this time of upheaval to normal life, our purpose as a business has never resonated more clearly among our stakeholders. Our mission is to help make our planet a better place, using our technology to deliver clean energy anywhere in the world.

Market dynamics

As governments around the world look beyond the current pandemic, the world's leading economies have made new commitments to tackling the causes of climate change. This has been catalysed by the desire to put in place post-COVID economic stimulus packages with green initiatives at their heart. In turn, this provides further impetus to the energy transition societies need to make as they move away from fossil fuels to clean, zero emissions fuels such as hydrogen or ammonia. The challenge is to achieve this transition at the same time as continuing to meet growing global demand for power capacity, with the global installed capacity set to increase from 7,566GW currently to an estimated 20,391GW in 2050, according to Bloomberg NEF's New Energy Outlook 2020.

South Korea's Green New Deal has committed KRW73.4 trillion (£46 billion) of green funding to drive its economic recovery after the pandemic. It is targeting 15GW of fuel cell power generation by 2040, with 2.1GW of that total for stationary fuel cells in buildings.

China, the largest producer of carbon dioxide in the world currently, has also made a significant decarbonisation pledge. Emphasising the need for a 'Green Revolution' in September 2020, China committed to carbon neutrality by 2060 with peak emissions taking place before 2030.

This follows the European Union's €550 billion pledge to support green initiatives between 2021 and 2027 as it targets zero net emissions by 2050. The EU's biggest single economy, Germany, also reiterated its intention to achieve carbon neutrality by 2050 and is targeting 5GW of hydrogen production capacity by 2030, with another 5GW a decade later. As momentum behind green energy builds, other European nations including Italy, Spain and the UK have followed suit.

The US re-joined the Paris Climate Agreement upon President Biden's inauguration and his administration is introducing a substantial Build Back Better package of incentives and subsidies to stimulate the US move towards zero carbon emissions, investing US$2 trillion in clean energy, aiming for 100% clean electricity production by 2035 and for the nation to achieve net zero emissions by 2050.

As societies come to terms with the scale of the journey to net zero emissions, many of the existing players that are active in the power markets are examining their technologies and how well equipped they are to making this transition.

Strategic report (continued)

The benefits of SteelCell® in both the stationary power and transportation markets are becoming better recognised and some of our early adopter partners have deepened their relationships with us as they scale up their businesses towards mass manufacturing our fuel stacks under licence in their own factories.

Commercial Progress

Building on the achievements of 2019, we reached key strategic milestones with two of our most important manufacturing partners during the period, which further validates our licensing business. For the first time these milestones provide visibility to the important royalty revenues that will be the main driver of the future profitability of the business.

In our systems business, we announced a collaboration with AVL List, one of the world's leading fuel cell engineering consultancies to accelerate OEM uptake and create demand for fuel stacks from our manufacturing partners and add further momentum to royalty revenue streams.

- **Bosch**. We have been working with Bosch since 2018, on an initial two-year SteelCell® technology transfer programme that paved the way to initial manufacture in this period under licence in its factory at Bamberg, Germany.

  After working closely with the Bosch engineering team during 2020 in the prototype manufacturing phase, we passed a key milestone at the end of the year which triggered the next stage of the licensing agreement. In December 2020 we announced that Bosch was now preparing to start volume production of fuel cell systems incorporating Ceres' proprietary SteelCell® SOFC technology in 2024, aiming to achieve an initial annual production of around 200MW from its own manufacturing facilities in Germany. The value of this next stage of the licensing agreement to Ceres from 2021 to 2023 is around £23 million, of which c.£6 million is conditional on meeting certain KPIs based on performance.

  This is a significant step forward for the business, validating our licensing model by paving the way for kW-based royalty revenues from 2024 onwards. The stacks will initially satisfy demand for Bosch's products for decentralised power provision in cities, factories, trade and commerce, datacentres and electric vehicle charging infrastructure, markets that Bosch believes may be worth around €20 billion by 2030.

  Bosch has stated that currently 'more than 250 Bosch associates are supporting the development and manufacture' of SteelCell® based systems and it estimates that it will invest 'hundreds of millions of euros by 2024' in its German manufacturing facilities.

- **Doosan**. Fuel cell market leader Doosan of South Korea is also an important partner for the Ceres Group. We started working with Doosan in July 2019 after it signed an £8 million systems licensing agreement to develop a low-carbon 5-20kW power system. This progressed quickly and in October 2020 the Group announced that Doosan had also signed a manufacturing licence to produce SteelCell® fuel cell stacks in South Korea.

  The agreement is worth up to £43 million to the Ceres Group, with licence fee, technology transfer and joint development revenues of £36 million over three years to 2024 plus an additional £7 million contingent on meeting KPIs. Doosan is initially targeting 50MW of annual capacity by 2024, but we believe this could ramp up quickly given Doosan's plans to develop utility-scale SOFC power stations using our technology.

  Doosan is also looking to develop other applications for fuel cell stacks. In November it signed a Memorandum of Understanding with Singaporean shipping company Navig8 to investigate whether SOFC technology can be used to provide electric power for commercial tankers. This is likely to be a multi-year project but does give our technology a foothold in the large shipping market that is taking steps towards decarbonisation.

- **Weichai**. In early 2020 we started a field trial of our 30kW electric bus range extender unit with Weichai. However, this coincided with the start of the COVID-19 pandemic and we experienced a short delay as working practices in both China and the UK were impacted. We moved swiftly to implement socially distanced operating processes to mitigate the effects and returned to full support capability shortly afterwards. We expect that we will complete this in the coming months and will validate the technology for automotive applications.

  Once the trial completes, we hope to announce the establishment of a joint venture fuel cell manufacturing company in Shandong Province, China, in 2021 to produce SteelCell® SOFC systems. As previously disclosed, the joint venture is intended to provide a staged path to high-volume manufacturing potentially for buses, commercial vehicles and other applications in China.

Strategic report (continued)

- **AVL List**. Capping off a busy end to 2020, Ceres announced a Strategic System Collaboration with AVL List, a globally recognised consulting engineering firm based in Austria with over 20 years of experience in fuel cell systems. The company currently generates around €2 billion in turnover and operates from 26 offices around the world, employing more than 11,500 people. AVL List has existing systems designs in commercial CHP; industrial prime power; automotive and marine; and large-scale power systems (100kW+), so brings a wealth of diverse experience and expertise to the new relationship.

  The collaboration creates an engineering services practice to offer customers state-of-the-art systems designs incorporating our SOFC stack. Ceres and AVL List will work together on customer acquisition and to identify and exploit the growing interest in SOFC technology in new applications and regions. By pooling our respective systems IP, we will create a significantly stronger IP position in the market to expand the applications accessible to Ceres' technology. Revenues generated from engineering services and systems licence fees for customers created by the collaboration will be shared in an equitable manner. The core SteelCell® stack IP is outside the scope of the collaboration and will continue to be developed and licensed independently by Ceres.

  Working with AVL List brings us important strategic benefits. Combining its expertise and market presence with our own IP and systems know-how enables us to reach into more end-market applications than we could on our own. New OEM customers will drive demand for stacks from our manufacturing partners, adding further momentum to royalty revenue streams and enabling us to position SteelCell® stacks as an industry standard for SOFCs.

Technology Update

Ceres' SteelCell® technology is highly differentiated from other SOFC technology families, allowing us to execute a licensing business model that sets us apart in the clean energy sector. This technology leadership is maintained through a well funded internal R&D programme, as well as using digital techniques to maximise our productivity and to identify and evaluate new system applications and markets. We also continue to build strong external academic collaborations with universities to ensure we remain at the leading edge of SOFC innovation.

One area of focused innovation is the use of SOFCs beyond traditional fuels like natural gas and hydrogen. Our stacks can operate using a range of different fuels and we are currently evaluating systems to optimise new operating modes for future fuels (such as ammonia and hydrogen/methane blends) to ensure partners can fully unlock their potential. Existing and new partners can reduce their time to market by licensing our IP across core materials and stack design, system design or manufacturing technologies. Simply put, by embracing SteelCell® technology they can make better products with higher efficiency, at lower cost, with longer life and better dynamic response.

We have also started our Green Hydrogen programme where we are extending the use of our technology beyond fuel cells. Operating a SteelCell® stack in reverse converts it into a solid oxide electrolysis cell (SOEC), a device that can be used to produce green hydrogen and, ultimately, other green chemicals. The higher operating temperature allows our SOEC to utilise waste steam from industrial processes or be thermally integrated with them to produce hydrogen at very high electrical efficiencies of 80% to 90%.

Last year, we set aside £5 million in seed R&D funding for this Green Hydrogen programme to benchmark the electrolyser's performance and to confirm the production efficiency potential. This is a key differentiator of the technology because green hydrogen is expensive to produce today, with the majority of the cost determined by the input energy costs. By delivering higher efficiency, our SOEC technology could significantly lower the cost of hydrogen production in the future. We are now planning to build a megawatt-scale demonstration electrolyser that will allow our licensees to validate the performance, cost and operational flexibility of our technology.

Operations Update

During the first half of 2020 our pilot production facility at Redhill in the UK was commissioned, built and successfully commenced production of SteelCells® for our 1kW and 5kW stacks. In particular, the 5kW stacks are meeting the demand for both our internal R&D activities and to supply our licensing partners for their testing and trials.

Strategic report (continued)

By the end of the year we achieved capacity of 2MW per annum. This initial production capacity is now being increased to 3MW as we scale up to support our manufacturing partners Bosch and Doosan in their progression towards their mass market launches. We will also continue to supply systems licensees with stacks until our manufacturing partners come on-stream and we can migrate them across to this supply.

Ceres continued to expand its development capabilities and capacity during the period, aiming to ensure that the functional performance targets and expected lifetime of the stacks can be met. Our partners intend to take our technology into higher-power applications, further focusing on our 5kW fuel stack as their core module for their larger arrays. To support this development, we have expanded the capabilities of our test infrastructure and included trial units from our licence partners for evaluation within our testing programme.

Throughout the period our engineering teams have continued to work closely with our partners, transferring the technology required for them to set up their own manufacturing facilities. As we have deepened our engagement with partners, we have jointly developed further enhancements around our IP for the benefit of both partners and ourselves in engineering and manufacturing operations.

Financial position and post year-end fundraising

During 2020 we announced we would change our accounting period end from 30 June to 31 December, and as a result we have prepared these financial statements for the 18 months ended 31 December 2020.

During the period we raised finance from the issue of new shares to our partners Bosch and Weichai. As hydrogen economies around the world start to develop we see new, attractive and high-value opportunities for our technology, both in the current power generation markets as well as in green hydrogen production as highlighted above.

The commercial and technical progress of the last year has presented further opportunities to accelerate our development. To take advantage of these opportunities Ceres Power Holdings plc raised additional equity financing of c.£180m in early 2021 to be used to access further SOFC markets in higher power applications and future fuels. We are also intending to develop new SOEC opportunities to access the significant new green hydrogen market for fuels and industrial applications. Finally, we are investing in the core business to accelerate innovation and development to maintain our technology leadership. The broader financial base of the business further strengthens our ability to execute for our stack partners as they scale up their manufacturing capabilities.

Outlook

We finished the period strongly with good momentum in the business. A key focus for the year ahead will be on ensuring we continue to deliver to our partners as they work towards scaling up their production capabilities. We will also seek to develop new systems relationships through the new collaboration with AVL List, which broadens our presence across multiple new application areas.

Technology remains at the heart of our business and the Group are deploying capital from the post year end equity fund raise in both our core power generation IP and in the adjacent electrolysis market, accelerating our time to market. We are well positioned to provide clean energy technology into multiple applications across society meeting the increasing urgency to address climate change providing long-term growth opportunities for our business.

Risk management process

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

The Directors are responsible for identifying, managing and mitigating the risks to the Company. The Audit Committee of Ceres Power Holdings plc reviews the processes and controls for ensuring material business risks are identified and managed appropriately. The various Board committees of Ceres Power Holdings plc review these risks and mitigations. Technical and operational risks are reviewed regularly by the Technical and Operations Committee.

Strategic report (continued)

These risks, along with financial, commercial and other risks, are reviewed by the Audit Committee twice a year and subsequently put to the Board annually for inclusion in the Annual Report.

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

Principal risks	There is a risk that...	Actions taken by management/mitigations	Change
Core Technology	We will not be able to develop and apply the Group's core fuel cell technology successfully to potential products at the right cost point or performance, in the time frame anticipated.	Ceres is continuing to increase the capability of the core materials development team and the supporting functions and this year our Horsham site will be dedicated to world-class electrochemical R&D and become our Innovation Centre. Management recognises the importance of delivering the technology to customers and has planned releases of new iterations of technology to maintain technological advantage.	The level of this risk reduces as we gain greater confidence in it based on long-term trials and ongoing validation. This is offset against our continued need to innovate to meet long-term customer requirements.
Stack and system technology	Stack product maturity does not keep up with commercialisation.	We aim to balance the need to develop against the requirement for product maturity. We are expanding our test capacity and will look to use third parties to grow this facility. We work in close collaboration with partners in their trials and early market launches.	This risk has increased as existing customers firm up their commercialisation timelines. We validate the stack technology in tandem with issuing it to customers for trials. Technical failure at customer trials could affect the timing of market launches and product liability risk increases with nearing go-to-market timings.
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. Contractual provisions with partners and IP insurance provide additional protection to the Group for agreement, pursuit and defence of IP. We continually perform freedom-to-operate searches to minimise this risk. We are putting significant focus on improving our information security, cybersecurity and company culture.	This risk has risen due to increasing information security and cybersecurity threats as our technology gets closer to commercialisation, and as we increasingly disclose more of our technology to partners and the supply chain.

Principal risks	There is a risk that…	Actions taken by management/mitigations	Change
Commercial	Our partners may choose not to use our technology in their products or go to market slower than anticipated. We may not be able to continually attract new partners.	Doosan signed up as a core technology manufacturing partner in the year and Bosch is looking to manufacture in volume from 2024. Our new relationship with AVL List should help bring on multiple OEM system customers in new applications. The widening of the customer base mitigates the impact of individual customers choosing not to move forward.	Ceres maintains a strong position in the SOFC space. This risk has reduced with the continued commercial progress and interest from customers, with one customer's commercial launch in the period and two others targeting 2024 to go to market in volume.
Operational execution	The Company may be unable to satisfy customer contracts and scale-up, with an increasingly complex partner structure. This may be due to organisational growth management, supply chain, short-term manufacturing or technical issues.	We are growing our organisation and the capability of our people and will establish improved processes to support simultaneous contracts. We will create collaborations in engineering and test to enable scale more quickly. At the period end we took mitigating action against Brexit scenarios including stockpiling, foreign currency hedging and contingency planning. We are looking to further expand capacity in our manufacturing facility.	This risk has increased as our customers' expectations and the number of significant contracts have increased.
Supplier dependence	Our supply chain partners may be unable or unwilling to co-develop or supply key components into our internal programmes and to support customer scale-up. The supply of key materials to Ceres and our partners is curtailed.	We continue to work closely with our suppliers and partners, putting in place strategic partnerships where appropriate, and reducing the number of key single-source suppliers. We accept the risk for now that some suppliers will be single-source and we buy stock in advance to further mitigate for the short-term. Our technology inherently uses commodity materials and is less reliant on other materials such as rare earths than other SOFCs.	This risk remains important as we have scaled up manufacturing, although we already see our manufacturing partners becoming more active with their considerable supply chain strength.
Access to capital	The Company does not have sufficient capital to pursue its strategic goals.	Management regularly reviews the cashflow requirements of the business against the available capital. Ceres raised new equity of £181m in March 2021 to fund the electrolysis opportunity and underpin the core SOFC business.	This risk has reduced following the Group's 2021 fundraise.

Principal risks	There is a risk that…	Actions taken by management/mitigations	Change
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. This is if the perception propagates that Ceres technology only works with hydrocarbons, or if alternate better products come to market.	Ceres is beginning to prove that the technology can make a significant and valuable contribution to a net zero-carbon future, as we show increased confidence in the technology running on hydrogen. Our recent focus is developing the application of the technology as an electrolyser alongside our recently-announced strategy to prove this at a significant level. We address different geographical markets, which we believe will decarbonise at different rates, and we have broadened the applications available, mitigating failure in a single market or product. We continuously monitor competitor activity, diversification of applications and market developments.	The world is changing investment focus towards a zero-carbon future and more away from just reducing emissions and CO2. We see a climate of changing legislation and trends against fossil fuels emerging, which is both an opportunity and a threat.
Chinese joint venture (JV)	Ceres' potential investment in the proposed Weichai JV does not produce the returns anticipated. Ceres and Weichai do not agree on the scope of the JV, and when set up, it moves away from its business plan either consuming more cash or not giving the returns expected.	We are actively working with Weichai to ensure the ambitions, structure, control and reporting of the JV are aligned to both parties' expectations. Although Ceres will have a minority stake in the JV, contractually Ceres can appoint members of the JV's Board and senior management to help monitor and control the JV.	This risk has increased as we get closer to setting up the JV.

Richard Preston
Director
23 August 2021

Directors' report

The Directors present their Directors' Report and the audited financial statements of the Company for the 18 month period ended 31 December 2020.

Principal activity

The Company is a leader in the electrochemical technology sector, enabling the world's most progressive companies to deliver clean energy at scale and at speed through a high-margin, asset-light licensing business model.

Research and development

During the period, the Company incurred expenditure of £26,554,955 (2019: £13,273,311) on research and development ("R&D"), which was charged to the statement of profit and loss. In addition, £3,499,396 of development costs, relating to the design, development and configuration of the Group's core technology and manufacturing processes, were capitalised as a development intangible in the period (2019: £1,288,305). The Strategic Report illustrates the R&D progress made during the period.

Financial instruments

At the end of the period, 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 18 month financial period of £18,940,090 (2019: £3,915,593).

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

Going concern

Notwithstanding net current liabilities of £134,576,880 as at 31 December 2020 and a loss for the period then ended of £18,940,090 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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

Those forecasts are dependent on Ceres Power Intermediate Holdings Limited and Ceres Power Holdings plc not seeking repayment of the amounts currently due to the group, which at 31 December 2020 amounted to £134,899,590, and providing additional financial support during that period. Ceres Power Holdings plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

Directors' report (continued)

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

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

Credit risk
The Company's exposure to credit risk arises from if a counterparty or customer fails to meet its contractual obligations. Trade receivables at the period end relate to four customers (2019: six) of which £2,649,310 relates to the Europe geographic region, £nil to North America and £438,924 to Asia (2019: £1,818,000 related to the Europe geographic region, £84,000 to North America and £502,000 to Asia).

Contract assets at the period end related to two customers of which £170,166 relates to the Europe geographic region and £125,000 to Asia. (2019: £48,741 related to the Europe geographic region, £85,514 to North America and £171,259 to Asia).

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

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

Liquidity risk
Liquidity risk is the risk arising from the Company not being able to meet its financial obligations. The Group manages 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.

Note 19 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 period and up to the date of signing the financial statements, unless otherwise shown, are as follows:

Mr Philip Caldwell (Chief Executive Officer)
Mr Richard Preston (Chief Finance Officer)
Dr Mark Selby (Chief Technical Officer)
Mr Mark Garrett (Chief Operations Officer) *Appointed 10 August 2020*
Mr James Falla (Chief Operations Officer) *Resigned 31 August 2020*

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

Directors' report (continued)

Charitable and political contributions

The Company made no charitable or political donations or incurred any political expenditure during the period (2019: £nil).

Disclosure of information to auditor

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

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial period have been included in the Strategic Report on page 2 to 8.

Auditor

In line with good governance practice to regularly review the external auditor, the Group's Audit Committee determined to put the external audit out to tender in 2019. Following the tender process, BDO LLP were appointed as auditors for the Company, and the Group, by the Board after approval by Shareholders.

By order of the Board:

Richard Preston
Director
Viking House, Foundry Lane
Horsham, RH13 5PX
23 August 2021

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

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

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

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

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

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

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

Opinion 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 2020 and of its loss for the 18 month period 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 period ended 31 December 2020 which comprise the statement of profit and loss and other comprehensive income, the balance sheet, the 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 Financial Reporting Standard 101 *Reduced Disclosure Framework.*

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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 of 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 and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic and Directors' report has 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 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. 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:

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company. These include, but are not limited to, compliance with the Companies Act 2006, UK GAAP and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

- We had discussions with management regarding known or suspected instances of non-compliance with laws and regulations and fraud;
- We challenged assumptions made by management in their significant accounting policies and estimates in particular in relation to revenue balances;
- We sample tested manual journal entries, in particular any journal entries posted with unusual characteristics.

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.

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:

Nick Poulter

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Nick Poulter (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Guildford

Date 24 August 2021

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

Statement of profit and loss and other comprehensive income
for the 18 months ended 31 December 2020

	Notes	**18 months ended 31 Dec 2020**	12 months ended 30 June 2019
		£	£
Turnover	2	**21,735,329**	15,300,084
Cost of sales		**(7,885,943)**	(3,804,426)
Gross Profit		**13,849,386**	11,495,658
Other operating income	3	**1,304,058**	1,064,870
Operating costs	4	**(36,725,375)**	(19,017,824)
Operating loss		**(21,571,931)**	(6,457,296)
Finance Income		**3,933**	3,828
Finance expense		**(663,686)**	-
Loss before taxation	4	**(22,231,684)**	(6,453,468)
Tax on loss	7	**3,291,594**	2,537,875
Loss for the financial period and total comprehensive loss		**(18,940,090)**	(3,915,593)

The notes on pages 19 to 41 form an integral part of these Financial Statements.

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

Balance sheet
as at 31 December 2020

	Notes	As at 31 Dec 2020 £	As at 30 June 2019 £
Fixed assets			
Tangible assets	8	**14,979,068**	9,769,199
Right of use assets	9	**3,971,488**	-
Intangible assets	10	**4,613,752**	1,322,004
Other receivables	11	**741,448**	741,448
		24,305,756	11,832,651
Current assets			
Trade and other receivables	11	**10,227,282**	8,198,918
Contract assets	2	**322,648**	722,274
Inventories	12	**2,107,151**	1,403,181
Cash at bank and in hand		**7,264,673**	1,362,553
		19,921,754	11,686,926
Trade and other payables	13	**(147,957,790)**	(116,917,121)
Contract liabilities	2	**(5,105,335)**	(3,061,131)
Lease liabilities	14	**(823,012)**	-
Provisions for liabilities	15	**(612,497)**	(157,928)
Current liabilities		**(154,498,634)**	(120,136,180)
Net current liabilities		**(134,576,880)**	(108,449,254)
Total assets less current liabilities		**(110,271,124)**	(96,616,603)
Other liabilities	16	**-**	(332,896)
Lease liabilities	14	**(3,621,708)**	-
Provisions for liabilities	15	**(1,610,000)**	(991,669)
Non-current liabilities		**(5,231,708)**	(1,324,565)
Net liabilities		**(115,502,832)**	(97,941,168)
Capital and reserves			
Called up share capital	17	**4,176**	4,176
Share premium account		**9,547,273**	9,547,273
Profit and loss account		**(125,054,281)**	(107,492,617)
Total shareholders' deficit		**(115,502,832)**	(97,941,168)

The notes on pages 19 to 41 form an integral part of these Financial Statements.

The financial statements on pages 16 to 41 were approved by the board of Directors on 23 August 2021 and were signed on its behalf by:

Richard Preston
Director

Ceres Power Limited
Registered Number: 04222409

Statement of changes in equity
for the 18 months ended 31 December 2020

	Notes	Share capital £	Share premium account £	Profit and loss account £	Total £
At 30 June 2018		4,176	9,547,273	(104,486,239)	(94,934,790)
Comprehensive income					
Loss for the financial year and total comprehensive loss		-	-	(3,915,593)	(3,915,593)
Total comprehensive loss		-	-	(3,915,593)	(3,915,593)
Transactions with owners					
Share-based payment charge	5	-	-	909,215	909,215
Total transactions with owners		-	-	909,215	909,215
At 30 June 2019		4,176	9,547,273	(107,492,617)	(97,941,168)
Comprehensive income					
Loss for the financial period and total comprehensive loss		-	-	(18,940,090)	(18,940,090)
Total comprehensive loss		-	-	(18,940,090)	(18,940,090)
Transactions with owners					
Share-based payment charge	5	-	-	1,378,426	1,378,426
Total transactions with owners		-	-	1,378,426	1,378,426
At 31 December 2020		**4,176**	**9,547,273**	**(125,054,281)**	**(115,502,832)**

The profit and loss reserve includes an amount of £504,000 (2019: £504,000) that is non-distributable. The non-distributable amount is the result of the disposal of intellectual property to a group undertaking.

The notes on pages 19 to 41 form an integral part of these Financial Statements.

Notes to the financial statements

1 Accounting policies

Basis of preparing the financial statements
Ceres Power Limited (the "Company") is a private company limited by shares, incorporated, domiciled and registered in England in the UK. The registered number is 04222409 and the registered address is Viking House, Foundry Lane, Horsham. RH13 5PX.

The financial statements of the Company have been prepared on a going concern basis, in accordance with international accounting standards in conformity 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.

On 2 April 2020, the Company announced that it was extending its current accounting period from the twelve months ended 30 June 2020 to the 18 months ended 30 December 2020. As a result, these financial statements cover the 18 month period ended 31 December 2020, with comparisons provided against the 12 month period ending 30 June 2019.

The Company's ultimate parent undertaking, Ceres Power Holdings plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Ceres Power Holdings plc are prepared in accordance with International Financial Reporting Standards and are available to the public on the Group's website (https://www.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 in respect of the following disclosures:

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

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

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

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.
The accounting policies set out below and at the start of the respective notes have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company has adopted the IFRS16: Leases in these financial statements.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Measurement convention

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

Going concern

Notwithstanding net current liabilities of £134,576,880 as at 31 December 2020 and a loss for the 18 months then ended of £18,940,090 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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

Those forecasts are dependent on Ceres Power Intermediate Holdings Limited and Ceres Power Holdings plc not seeking repayment of the amounts currently due to the group, which at 31 December 2020 amounted to £134,899,590, and providing additional financial support during that period. Ceres Power Holdings plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

Foreign currency

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

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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 from customer contracts
- Capitalisation and amortisation of development costs
- Determination of the term of the lease as a lessee in the event of agreements with termination options
- Determination of the incremental borrowing rate used to measure lease liabilities

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Critical accounting estimates and judgements *(continued)*

Revenue from customer contracts
The Company has recognised revenue from customer contracts of £21,735,329 in the 18 months ended 31 December 2020 (12 months ended 30 June 2019: £15,300,084) and net contract liabilities of £4,782,687 (2019: £2,338,857) as at 31 December 2020. 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 cells.

During the current period, these judgements have been applied to the new agreements entered into with Doosan on 19 October 2020. The contracts have a total combined value of £43m to the Ceres Group including £7m contingent on the Group achieving certain KPIs during the contract term.

Key judgements applied to the revenue recognition of those contracts included treating the three agreements as a single, combined contract for accounting purposes and the identification of separate performance obligations and allocation of transaction price. In particular, judgements made around the allocation of contract value to the delivery of upfront IP (which was based on applying the residual method approach) and the appropriate time to recognise revenue based on the point at which Doosan were deemed to be able to fully benefit from that IP, have resulted in a material portion of revenue being deferred and recognised in 2021.

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 management's assessment in the previous year that the probability threshold was met, processes were implemented to review and assess all customer and internal development programme expenditure to ascertain whether it is appropriate to capitalise development costs under IAS 38.

Determining when capitalisation should commence and cease is a critical judgement, as is the basis for 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 18 months ended 31 December 2020, the application of these judgements resulted in development costs of £3,499,396 (12 months ended 30 June 2019: £1,288,305) being capitalised (see Note 10). The net book value of capitalised development costs as at 31 December 2020 was £4,613,752 (30 June 2019: £1,322,004, and amortisation of £207,647 (2019: £13,019) was charged during the period.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Critical accounting estimates and judgements *(continued)*

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.

The application of these judgements during the current period resulted in management determining that, based on all available information, the Company is not likely to exercise the break clause option in either of the property leases. The value of the right of use asset recognised on transition to IFRS 16 at 1 July 2019 is £4,747,330 with a corresponding lease liability of £4,970,298.

Determination of the incremental borrowing rate used to measure lease liabilities

As at 31 December 2020, lease liabilities worth £4,444,720 were reported, reflecting the present value of the future lease payments not yet made as at that date. The interest rate implicit in the lease can only be reliably determined in exceptional cases. In all other cases the Company therefore uses its own incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the interest rate the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. Determining the incremental borrowing rate therefore involves judgement to be applied when estimating the interest rate the Company would have to pay. In this context, judgement is required, for instance, to determine the interest the Company would have to pay if no observable interest rates are available.

Applying a 10% reduction to the discount rate of 10% used to calculate the initial lease liabilities and right of use assets as at 1 July 2019 (i.e. to reduce the discount rate to 9%), would result in an additional lease liability of c.£130,000 and an increase in the right of use asset of c.£150,000 being recognised on the Balance sheet.

Significant estimates and assumptions
Significant estimates and associated assumptions are those that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
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.

The most significant estimates, assumptions and sources of uncertainty applicable in preparing the Company's 2020 financial statements are set out below:

- Determination of period-related revenue recognition over the course of customer contracts
- Recognition and measurement of warranty provisions.
- Recognition and measurement of dilapidation provisions.

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.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

Critical accounting estimates and judgements *(continued)*

Determination of period-related revenue recognition over the course of customer contracts (continued)

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 2021, revenue recognised in 2021 could be up to £300,000 higher or lower as a result.

Recognition and measurement of warranty provisions
As at 31 December 2020, the Company has recognised warranty provisions of £418,497 (30 June 2019: £93,185). 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, or else estimated by experts.

Given the higher production volumes following the commissioning of our production facility in Redhill, together with the higher volumes of hardware shipments to customers during the past 18 months and the relative immaturity of the product, there is a risk that performance or other issues might be identified during the next financial period which will require further rectification costs to be incurred. Management believe that, based on existing knowledge, it is reasonably possible that the warranty costs could be up to 50% higher than expected. This could result in the Company incurring additional costs of up to c.£200,000 over the next 12 months as a result. Note 15 sets out further details around the Company's warranty provisions.

Recognition and measurement of dilapidation provisions
As at 31 December 2020, the Company has recognised dilapidations provisions of £1,610,000 (30 June 2019: £991,669). 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 £150,000. Note 15 sets out further details around the Company's dilapidation provisions.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

IFRS 16 - Leases

The Company adopted IFRS 16 with effect from 1 July 2019. IFRS16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 14.

The Company holds leases for premises and IT equipment with lease terms ranging from 6 months - 10 years.

As a lessee, the Company previously classified leases as operating or finance leases based on its own assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases. i.e. these leases are on balance sheet.

The Company decided to apply recognition exemptions to short-term leased plant and machinery. For leases of other assets, which were classified as operating under IAS 17, the Company has recognised right-of-use assets and lease liabilities.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at 1 July 2019. The associated right of use asset for property leases and other assets was measured at the amount equal to the lease liability adjusted for the amount of any prepaid or accrued lease payments relating to that lease.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Excluded initial direct costs from measuring the right of use asset at the date of initial application.
- For leases with a remaining term of less than one year at the date of initial application, the Company does not recognise any right-of-use assets and lease liabilities, in line with exercising the exception for short term leases with lease terms of twelve months or less.
- Accounting for the entire contract for property leases as a lease. (i.e. including service charges).
- Hindsight is used in determining the lease term of contracts containing options to extend or terminate the lease.

When measuring lease liabilities, the Company discounted lease payments using the incremental borrowing rate as at the 1 July 2019. This s estimated by management to be 10%, based on information provided by a third-party financial institution.

Impact on the financial statements.

On transition to IFRS 16 the Company recognised £4,747,330 of right of use assets and a lease liability of £4,970,298. Prepayments and accruals were decreased by £122,000 and £346,000 respectively.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

IFRS 16 – Leases *(continued)*

Reconciliation of lease commitments in the prior year to lease liability recognised under IFRS 16

	Land and Buildings	Other	Total
	£	£	£
Operating lease commitments at 30 June 2019 as disclosed in the Company's financial statements	3,811,342	29,338	3,840,680
Recognition of period from break clause to lease end[1]	3,468,982	-	3,468,982
Discounted using the incremental borrowing rate at 1 July 2019	(2,327,795)	(2,078)	(2,329,873)
Less short-term leases recognised as an expense on a straight-line basis	-	(9,491)	(9,491)
Lease liabilities recognised 1 July 2019	4,952,529	17,769	4,970,298

1 Under the previous accounting policy the lease commitment was disclosed for the non-cancellable element of the lease, that is, until the first break clause. IFRS 16 requires companies to consider the economic benefits and penalties which would be incurred in order to determine the likelihood of extending the lease term past any enforceable period. The Company has undertaken significant leasehold improvements at both properties which are expected to continue to have significant economic benefit for the Company when the option becomes exercisable and the lease liability has therefore been recognised until the expiry of the full lease term as it is considered reasonably certain that the Company will take up these options.

Notes to the Financial Statements (continued)

2 Turnover

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 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.

Notes to the Financial Statements (continued)

2 Turnover *(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. To date there have been no material differences arising from these judgements and estimates.

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

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:

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Europe	**14,228,326**	10,553,101
Asia	**6,666,155**	4,441,168
North America	**840,848**	305,815
	21,735,329	15,300,084

Major product/service lines:

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Engineering services	**8,499,305**	6,436,837
Provision of technology hardware	**9,790,503**	1,451,210
Licenses	**3,445,521**	7,412,037
	21,735,329	15,300,084

Notes to the Financial Statements (continued)

2 Turnover *(continued)*

Contract-related assets and liabilities

	Note	As at 31 Dec 2020 £	As at 30 June 2019 £
Trade receivables	11	**3,088,234**	2,403,913
Contract assets – accrued income		**295,168**	305,514
Contract assets – deferred costs		**27,480**	416,760
		322,648	722,274
Total contract-related assets		**3,410,882**	3,126,187
Contract liabilities – deferred income		**(5,105,335)**	(3,061,131)

No material expected credit losses were recognised against trade receivables and contract assets in either the current period or the prior year. Further details regarding the composition of trade receivables can be found in note 11.

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 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. The increase in the current period compared with the prior year is primarily due to timing differences between revenue recognised on work performed and raising invoices to customers.

Revenue recognised in the current period that was included in the contract liabilities – deferred income – balance at the beginning of the period was £3,061,131 (12 months ended 30 June 2019: £663,766).

There were no significant amounts of revenue recognised in the 18 months ended 31 December 2020 arising from performance obligations satisfied in previous periods (12 months ended 30 June 2019: no significant amounts).

3 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.

	18 months ended 31 Dec 2020 £	12 months ended 30 June 2019 £
Government grants	**1,304,058**	1,064,870

Notes to the Financial Statements (continued)

4 Loss before taxation

Research and Development

The Company undertakes research and development activities either on its own behalf or in conjunction with customers. Company and customer funded expenditure on research, and on development activities not meeting the conditions for capitalisation (see note 10), are written off as incurred and charged to the Statement of profit and loss.

Interest receivable

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

Included in the ordinary activities before taxation are the following:

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Operating costs are split as follows:		
Research and development costs	**26,554,955**	13,273,311
Administrative expenses	**7,784,407**	3,976,826
Commercial	**2,386,013**	1,767,687
	36,725,375	19,017,824

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Loss before taxation is stated after charging/(crediting):		
Government grants	**(1,304,058)**	(1,064,870)
RDEC tax credit	**(1,265,281)**	-
Staff costs, including share-based payments (note 5)	**23,592,904**	11,506,480
Cost of inventories recognised as expense (note 12)	**8,402,908**	2,634,735
Depreciation charge on tangible fixed assets (note 8)	**3,818,376**	1,024,562
Depreciation of right of use assets (note 9)	**775,842**	-
Amortisation of intangibles (note 10)	**207,648**	13,019
Net change in fair value of financial instruments at fair value through profit or loss	**(54,891)**	41,682
Net foreign exchange loss	**139,212**	67,035

Auditor remuneration:		
Audit services		
- remuneration receivable by the Company's auditor for the auditing of the financial statements	**32,500**	41,400
Other services		
- taxation compliance services	**30,220**	-
- audit related assurance services	**20,893**	-
- audit related assurance services – government grants	**37,863**	3,588
- other – training services provided to group employees	**34,850**	-

Notes to the Financial Statements (continued)

5 Staff numbers and costs

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

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	Number	Number
By activity:		
Research and development	**135**	**112**
Prototype production	**89**	**50**
Administration	**39**	**24**
Commercial	**5**	**5**
	268	**191**

The aggregate payroll costs of these persons were as follows:

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Staff costs (for the above persons):		
Wages and salaries	**19,130,837**	8,973,819
Social security costs	**1,762,085**	957,727
Share-based payments	**1,378,426**	909,215
Contributions to defined contribution plans	**1,321,556**	665,719
	23,592,904	11,506,480

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 £1,321,556 (2019: £665,719). A total of £147,604 was payable in respect of pension contributions by the Company at the period end (2019: £102,528).

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.

Notes to the Financial Statements (continued)

5 Staff numbers and costs *(continued)*

Employee Benefits ***(continued)***

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.

6 Directors' remuneration

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Directors' remuneration	**1,412,208**	1,000,394
Company contributions to defined contribution plans	**85,926**	55,601
Gain on exercise of share option	**11,243,819**	181,308
	12,741,953	1,237,303

Highest paid Director

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Aggregate emoluments	**537,150**	405,872
Company contributions to defined contribution pension schemes	**29,209**	18,163
Gain on exercise of share option	**5,092,120**	29,125
	5,658,479	453,160

Three Directors of the Company are also directors of other Group companies and the direct costs of these Directors have been recharged to other Group companies based on an apportionment of their daily activities undertaken in respect of each Group company. The emoluments included above are the total costs incurred by the Company and are not reduced by any costs recharged to other Group companies. The value of the recharges relating to Directors emoluments in the period is £312,462 (2019: £160,023).

Three Directors (2019: four) have retirement benefits accruing under defined contribution pension schemes.

Four Directors (2019: four) held options in the ultimate holding company, Ceres Power Holdings plc, at 31 December 2020. Four Directors exercised options in the holding company during the period (2019: Four).

Notes to the Financial Statements (continued)

7 Taxation

The taxation credit for the period comprises current and deferred tax and any adjustment to tax payable or receivable in respect of previous years. Tax is recognised in the Statement of profit and loss 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 period, 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 period end under the SME R&D tax credit regimes.

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

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

Recognised in the statement of profit and loss	**18 months ended 31 Dec 2020**	12 months ended 30 June 2019
	£	£
UK corporation tax – R&D tax credit	**3,123,777**	2,292,000
Adjustment in respect of prior years – R&D tax credit	**167,817**	245,875
Tax credit on loss on ordinary activities	**3,291,594**	2,537,875

No corporation tax liability has arisen during the period (2019: £nil) due to the losses incurred.

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

Reconciliation of effective tax rate

The tax assessed for the period is different from the standard rate of UK corporation tax of 19% (2019: 19%). The differences are explained below:

	18 months ended 31 Dec 2020	12 months ended 30 June 2019
	£	£
Loss before taxation	**(22,231,684)**	(6,453,468)
Loss before taxation at the UK tax rate of 19% (2019: 19%)	**(4,224,020)**	(1,226,159)
Effects of:		
Enhanced tax deductions for R&D expenditure	**(2,491,611)**	(1,579,932)
Expenses not deductible for tax purposes	**145,295**	37,541
Short term timing differences	**8,564**	-
Fixed asset differences	**380,125**	(299,698)
Losses carried forward	**3,074,451**	161,459
Share option timing differences	**(2,652,046)**	(166,253)
Adjustment in respect of prior years – R&D tax credit	**(167,817)**	(245,875)
Difference between R&D tax credit and small company tax rates	**1,044,056**	781,042
Tax on RDEC credit	**240,402**	-
Effect of group relief surrendered	**1,351,007**	-
Total current tax credit	**(3,291,594)**	(2,537,875)

Notes to the Financial Statements (continued)

7 Taxation *(continued)*

Deferred taxation

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

	Amount recognised 18 months ended 31 Dec 2020	Amount recognised 12 months ended 30 June 2019	**Amount unrecognised 18 months ended 31 Dec 2020**	Amount unrecognised 12 months ended 30 June 2019
	£	£	**£**	£
Tax effect of timing differences because of:				
Difference between capital allowances and depreciation	–	–	**1,678,933**	1,211,408
Deductions relating to share options	–	–	**13,953,195**	937,867
RDEC	–	–	**452,050**	–
Losses carried forward	–	–	**14,029,608**	9,453,900
	-	-	**30,113,786**	11,603,175

The deferred tax assets have not been recognised as the Directors consider that it is unlikely that taxable profits will arise in the foreseeable future. The potential deferred tax assets are calculated using the estimated UK tax rate of 19% (2019: 19%). The gross amount of losses carried forward as at 31 December 2020 was £73,840,042 (30 June 2019: £55,611,176), which do not have an expiry date.

A change in the main UK corporation tax rate, announced in the budget on 3 March 2021, was substantively enacted on 11 March 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 profits fall 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.

Notes to the Financial Statements (continued)

8 Tangible fixed assets

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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 period in which they are incurred. The Directors annually consider the need to impair these assets.

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 July 2019	2,458,437	11,634,064	1,476,059	70,050	6,802,852	11,500	22,452,962
Additions	705,918	5,904,799	602,612	34,649	1,780,267	-	9,028,245
Transfers	2,957,873	4,658,973	-	209,995	(7,826,841)	-	-
Disposals	(4,500)	-	-	-	-	-	(4,500)
At 31 Dec 2020	**6,117,728**	**22,197,836**	**2,078,671**	**314,694**	**756,278**	**11,500**	**31,476,707**
Accumulated depreciation							
At 1 July 2019	2,212,203	9,390,116	1,010,906	70,050	-	488	12,683,763
Charge for the period	621,459	2,712,530	399,664	80,399	-	4,324	3,818,376
Disposals	(4,500)	-	-	-	-	-	(4,500)
At 31 Dec 2020	**2,829,162**	**12,102,646**	**1,410,570**	**150,449**	-	**4,812**	**16,497,639**
Net book value							
At 31 Dec 2020	**3,288,566**	**10,095,190**	**668,101**	**164,245**	**756,278**	**6,688**	**14,979,068**
At 30 June 2019	246,234	2,243,948	465,153	-	6,802,852	11,012	9,769,199

Notes to the Financial Statements (continued)

9 Right of use assets

The Company holds leases for premises and IT equipment with lease terms ranging from 6 months - 10 years. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases. i.e. these leases are recognised on the Balance sheet other than for short term leased plant and machinery (for details of the transition to IFRS 16 refer to Note 1).

Lease liabilities are initially measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate, estimated by management to be 10% at 1 July 2019. 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 14).

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.

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'.

	Land and Buildings £	**Computer equipment** £	**Total** £
Cost			
At 1 July 2019	-	-	-
Additions as a result of IFRS16	4,729,080	18,250	4,747,330
At 31 December 2020	**4,729,080**	**18,250**	**4,747,330**
Accumulated depreciation			
At 1 July 2019	-	-	-
Charge for the period	765,907	9,935	775,842
At 31 December 2020	**765,907**	**9,935**	**775,842**
Net book value			
At 31 December 2020	**3,963,173**	**8,315**	**3,971,488**
At 30 June 2019	-	-	-

Notes to the Financial Statements (continued)

10 Intangible assets

Research and development

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

All research phase expenditure is recognised in the Statement of profit and loss as an expense when incurred (see Note 3).

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 2 – 7 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.

	Internal developments in relation to manufacturing site £	Customer and internal development programmes £	Total £
Cost			
At 1 July 2019	234,165	1,100,858	1,335,023
Additions	177,000	3,322,396	3,499,396
At 31 December 2020	**411,165**	**4,423,254**	**4,834,419**
Accumulated depreciation			
At 1 July 2019	-	13,019	13,019
Charge for the period	82,233	125,415	207,648
At 31 December 2020	**82,233**	**138,434**	**220,667**
Net book value			
At 31 December 2020	**328,932**	**4,284,820**	**4,613,752**
At 30 June 2019	234,165	1,087,839	1,322,004

Notes to the Financial Statements (continued)

10 Intangible assets *(continued)*

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

11 Trade and other receivables

Trade receivables are recognised initially at fair value 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.

The Company applies the general approach for the impairment review of loans to subsidiaries.

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.

	As at 31 Dec 2020	As at 30 June 2019
	£	£
Current:		
Trade receivables	**3,088,234**	2,403,913
Amounts owed by group undertakings under common control	**1,001,078**	611,217
Corporation tax receivable	**3,123,777**	2,291,817
Other receivables	**2,210,753**	1,767,082
Derivative financial assets – forward foreign exchange contracts	**59,018**	27,847
Prepayments	**615,561**	890,437
Accrued income	**128,861**	206,605
	10,227,282	8,198,918
Non-current:		
Other receivables	**741,448**	741,448

Trade receivables at the balance sheet date relate to four customers (2019: six) of which £2,649,310 relates to the Europe geographic region, £nil to North America and £438,924 to Asia (2019: £1,818,208 related to the Europe geographic region, £83,923 to North America and £501,782 to Asia).

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

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 period (2019: £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.

Notes to the Financial Statements (continued)

12 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.

	As at 31 Dec 2020 £	As at 30 June 2019 £
Raw materials including work in progress	**1,855,358**	1,283,930
Finished goods	**251,793**	119,251
	2,107,151	1,403,181

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

During the 18 months ended 31 December 2020, inventories of £8,402,908 (12 months ended 30 June 2019: £2,634,735) were recognised as an expense during the period and included in cost of sales.

13 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.

	As at 31 Dec 2020 £	As at 30 June 2019 £
Trade payables	**1,725,112**	2,194,021
Amount owed to ultimate parent undertaking	**60,675,722**	66,952,851
Amount owed to immediate parent undertaking	**74,223,868**	45,946,717
Amounts owed to group undertakings under common control	**1,556,653**	-
Other payables	**6,646,893**	175,864
Other taxes and Social Security	**712,785**	-
Derivative financial liability – forward foreign exchange contracts	**42,688**	-
Accruals	**1,163,193**	1,647,668
Deferred income	**1,210,876**	-
	147,957,790	116,917,121

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.

Other payables include timing differences on payments relating to the exercise of certain share options in December 2020. These amounts were paid in January 2021.

Notes to the Financial Statements (continued)

14 Lease liabilities

The Company leases certain assets under lease agreements. The lease liability consists of leases of land and buildings 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 9.

	£
Balance as at 1 July 2019	-
Leases recognised as a result of IFRS16	4,970,298
Lease payments	(1,189,264)
Interest expense	663,686
Balance as at 31 December 2020	**4,444,720**
Current	823,012
Non-current	3,621,708

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

31 Dec 2020 £	Carrying amount £	Contractual cash flows £	1 year or less £	1 to 2 years £	2 -5 years £	>5 years years £
Lease liabilities	(4,444,720)	(6,111,227)	(823,012)	(817,468)	(2,446,860)	(2,023,887)

30 June 2019 £	Carrying amount £	Contractual cash flows £	1 year or less £	1 to 2 years £	2 -5 years £	>5 years years £
Lease liabilities	-	-	-	-	-	-

15 Provisions

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 period 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 period 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.

Notes to the Financial Statements (continued)

15 Provisions *(continued)*

Contract losses

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

The movement in provisions charged to the statement of profit and loss for the 18 months ended 31 December 2020 is set out below along with the value of provisions at 31 December 2020:

	Property dilapidations	Warranties	Contract losses	Total
	£	£	£	£
At 1 July 2019	991,669	93,185	64,743	1,149,597
Movements in the Statement of profit and loss				
Amounts used	-	-	(64,743)	(64,743)
Provisions made during the period	618,331	325,312	194,000	1,137,643
At 31 Dec 2020	**1,610,000**	**418,497**	**194,000**	**2,222,497**

	Property dilapidations	Warranties	Contract losses	Total
	£	£	£	£
Current	-	418,497	194,000	612,497
Non-Current	1,610,000	-	-	1,610,000
At 31 Dec 2020	**1,610,000**	**418,497**	**194,000**	**2,222,497**

The dilapidation provision at 31 December 2020 represents the present value of costs to be incurred, which is materially the same as the expected costs to be incurred, in making good the Company's leasehold properties at the break points of the leases in approximately 3-4 years' time. The main uncertainty relates to estimating the cost that will be incurred at the end of the respective leases. The increase in the dilapidation provision relates in part to the new manufacturing plant brought into operation in January 2020.

The warranty provision at the period 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 Company's 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 hardware that may require fixing or replacing and respective timing as manufacturing costs are expected to reduce over time. In addition, as most of the Company's warranty provisions relate to constructive rather than contractual obligation and there is little history of warranty claims with the Customer's current customers, any final warranty obligation will be subject to negotiation with the respective customer.

Contract loss provisions as at 31 June 2019 related to expected losses to be incurred in respect of two of the Company's contracts. During the 18 month period to 31 December 2020, one of these contracts ended resulting in the carrying amount of the provision being reversed and recognised in the statement of profit and loss. As at 31 December 2020, the contract loss provision relates to one contract for the provision of technology hardware which is expected to be substantially utilised during 2021. The main uncertainties relate to the timing of hardware delivery and the underlying manufacturing costs which are expected to reduce over time as the Company's production facility matures.

Notes to the Financial Statements (continued)

16 Other liabilities

	As at 31 Dec 2020	As at 30 June 2019
	£	£
Accruals	**-**	332,896

17 Share capital

	As at 31 Dec 2020	As at 30 June 2019
	£	£
Allotted and fully paid		
4,176,306 (2019: 4,176,306) ordinary shares of £0.001 each	**4,176**	4,176

18 Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £1,142,722 as at 31 December 2020 (2019: £1,115,750).

19 Related party transactions

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

20 Ultimate parent company and parent company of larger group

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

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

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