

**Ceres Power Limited**  
**Annual report**  
**for the year ended 30 June 2008**

**Registered Number: 04222409**

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# **Ceres Power Limited**

## **Annual report for the year ended 30 June 2008**

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# **Ceres Power Limited**

## **Directors and advisors**

### **Directors**

Dr. Andrew Baker (Operations Director)  
Dr. Peter Bance (Chief Executive Officer)  
Prof. Nigel Brandon (Chief Scientist)  
Mr. Robert Flint (Commercial Director)  
Mr. Rex Vevers (Finance Director)

### **Secretary**

Mr. Richard Preston

### **Registered office**

Unit 18, Denvale Trade Park  
Haslett Avenue East  
Crawley  
RH10 1SS

### **Solicitors**

Taylor Wessing  
Carmelite  
50 Victoria Embankment  
Blackfriars  
London  
EC4Y 0DX

### **Registered Auditors**

PricewaterhouseCoopers LLP  
Abacus House  
Castle Park  
Cambridge  
CB3 0AN

### **Bankers**

National Westminster Bank plc  
South Kensington Station Branch  
PO Box No 592  
18 Cromwell Place  
London  
SW7 2LB

# **Ceres Power Limited**

## **Directors' report for the year ended 30 June 2008**

The directors present their report and the audited financial statements of the Company for the year ended 30 June 2008.

### **Business review and principal activities:**

The principal activity of the Company throughout the year remained the development and commercial exploitation of micro-generation products based on solid oxide fuel cell technology.

Substantial achievements have been made in our priority areas: value engineering of the core Combined Heat and Power (CHP) product; preparation for mass manufacturing; delivery of key private and public sector contracts; securing new commercial contracts to get product to market in volume; and growing revenues and maintaining a strong balance sheet.

### **Results and dividends**

The Company made a loss for the financial year of £4,486,969 (2007: £3,994,112).

The directors do not recommend the payment of a dividend (2007: £nil).

### **Business background:**

The UK Government has estimated that microgeneration products, such as Ceres Power fuel cell CHP, have the potential to supply over one third of the country's total electricity needs and help meet its environmental obligations.

Microgeneration products such as residential CHP create electricity at the point of use and are highly efficient compared with centralised power stations, avoiding the heat losses in generation and transmission. Ceres Power fuel cell CHP products use existing infrastructure, unlike renewables, and could make a significant contribution to meeting energy targets and delivering energy savings to consumers.

During the year Centrica plc invested £20m for a 10% equity stake in Ceres Power Holdings plc, the Company's parent company. At the same time the Group entered into a contract with British Gas which provided a £5m funded development and trialing programme and a volume forward order for a minimum of 37,500 CHP products.

### **Strategy and future outlook:**

Ceres Power Holdings plc, the Company's parent company, has set out a clear roadmap through to commercial launch in the UK of the CHP product in collaboration with British Gas. In addition, the Company has committed to build commercial and operational capabilities to grow the business and to expand internationally.

### **Key Performance Indicators (KPIs):**

At this stage of the Company's development, the directors believe that the relevant KPIs are turnover, other operating income and operating loss.

Turnover for the year increased substantially to £0.7 million (2007: £0.1 million), through the successful delivery of technical milestones under the Company's contracts with its commercial partners. Following the completion of several existing public sector contracts during the year, other operating grant income fell 13% to £0.8m (2007: £1 million). Operating loss for the year increased 17% to £4.9 million (2007: £4.2 million) reflecting the increase in operating expenses net of the increase in turnover.

### **Research and development activities**

During the year, the Company incurred expenditure of £5,090,527 (2007: £4,467,301) on research and development, all of which was written off to the profit and loss account.

# **Ceres Power Limited**

## **Directors' report for the year ended 30 June 2008 (continued)**

### **Principal risks and uncertainties**

There are a number of risks and uncertainties which could have a material impact on the execution of the Company's strategy. Risks are formally reviewed by the Board and appropriate processes and controls put in place to monitor and mitigate them. Key business risks are set out below:

#### ***Technology risk***

The Group has made substantial progress during the year in the development of a fuel cell Combined Heat and Power (CHP) product. However, uncertainty still remains regarding the successful development and application of the Company's fuel cell technology to CHP and other potential products. Feasibility of the technology cannot be assessed until the product development cycles are close to completion. The Directors remain focused on delivering against these objectives.

#### ***Competitive and market risk***

The Group continues to target both existing and new markets in which to sell its core fuel cell technology products. Future revenues are dependent on the development of such markets and the impact on these markets of alternate products from competitors.

#### ***Intellectual property protection risk***

The Group continues to invest in the expansion and protection of its portfolio of intellectual property. The Group's competitive advantage is at risk to unauthorised parties using the Group's technology in their own products. Rigorous internal procedures and controls are therefore in place to capture all intellectual property and then to prevent or control disclosure to third parties and partners.

#### ***Growth management risk***

The Directors anticipate that the Group will grow significantly in the near future. Investment in operational, manufacturing, financial and managerial resources and management information systems and controls is already underway in order to meet the expected growth. There is a risk that growth will be constrained by insufficient resources.

#### ***Key personnel dependence risk***

The Group is in the process of putting in place certain medium term incentive schemes for key personnel. These support competitive remuneration packages and restrictive employment covenants already in place. These are aimed at reducing the risk of disruption to operations and damage to the business due to key resource leaving the business and to help to attract high-calibre staff.

### **Financial risk management**

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

The Company's main objective in using financial instruments is to maximise the return whilst minimising the risk by placing funds in low risk cash deposits with financial institutions.

The Company seeks to minimise its exposure to fluctuations in exchange rates by taking out forward currency contracts to hedge against foreign currency denominated purchase commitments, when known. At the year ended 30 June 2008, nil% (2007: 77%) of foreign currency purchase commitments were hedged by foreign currency contracts.

# **Ceres Power Limited**

## **Directors' report for the year ended 30 June 2008 (continued)**

### **Directors**

The directors of the Company, who served throughout the year unless otherwise shown, are as follows:

Dr. Andrew Baker (Operations Director)

Dr. Peter Bance (Chief Executive Officer)

Prof. Nigel Brandon (Chief Scientist)

Mr. Robert Flint (Commercial Director)

Mr. Philip Holbeche (Chairman) - resigned 31 December 2007

Mr. Rex Vevers (Finance Director)

### **Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

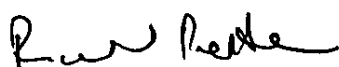
### **Directors' statement on disclosure of information to Auditors**

So far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting of the parent company.

### **By order of the Board**



**Mr Richard Preston**

**Company Secretary**

# Ceres Power Limited

## Independent auditors' report to the members of Ceres Power Limited

We have audited the financial statements of Ceres Power Limited for the year ended 30 June 2008 which comprise the Profit and loss account, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Cambridge

18 December 2008

# Ceres Power Limited

## Profit and loss account for the year ended 30 June 2008

	Notes	2008 £	2007 £
<b>Turnover</b>	2	721,958	97,575
Research and development costs		(5,090,527)	(4,467,301)
Administrative expenses		(1,379,373)	(1,301,859)
Other operating income	5	848,446	1,470,185
<b>Operating loss</b>		<b>(4,899,496)</b>	<b>(4,201,400)</b>
Interest receivable and similar income		12,527	33,598
<b>Loss on ordinary activities before taxation</b>	5	<b>(4,886,969)</b>	<b>(4,167,802)</b>
Tax credit on loss on ordinary activities	6	400,000	173,690
<b>Loss for the financial year</b>	13,14	<b>(4,486,969)</b>	<b>(3,994,112)</b>

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

The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year as stated above, and their historical cost equivalents.



# Ceres Power Limited

## Balance sheet as at 30 June 2008

	Notes	2008 £	2007 £
<b>Fixed assets</b>			
Tangible assets	7	2,034,369	1,842,240
<b>Current assets</b>			
Debtors: amounts falling due after more than one year	8	804,098	1,105,821
Debtors: amounts falling due within one year	8	815,528	601,737
Cash at bank and in hand		-	474,286
		1,619,626	2,181,844
Creditors: amounts falling due within one year	9	(1,639,500)	(668,524)
<b>Net current (liabilities) / assets</b>		<b>(19,874)</b>	<b>1,513,320</b>
<b>Total assets less current liabilities</b>		<b>2,014,495</b>	<b>3,355,560</b>
Creditors: amounts falling due after more than one year	10	(8,196,572)	(5,533,730)
<b>Net liabilities</b>		<b>(6,182,077)</b>	<b>(2,178,170)</b>
<b>Capital and reserves</b>			
Called up share capital	11	4,176	4,176
Share premium account	13	9,547,273	9,547,273
Profit and loss account	13	(15,733,526)	(11,729,619)
<b>Total shareholders' deficit</b>	14	<b>(6,182,077)</b>	<b>(2,178,170)</b>

The financial statements on pages 6 to 17 were approved by the board of directors on 18 December 2008 and were signed on its behalf by:

Dr. Peter Bance



Mr. Rex Vevers



**Directors**

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008

### 1 Principal accounting policies

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been reviewed by the Board of Directors in accordance with Financial Reporting Standard ("FRS") 18, "Accounting policies", and which have been applied consistently except where noted, is set out below.

#### Basis of preparing the financial statements – going concern assumption

During the year, the Company incurred a loss of £4,486,969 (2007: £3,994,112). The Company is dependent on its parent company, Ceres Power Holdings plc, for the provision of funding to meet its day-to-day working capital requirements. A letter guaranteeing the continued support of the parent company for a period not less than 12 months from the date of signature of these financial statements has been obtained.

In addition, in June 2008, Ceres Power Holdings plc agreed to provide the Company an unsecured term loan facility of £15 million for five years. This subordinates amounts owing to it from the Company so that all creditors of the Company will be paid in full before the amounts owing to Ceres Power Holdings plc can be repaid.

#### Share options

The fair value of employee share options is calculated using a Black Scholes Model. In accordance with FRS 20, "Share-based payments", and the related Urgent Issues Task Force (UITF) Abstract 44, 'FRS 20 – Group and treasury share transactions', the Company recognises an expense in respect of options granted by its parent company after 7 November 2002 that were unvested as of 1 January 2006. This expense, which is calculated by reference to the fair value of the options granted, is recognised on a straight line basis over the vesting period based on the Company's estimate of options that will eventually vest. The charge is then credited back to reserves.

#### Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

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

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

#### Deferred taxation

The Company applies FRS 19, "Deferred tax", which requires provision to be made in respect of timing differences between the treatment of certain items for accounting and tax purposes. Deferred tax assets are recognised only to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

# **Ceres Power Limited**

## **Notes to the financial statements for the year ended 30 June 2008 (continued)**

### **1 Principal accounting policies (continued)**

#### **Foreign currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction or, where forward foreign currency contracts have been taken out, at contractual rates. Monetary assets and liabilities are

retranslated at the rates of exchange ruling at the balance sheet date or at a forward contractual rate if applicable. Exchange gains and losses are taken to the profit and loss account for the period.

#### **Pension scheme arrangements**

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension costs charged represent contributions paid by the Company to individual pension plans and are charged to the profit and loss account as they become payable.

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

#### **Turnover**

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Turnover is shown net of value added tax, other sales taxes and after eliminating sales within the Group. Amounts received or receivable under development contracts are recognised as revenue when earned, either over the period that the related work is performed, subject to receipt of cash, or when the specific conditions in agreements have been met. All costs relating to these development programmes are recorded as research and development expenditure. As revenue represents contributions towards costs incurred, no amounts have been allocated to cost of sales.

#### **Government grants**

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

#### **Research and development expenditure**

Expenditure on research and development is written off to the profit and loss account as incurred.

#### **Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

#### **Lease incentives**

Benefits received and receivable as an incentive to sign an operating lease are spread on a straight-line basis over the lease term or if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate. Accordingly, any incentive received to sign a lease is included in other creditors and will be credited to the profit and loss account over the appropriate period.

#### **Cash flow statement**

Under FRS 1 (Revised 1996), "Cash flow statements", the Company is exempt from the requirement to produce a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Ceres Power Holdings plc.

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 2 Turnover

Turnover comprises revenues from development agreements. All turnover is derived from the principal activities of the Company. A geographical analysis of the Company's turnover by destination is presented below:

	2008	2007
	£	£
United Kingdom	721,958	97,575

### 3 Directors' emoluments

	2008	2007
	£	£
Aggregate emoluments	596,750	510,953
Company contributions to defined contribution pension schemes	67,851	44,580
	664,601	555,533

Highest paid director	2008	2007
	£	£
Aggregate emoluments	201,750	164,500
Company contributions to defined contribution pension schemes	37,526	23,267
	239,276	187,767

Directors' emoluments totalling £547,061 (2007: £396,178) were paid during the year to the directors of Ceres Power Limited by the holding company, Ceres Power Holdings plc, for services provided to Ceres Power Limited.

Four directors (2007: four) have retirement benefits accruing under defined contribution pension schemes.

Five directors (2007: five) held options in the holding company, Ceres Power Holdings plc, at 30 June 2008. No directors exercised options held in the holding company during the year (2007: nil).

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 4 Employee information

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2008 Number	2007 Number
<b>By activity:</b>		
Research and development	46	40
Administration	10	10
	<b>56</b>	<b>50</b>

	2008 £	2007 £
<b>Staff costs (for the above persons):</b>		
Wages and salaries	2,584,909	2,067,972
Social security costs	241,081	211,059
Share-based payment charge	483,062	840,951
Other pension costs	227,259	168,092
	<b>3,536,311</b>	<b>3,288,074</b>

### 5 Loss on ordinary activities before taxation

	2008 £	2007 £
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charge for the year on tangible owned fixed assets	769,923	674,161
Operating lease rentals - plant and machinery	4,724	2,608
- buildings	156,595	129,059
Auditors' remuneration:		
Audit services		
- remuneration receivable by the Company's auditors for the auditing of the accounts	28,238	21,000
Other services		
- other services relating to taxation	9,750	21,100
- other services	14,382	15,245
Other operating income – grant income	(845,446)	(970,185)
Other operating income – gain on disposal of intellectual property	(3,000)	(500,000)
Gain on foreign exchange	(15,951)	(2,826)
Share-based payments charge	483,062	840,951

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 6 Tax credit on loss on ordinary activities

	2008	2007
	£	£
UK corporation tax – R&D tax credit	250,000	-
Adjustment in respect of prior periods – R&D tax credit	150,000	173,690
<b>Tax credit on loss on ordinary activities</b>	<b>400,000</b>	<b>173,690</b>

No corporation tax liability has arisen during the year (2007: £nil) due to the losses incurred. A tax credit has arisen as a result of the tax losses being surrendered in respect of research and development expenditure in the current and prior years.

The tax result for the year is different from the standard rate of corporation tax in the UK of 20.25% (2007:19%). The differences are explained below:

	2008	2007
	£	£
Loss on ordinary activities before taxation	(4,886,969)	(4,167,802)
Loss on ordinary activities at the UK tax rate of 20.25% (2006:19%)	(989,611)	(791,882)
Effects of:		
Expenses not deductible for tax purposes	(204,163)	(91,210)
Accelerated capital allowances and other timing differences	155,009	23,337
Losses carried forward	724,858	761,491
Short term timing differences	(2,499)	98,264
Adjustment in respect of prior periods – R&D tax credit	(150,000)	(173,690)
Tax at marginal rate	66,406	-
<b>Total current tax credit</b>	<b>(400,000)</b>	<b>(173,690)</b>

#### Deferred taxation

At the balance sheet date the Company had deferred tax (assets)/liabilities as follows:

	Amount recognised 2008 £	Amount recognised 2007 £	Amount unrecognised 2008 £	Amount unrecognised 2007 £
Tax effect of timing differences because of:				
Difference between capital allowances and depreciation	-	-	(269,199)	15,130
Deductions on exercise of share options	-	-	(475,378)	(340,121)
Short term timing differences	-	-	(6,959)	(10,414)
Losses carried forward	-	-	(4,638,599)	(3,700,366)
	-	-	<b>(5,417,135)</b>	<b>(4,035,771)</b>

The deferred tax assets have not been recognised as the directors consider that it is unlikely that a corporation tax liability will arise in the foreseeable future.

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 7 Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Computer equipment £	Fixtures and fittings £	Assets under construction £	Total £
<b>Cost</b>						
At 1 July 2007	1,238,748	1,986,537	326,127	63,095	-	3,614,507
Additions	65,678	790,687	49,925	13,087	48,932	968,309
Disposals	(1,468)	(6,257)	-	-	-	(7,725)
<b>At 30 June 2008</b>	<b>1,302,958</b>	<b>2,770,967</b>	<b>376,052</b>	<b>76,182</b>	<b>48,932</b>	<b>4,575,091</b>
<b>Depreciation</b>						
At 1 July 2007	356,484	1,185,876	184,133	45,774	-	1,772,267
Charge for the year	127,960	534,429	94,431	13,103	-	769,923
Released on disposal	(1,468)	-	-	-	-	(1,468)
<b>At 30 June 2008</b>	<b>482,976</b>	<b>1,720,305</b>	<b>278,564</b>	<b>58,877</b>	<b>-</b>	<b>2,540,722</b>
<b>Net book value</b>						
<b>At 30 June 2008</b>	<b>819,982</b>	<b>1,050,662</b>	<b>97,488</b>	<b>17,305</b>	<b>48,932</b>	<b>2,034,369</b>
At 30 June 2007	882,264	800,661	141,994	17,321	-	1,842,240

### 8 Debtors

	2008 £	2007 £
<b>Amounts falling due within one year:</b>		
Trade debtors	734	65,301
Prepayments and accrued income	291,940	434,358
Corporation tax recoverable	400,000	-
Other debtors	122,854	102,078
	<b>815,528</b>	<b>601,737</b>
<b>Amounts falling due after more than one year:</b>		
Prepayments	52,870	52,870
Amounts owed by group undertakings	751,228	1,052,951
	<b>804,098</b>	<b>1,105,821</b>
	<b>1,619,626</b>	<b>1,707,558</b>

The amounts owed by group undertakings are unpaid inter-company charges. No specific repayment or interest terms are associated with these amounts.

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 9 Creditors: amounts falling due within one year

	2008	2007
	£	£
Bank overdraft	106,742	-
Trade creditors	201,808	465,532
Other tax and social security payable	69,783	64,630
Other creditors	45,168	39,412
Accruals and deferred income	1,215,999	98,950
	1,639,500	668,524

The bank overdraft balance at 30 June 2008 is due to timing differences relating to unpresented cheques.

### 10 Creditors: amounts falling due after more than one year

	2008	2007
	£	£
Deferred income	55,556	-
Amounts due to group undertakings	8,141,016	5,533,730
	8,196,572	5,533,730

The amounts due to group undertakings comprise inter-company loans and recharges. No specific repayment or interest terms are associated with these amounts.

A subordination agreement was reached between the Company and Ceres Power Holdings plc in June 2008. This provides the Company an unsecured term loan facility of £15 million for five years. Amounts owed by the Company to Ceres Power Holdings plc (£8,141,016) are subordinated to all other creditors of the Company.

### 11 Called up share capital

	2008	2007
	£	£
<b>Authorised</b>		
6,000,000 (2007: 6,000,000) ordinary shares of £0.001 each	6,000	6,000
<b>Allotted, called up and fully paid</b>		
4,176,306 (2007: 4,176,306) ordinary shares of £0.001 each	4,176	4,176



# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 12 Share options

The parent company has issued share options under a share option scheme for directors and employees, under which approved and unapproved share options were granted, prior to the flotation of the parent company in November 2004. The Parent Company adopted the "Ceres Power Holdings Limited 2004 Employee's Share Option Scheme" at the time of flotation.

Under this scheme, directors and employees hold options to subscribe for £0.05 ordinary shares in Ceres Power Holdings plc at prices ranging from £0.23 to the closing mid-market price on the day preceding the most recent share option grant. All options are equity settled. The vesting period for all options is generally three years. If the options remain unexercised after a period of ten years from the date of the grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

The Company recognised a total expense relating to employee share-based payments under the equity-settled share option plans of £483,062 (2007: £840,951).

Movements in the total number of share options outstanding and their relative weighted average exercise price are as follows:

	2008		2007	
	Number (‘000)	Weighted average exercise price (£)	Number (‘000)	Weighted average exercise price (£)
<b>Outstanding at 1 July</b>	<b>3,059</b>	<b>1.16</b>	<b>2,739</b>	<b>0.88</b>
Granted	210	1.91	525	2.32
Exercised	(394)	0.63	(205)	0.41
Lapsed	(40)	2.52	-	-
<b>Outstanding at 30 June</b>	<b>2,835</b>	<b>1.27</b>	<b>3,059</b>	<b>1.16</b>
Exercisable	2,177	0.99	2,025	0.71

The weighted average fair value of options granted in the year was £220,133 (2007: £743,785). The weighted average share price at the date of exercise during the year was £2.91 (2007: £2.16).

The range of exercise prices for options outstanding at the end of the year is as follows:

	2008		2007	
	Weighted average exercise price (£)	Number (‘000)	Weighted average exercise price (£)	Number (‘000)
<b>Expiry date – 30 June</b>				
2012	0.23	193	0.23	293
2013	0.23	191	0.23	221
2014	0.45	683	0.44	848
2015	0.75	385	0.79	433
2016	2.03	688	2.02	739
2017	2.29	485	2.32	525
2018	1.91	210	-	-

The options outstanding at the end of the year have a weighted average contractual life of 6.67 years (2007: 7.35 years).

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 12 Share options (continued)

Fair values were measured by use of the Black-Scholes pricing model. The inputs to the model were as follows:

	2008	2007
Grant date	16 July 2007 to 9 June 2008	10 July 2006 to 29 May 2007
Share price at date of grant and exercise price (£)	1.42 - 3.51	2.15 - 2.87
Expected volatility (%)	47 - 60	57 - 69
Expected option life (years)	5 - 7	5 - 7
Average risk-free interest rate (%)	3.96 - 5.71	4.17 - 5.50
Expected dividend yield	Nil	Nil

The exercise price of an option is the closing mid-market share price at the date of grant. The expected life of the options is based on the best estimate of the average number of years expected from grant to exercise. The expected volatility is based on historic volatility of Ceres Power Holdings plc since it was listed on AIM, updated from the prior year volatility calculation, which was based on historic volatility over the last seven years of comparable listed companies. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

### 13 Reserves

	Share premium account £	Profit and loss account £
At 1 July 2007	9,547,273	(11,729,619)
Loss for the financial year	-	(4,486,969)
Share-based payments charge	-	483,062
At 30 June 2008	9,547,273	(15,733,526)

The profit and loss reserve includes an amount of £503,000 (2007: £500,000) that is non-distributable.

### 14 Reconciliation of movements in shareholders' deficit

	2008 £	2007 £
Opening shareholders' (deficit) / funds	(2,178,170)	974,991
Loss for the financial year	(4,486,969)	(3,994,112)
Share-based payments charge	483,062	840,951
Closing shareholders' deficit	(6,182,077)	(2,178,170)

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 15 Contingent liabilities

During the year, the Company recognised grant income in respect of research and development activities of £845,446 (2007: £970,185) in accordance with the Company's accounting policy. The grants may be required to be repaid if the Company does not meet subsequent reporting requirements and technical milestones specified in the grant offer letters. In addition, £624,000 (2007: £523,000) of grant income, or an element thereof, may require repayment if the Company generates revenue (net of expenses and reasonable overheads) from the patent created from the grant. In such case, the Company may be liable to pay back the grant at a rate of 5% of the net revenue generated in any one year. The directors of the Company believe it is unlikely that any of the grants received will need to be repaid in the foreseeable future.

### 16 Operating lease commitments

At 30 June 2008, the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	Other	Land and buildings	Other
	2008	2008	2007	2007
	£	£	£	£
Leases expiring:				
Between two and five years inclusive	108,157	4,723	-	2,608
After five years	44,858	-	134,848	-
	153,015	4,723	134,848	2,608

### 17 Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £218,000 as at 30 June 2008 (2007: £165,000).

### 18 Related party transactions

As a wholly owned subsidiary, where the Company's results are included in the consolidated financial statements of Ceres Power Holdings plc, the Company is exempt from the requirement to disclose transactions with other group companies.

Imperial College and its technology transfer company, Imperial Innovations Group plc, are related parties by virtue of their shareholding in Ceres Power Holdings plc. During the year, a total of £6,667 (2007: £6,495) was payable to Imperial College (and its subsidiaries) in respect of tuition fees and equipment usage. £5,000 (2007: £nil) was payable to IC Consultants Limited (a wholly owned subsidiary of Imperial College) in respect of a collateral agreement. Of these amounts, £nil (2007: £nil) remains outstanding to IC Consultants Limited and £nil (2007: £nil) to Imperial College at 30 June 2008.

### 19 Ultimate controlling party

Ceres Power Holdings plc is the Company's ultimate controlling party by virtue of its 100% shareholding in the Company.

Copies of the consolidated financial statements of Ceres Power Holdings plc can be obtained from The Company Secretary, Ceres Power Holdings plc, Unit 18 Denvale Trade Park, Haslett Avenue East, Crawley RH10 1SS.