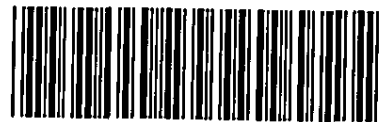


Ceres Power Limited
Annual report
for the year ended 30 June 2009

Registered Number: 04222409

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Ceres Power Limited

Annual report for the year ended 30 June 2009

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Ceres Power Limited

Directors and advisors

Directors

Dr Peter Bance (Chief Executive Officer)
Mr Robert Flint (Commercial Director)
Mr Rex Ververs (Finance Director)
Mr Jonathan Watkins (Operations Director)
Dr Philip Whalen (Technology Director)

Secretary

Mr Richard Preston

Registered office

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

Solicitors

Macfarlanes LLP
20, Cursitor Street
London
EC4A 1LT

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 2009

The Directors present their report and the audited financial statements of the Company for the year ended 30 June 2009

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

Despite the very challenging global economic climate, the Company has delivered another year of strong growth in commercial revenues reflecting the successful completion of key technical milestones in accordance with the Company's go-to-market roadmap

The Company successfully completed the Alpha phase of the Combined Heat & Power ('CHP') programme with British Gas, signed a commercial contract with Calor Gas Limited for residential LPG CHP products and secured a facility for the mass manufacture of fuel cells. The Company made significant investments in plant and machinery and human resources, increasing the underlying operating expenditure. This will continue as the Company scales-up operations towards launch of the CHP product with British Gas. The Directors were satisfied with the progress made by the Company in the year and at the year end.

Results and dividends.

The Company made a loss for the financial year of £7,375,541 (2008 £4,486,969)

The Directors do not recommend the payment of a dividend (2008 £nil)

Business background.

In the last year, a number of major economies around the world have launched significant fiscal incentive programmes designed to stimulate the development and deployment of low-carbon technologies, recognising that addressing carbon emissions, especially in the residential sector, is an essential part of the solution to climate change.

One such key green incentive is the feed-in tariff ('FIT') – a per-energy unit incentive payment for small-scale low-carbon electricity generation. FIT schemes are already widely used across the European Union where they have been used to encourage the deployment of small-scale distributed electricity generation, thereby avoiding the generation, transmission and distribution losses of centralised power generation.

In July 2009, the UK Government announced that it will implement a FIT for residential microgeneration devices, including CHP fed by non-renewable fuels such as natural gas and LPG. The scheme is to be implemented in April 2010 and has the potential to substantially reduce the energy bills of consumers installing a Ceres CHP product.

Strategy and future outlook.

The Directors are focused on the delivery of the Company's core residential CHP programmes and on investing in the operational capabilities that will underpin the Company's future growth.

Key Performance Indicators (KPIs).

The Company considers its Key Performance Indicators ('KPIs') to be revenue and the net cash and financial assets measured against predetermined targets. The Directors were satisfied with the achievement of the KPIs, when measured against their targets.

Research and development activities.

During the year, the Company incurred expenditure of £5,693,983 (2008 £5,090,527) 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 2009 (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 as follows:

Technology risk

The Company has continued to make substantial progress in the development of its fuel cell residential Combined Heat and Power ('CHP') product. However, there is still uncertainty regarding the successful development and application of the Company's fuel cell technology to CHP and other potential products. Feasibility of the technology will be re-assessed when the product development cycles are closer to completion.

Competitive and market risk

The Company continues to target both existing and new markets in which to sell its products. Future revenues are dependent on the development of such markets and the impact on these markets of alternative products from competitors.

Global economic and credit market risk

The impact of the current credit market conditions increases the risk of a counterparty exposure should any counterparty default on its contractual obligations. The Directors expect the current economic conditions to continue for some time and will continue to seek to closely monitor the risks that arise.

Intellectual property protection risk

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

Growth management risk

The Company has grown significantly in the past year and anticipates further growth over the coming years. Investment in operational, manufacturing, managerial resources and management information systems and controls continues in order to meet the expected growth. There is a risk that growth will be constrained by insufficient resources.

Key personnel dependence risk

As disclosed in the Remuneration Report section of the Annual Report of Ceres Power Holdings plc and in its notes to the Consolidated Financial Statements, the Directors have put in place incentive schemes for key personnel. These support the existing 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 personnel leaving the business.

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 2009, 100% (2008: there were no foreign currency denominated commitments) of foreign currency purchase commitments were hedged by foreign currency contracts.

Note 15 in the Annual Report of Ceres Power Holdings plc, the parent company of Ceres Power Limited, highlights the other financial risks faced by the Company and how these are managed.

Ceres Power Limited

Directors' report for the year ended 30 June 2009 (continued)

Directors

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

Dr Andrew Baker (Operations Director) – resigned 31 December 2008
Dr Peter Bance (Chief Executive Officer)
Prof Nigel Brandon (Chief Scientist) – resigned 3 November 2009
Mr Robert Flint (Commercial Director)
Mr Rex Vevers (Finance Director)
Mr Jonathan Watkins (Operations Director) – appointed 1 January 2009
Mr Phil Whalen (Technology Director) – appointed 1 July 2009

Statement of Directors' responsibilities

The Directors are responsible for preparing 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 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). 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 accounting 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.

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 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.

Post balance sheet events.

Ceres Power Holdings plc, the parent company of Ceres Power Limited, raised £31.35 million (excluding issue costs of £1.32 million) through a placing of 19 million new ordinary shares in December 2009.

On 15 March 2010, Ceres Power Holdings plc agreed to increase its subordinated unsecured term loan facility to the Company from £15 million to £25 million for five years from that date (see note 10 to the financial statements).

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

 15 March 2010

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 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities as set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



Steven Tapping (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge 18 March 2010

Ceres Power Limited

Profit and loss account for the year ended 30 June 2009

	Notes	2009 £	2008 £
Turnover	2	951,888	721,958
Operating costs	5	(9,167,566)	(6,469,900)
Other operating income	5	492,749	848,446
Operating loss		(7,722,929)	(4,899,496)
Interest receivable and similar income		2,498	12,527
Loss on ordinary activities before taxation	5	(7,720,431)	(4,886,969)
Tax credit on loss on ordinary activities	6	344,890	400,000
Loss for the financial year	14,15	(7,375,541)	(4,486,969)

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 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	7	3,243,474	2,034,369
Current assets			
Debtors amounts falling due after more than one year	8	1,017,087	804,098
Debtors amounts falling due within one year	8	704,207	815,528
Cash at bank and in hand		315,601	-
		2,036,895	1,619,626
Creditors: amounts falling due within one year	9	(3,241,059)	(1,626,500)
Net current liabilities		(1,204,164)	(6,874)
Total assets less current liabilities		2,039,310	2,027,495
Creditors amounts falling due after more than one year	10	(15,021,434)	(8,196,572)
Provisions for liabilities	11	(30,000)	(13,000)
Net liabilities		(13,012,124)	(6,182,077)
Capital and reserves			
Called up share capital	12	4,176	4,176
Share premium account	14	9,547,273	9,547,273
Profit and loss account	14	(22,563,573)	(15,733,526)
Total shareholders' deficit	15	(13,012,124)	(6,182,077)

The financial statements on pages 6 to 20 were approved by the board of Directors on 15 March 2010 and were signed on its behalf by

Dr Peter Bance



Mr Rex Vevers



Directors

Ceres Power Limited
Registered Number 04222409

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009

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 2006 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 £7,375,541 (2008 £4,486,969) and had net liabilities of £13,012,124 at 30 June 2009 (2008 £6,182,077 net liabilities). 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 of 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 a subordinated unsecured term loan facility of £15 million for five years, which in March 2010 was increased to £25 million for 5 years from that date. 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 by the use of Black Scholes and binomial models. 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 as follows:

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

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

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 2009 (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 Company's activities. Turnover is shown net of value added tax and other sales taxes. Amounts received or receivable under development contracts are recognised as revenue when earned, as calculated on a percentage of completion basis, based on costs incurred to total estimated costs over the period that the related work is performed, subject to certainty of receipt of cash, or when any specific conditions in agreements have been met. All costs relating to these development contracts 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 2009 (continued)

1 Principal accounting policies (continued)

Provisions

Provisions have been made for future dilapidations costs on leased property. These provisions are the Directors' best estimates as the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Details of the Company's provisions are set out in note 11.

2 Turnover

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

	2009	2008
	£	£
United Kingdom	951,888	721,958

3 Directors' emoluments

	2009	2008
	£	£
Aggregate emoluments	721,255	596,750
Company contributions to defined contribution pension schemes	56,016	67,851
Compensation for loss of office	168,713	-
	945,984	664,601

Highest paid Director	2009	2008
	£	£
Aggregate emoluments	207,851	201,750
Company contributions to defined contribution pension schemes	13,611	37,526
	221,462	239,276

Directors' emoluments totalling £287,160 (2008: £547,061) 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.

Five Directors (2008: four) have retirement benefits accruing under defined contribution pension schemes.

Five Directors (2008: five) held options in the holding company, Ceres Power Holdings plc, at 30 June 2009. No Directors exercised options held in the holding company during the year (2008: nil).

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

4 Employee information

The average monthly number of persons (including Executive Directors) employed by the Company during the year was

	2009 Number	2008 Number
By activity		
Research and development	50	46
Administration	24	10
	74	56

	2009 £	2008 £
Staff costs (for the above persons)*		
Wages and salaries	3,468,216	2,584,909
Social security costs	441,831	241,081
Share-based payment charge	545,494	483,062
Other pension costs	250,578	227,259
	4,706,119	3,536,311

A total of £34,419 was payable in respect of pension contributions by the Company at the year end

5 Loss on ordinary activities before taxation

	2009 £	2008 £
Operating costs are split as follows:		
Research and development costs	5,693,983	5,090,527
Administrative expenses	3,473,583	1,379,373
	9,167,566	6,469,900

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

5 Loss on ordinary activities before taxation (continued)

	2009	2008
	£	£
Loss on ordinary activities before taxation is stated after charging/(crediting).		
Depreciation charge for the year on tangible owned fixed assets	877,192	769,923
Operating lease rentals - plant and machinery	4,724	4,724
- other operating leases	153,014	156,595
Auditors' remuneration		
Audit services		
- remuneration receivable by the Company's auditors for the auditing of the accounts	26,000	28,238
Other services		
- other services relating to taxation	11,100	9,750
- other services pursuant to legislation	8,051	14,382
Other operating income – grant income	(491,749)	(845,446)
Other operating income – gain on disposal of intellectual property	(1,000)	(3,000)
Loss/(gain) on foreign exchange	15,037	(15,951)
Share-based payments charge	545,494	483,062

6 Tax credit on loss on ordinary activities

	2009	2008
	£	£
UK corporation tax – R&D tax credit	320,000	250,000
Adjustment in respect of prior periods – R&D tax credit	24,890	150,000
Tax credit on loss on ordinary activities	344,890	400,000

No corporation tax liability has arisen during the year (2008 £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 21% (2008 20.25%). The differences are explained below.

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

6 Tax credit on loss on ordinary activities (continued)

	2009 £	2008 £
Loss on ordinary activities before taxation	(7,720,431)	(4,886,969)
Loss on ordinary activities at the UK tax rate of 21% (2008 20 25%)	(1,621,291)	(989,611)
Effects of		
Expenses not deductible for tax purposes	(63,570)	(204,163)
Accelerated capital allowances and other timing differences	187,784	155,009
Losses carried forward	1,079,169	724,858
Short term timing differences	-	(2,499)
Adjustment in respect of prior periods – R&D tax credit	(24,890)	(150,000)
Tax at marginal rate	97,908	66,406
Total current tax credit	(344,890)	(400,000)

Deferred taxation

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

	Amount recognised 2009 £	Amount recognised 2008 £	Amount unrecognised 2009 £	Amount unrecognised 2008 £
Tax effect of timing differences because of				
Difference between capital allowances and depreciation	-	-	(526,727)	(296,199)
Deductions on exercise of share options	-	-	(796,000)	(475,378)
Short term timing differences	-	-	(10,214)	(6,959)
Losses carried forward	-	-	(5,995,847)	(4,638,599)
	-	-	(7,328,788)	(5,417,135)

The deferred tax assets have not been recognised as the Directors consider that it is insufficiently certain 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 2009 (continued)

7 Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Computer equipment £	Fixtures and fittings £	Assets under construction £	Total £
Cost						
At 1 July 2008	1,302,958	2,770,967	376,052	76,182	48,932	4,575,091
Additions	31,590	611,752	97,998	17,025	1,328,316	2,086,681
Disposals	-	-	-	(384)	-	(384)
Transfers	-	48,932	-	-	(48,932)	-
At 30 June 2009	1,334,548	3,431,651	474,050	92,823	1,328,316	6,661,388
Depreciation						
At 1 July 2008	482,976	1,720,305	278,564	58,877	-	2,540,722
Charge for the year	132,014	661,165	75,034	8,979	-	877,192
At 30 June 2009	614,990	2,381,470	353,598	67,856	-	3,417,914
Net book value						
At 30 June 2009	719,558	1,050,181	120,452	24,967	1,328,316	3,243,474
At 30 June 2008	819,982	1,050,662	97,488	17,305	48,932	2,034,369

8 Debtors

	2009 £	2008 £
Amounts falling due within one year*		
Trade debtors	-	734
Prepayments and accrued income	217,433	291,940
Corporation tax recoverable	320,000	400,000
Other debtors	166,774	122,854
	704,207	815,528
Amounts falling due after more than one year:		
Prepayments	80,774	52,870
Amounts owed by group undertakings	936,313	751,228
	1,017,087	804,098
	1,721,294	1,619,626

The amounts owed by group undertakings are unpaid inter-company charges. There is no formal schedule of repayment for the amounts due from group companies, but there are no plans for the amounts to be repaid within one year. These amounts are non-interest bearing.

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

9 Creditors: amounts falling due within one year

	2009	2008
	£	£
Bank overdraft	-	106,742
Trade creditors	861,738	201,808
Other tax and social security payable	104,759	69,783
Other creditors	50,539	45,168
Accruals and deferred income	2,224,023	1,202,999
	3,241,059	1,626,500

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

10 Creditors: amounts falling due after more than one year

	2009	2008
	£	£
Accruals and deferred income	1,966,000	55,556
Amounts due to group undertakings	13,055,434	8,141,016
	15,021,434	8,196,572

The amounts due to group undertakings comprise inter-company loans and recharges. There is no formal schedule of repayment for the amounts due to group companies, but there are no plans for the amounts to be repaid within one year. These amounts are non-interest bearing.

A subordination agreement was reached between the Company and Ceres Power Holdings plc in June 2008. This provides the Company a subordinated unsecured term loan facility of £15 million for five years. On 15 March 2010 the facility was increased to £25 million for five years from this date. Amounts owed by the Company to Ceres Power Holdings plc (£13,055,434) are subordinated to all other creditors of the Company.

11 Provisions for liabilities

	2009	2008
	£	£
At 1 July	13,000	8,000
Charge to profit and loss account	17,000	5,000
At 30 June	30,000	13,000

The provision recognised is for the present value of costs to be incurred, which is materially the same as the expected costs to be incurred, in making good the various leasehold properties at the end of their respective leases.

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

12 Called up share capital

	2009 £	2008 £
Authorised		
6,000,000 (2008 6,000,000) ordinary shares of £0.001 each	6,000	6,000
Allotted, called up and fully paid		
4,176,306 (2008 4,176,306) ordinary shares of £0.001 each	4,176	4,176

13 Share options

The total charge recognised in the year ended 30 June 2009 relating to employee share-based payments was £545,494 (2008 £483,062)

The parent company has a number of share option schemes and saving-related share option plans for its employees and one for Executive Directors

	2009 £	2008 £
Employees' share option scheme	417,855	483,062
Executive Directors' one-off award	101,343	—
Sharesave plan	2,757	—
CHP Project Bonus Plan	23,539	—
	545,494	483,062

a) Ceres Power Holdings Limited 2004 Employees' Share Option Scheme

The Parent Company has issued share options under this 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 Employees' 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 10 years from the date of the grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

13 Share options (continued)

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

	2009		2008	
	Number (‘000)	Weighted average exercise price	Number (‘000)	Weighted average exercise price
Outstanding at 1 July	2,835	£1.27	3,059	£1 16
Granted	506	£1.42	210	£1 91
Exercised	(8)	£0 66	(394)	£0 63
Lapsed	(58)	£2.19	(40)	£2 52
Outstanding at 30 June	3,275	£1.30	2,835	£1 27
Exercisable	2,627	£1.21	2,177	£0 99

The weighted average fair value of options granted in the year was £413,509 (2008 £220,133) The weighted average share price at the date of exercise during the year was £1 89 (2008 £2 91)

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

	2009		2008	
Expiry date – 30 June	Weighted average exercise price	Number (‘000)	Weighted average exercise price	Number (‘000)
2012	£0.23	193	£0 23	193
2013	£0 23	191	£0 23	191
2014	£0.45	676	£0 45	683
2015	£0.75	384	£0 75	385
2016	£2 06	655	£2 03	688
2017	£2.29	485	£2 29	485
2018	£1.91	210	£1 91	210
2019	£1.38	481	–	–

The options outstanding at the end of the year have a weighted average contractual life of 5 73 years (2008 6 67 years)

b) Executive Directors’ one-off award

In addition, during the year, Executive Directors of the parent company and Ceres Power Limited were granted ‘one-off’ options under the Ceres Power Holdings Limited 2004 Employees’ Share Option Scheme at an exercise price of £2 00, a premium of £1 08 to the then market price The exercise of these share options is subject to continued employment and achievement of absolute share price targets

1,156,250 options were granted to employees of Ceres Power Limited in the year at an exercise price of £2 00 These remain outstanding and unexercisable at 30 June 2009 The weighted average fair value of the options granted in the year was £683,040 (2008 £nil) No options were exercised or lapsed in the year or in the previous year All options expire in the year ending 30 June 2019 and the options outstanding at the end of the year have a weighted average contractual life of 9 45 years

The options granted can only be exercised if the following share price targets are achieved over 20 consecutive trading days at some point during the exercise period

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

13 Share options (continued)

	Percentage of options exercisable	Share price target	Exercise period (post grant)
Tranche 1	25%	£4	2-10 years
Tranche 2	37.5%	£5	3-10 years
Tranche 3	37.5%	£6	4-10 years

c) Ceres Power Holdings Sharesave scheme

During the year, an HMRC-approved savings-related share option scheme was implemented, under which employees save on a monthly basis, over a three-year period, towards the purchase of shares in Ceres Power Holdings plc at a fixed price determined when the option is granted. This price is set at a 20% discount to the market price. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse.

221,846 options were granted to employees of Ceres Power Limited in the year at an exercise price of £0.81. These remain outstanding and unexercisable at 30 June 2009. The weighted average fair value of options granted in the year was £123,505 (2008: £nil). No options were exercised or lapsed in the year or in the previous year. All options expire in the year ending 30 June 2013 and the options outstanding at the end of the year have a weighted average contractual life of 3.42 years.

d) CHP Project Bonus Plan

The CHP Project Bonus Plan is a medium-term incentive scheme under which a performance-related bonus of cash and nominal value share options in Ceres Power Holdings plc is awarded to Executive Directors and senior managers. The exercise of these share options is subject to continued employment until 30 June 2012, when they vest, and they must be exercised within 10 years from the date of the grant.

Under the Alpha phase of the CHP Project Bonus Plan 143,336 options were granted to employees of Ceres Power Limited in the year at an exercise price of £0.05. These all remain outstanding and unexercisable at 30 June 2009. The weighted average fair value of options granted in the year was £271,621 (2008: £nil). No options were exercised or lapsed in the year or in the previous year. All options expire in the year ending 30 June 2019 and the options outstanding at the end of the year have a weighted average contractual life of 9.7 years.

Assumptions

Fair values of all schemes, apart from the Executive Directors' one-off award, which was measured using a binomial pricing model, were measured by use of the Black-Scholes pricing model. The inputs to the Black-Scholes model were as follows:

	2004 scheme 2009	Share- save 2009	CHP Project Bonus 2009	2004 scheme 2008
Grant date	7 July 2008 to 12 Feb 2009	1 June 2009	30 June 2009	16 July 2007 to 9 June 2008
Share price at date of grant (£)	0.68–2.52	1.01	1.94	1.42–3.51
Exercise price (£)	0.68–2.52	0.81	0.05	1.42–3.51
Expected volatility (%)	60–65	65	65	47–60
Expected option life (years)	5–7	3.5	3.5	5–7
Average risk-free interest rate (%)	3.5–5.0	3.5	3.5	3.96–5.71
Expected dividend yield	Nil	Nil	Nil	Nil

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

13 Share options (continued)

Inputs to the binomial model for the Executive Directors' one-off award were as follows Grant date as 11 December 2008, share price at date of grant was £1.05, expected volatility was 70%, expected option life was seven years, interest free rate was 4.0%, discount of 14% to take account of the knock-in barrier being based on the share price being over a certain share price for 20 consecutive days in the knock-in period

The exercise prices of options are stated above 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 the Parent Company's shares since it was listed on AIM The risk-free rate of return is management's estimate of the yield on zero-coupon UK Government bonds of a term consistent with the expected option life

14 Reserves

	Share premium account £	Profit and loss account £
At 1 July 2008	9,547,273	(15,733,526)
Loss for the financial year	-	(7,375,541)
Share-based payments charge	-	545,494
At 30 June 2009	9,547,273	(22,563,573)

The profit and loss reserve includes an amount of £504,000 (2008 £503,000) that is non-distributable

15 Reconciliation of movements in shareholders' deficit

	2009 £	2008 £
Opening shareholders' deficit	(6,182,077)	(2,178,170)
Loss for the financial year	(7,375,541)	(4,486,969)
Share-based payments charge	545,494	483,062
Closing shareholders' deficit	(13,012,124)	(6,182,077)

16 Contingent liabilities

During the year, the Company recognised grant income in respect of research and development activities of £491,749 (2008 £845,446) (see note 5) in accordance with the Company's accounting policy The Directors consider that there is a contingent liability only in respect of grants received in the 12 months prior to the balance sheet date The repayment of grants received prior to this is considered of remote likelihood, as grants may be required to be repaid if the Company does not meet subsequent reporting requirements as specified in the grant offer letters In addition £651,000 (2008 £624,000) 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

Ceres Power Limited

Notes to the financial statements for the year ended 30 June 2009 (continued)

17 Operating lease commitments

At 30 June 2009, the Company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	Other	Land and buildings	Other
	2009	2009	2008	2008
	£	£	£	£
Leases expiring				
Between two and five years inclusive	408,157	4,723	108,157	4,723
After five years	44,858	-	44,858	-
	453,015	4,723	153,015	4,723

18 Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £536,000 as at 30 June 2009 (2008 £218,000)

19 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

There were no related parties at 30 June 2009

The Directors considered in the past that Imperial College and its technology transfer company, Imperial Innovations Group plc (and subsidiaries including Imperial Innovations LLP) ('Imperial') were related parties by virtue of them exerting significant influence through their long relationship with the Company since before 2001 and providing essential technical information. However during the year the Directors considered that the influence on the Company by Imperial was no longer significant and therefore it is no longer considered to be a related party.

The Directors considered whether Centrica plc, with its significant commercial activity with the Company and 9.9% shareholding in Ceres Power Holdings plc through GB Gas Holdings Ltd, is a related party. As Centrica plc does not take part in financial or operating policy decisions and has no right to appoint a Board member, the Directors considered it does not exert significant influence over Ceres Power Holdings plc and therefore is not a related party.

20 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.