

**Ceres Power Limited**  
**Annual Report and financial statements**  
**for the year ended 30 June 2015**

**Registered Number: 04222409**

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# **Ceres Power Limited**

## **Annual Report and financial statements for the year ended 30 June 2015**

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# **Ceres Power Limited**

## **Directors and advisors**

### **Directors**

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

### **Company Secretary**

Ms Helen Milburn

### **Registered office**

Viking House  
Foundry Lane  
Horsham  
West Sussex  
RH13 5PX

### **Solicitor**

DAC Beachcroft LLP  
Portwall Place  
Portwall Lane  
Bristol  
BS99 7UD

### **Independent Auditor**

KPMG LLP  
Chartered Accountants and Statutory Auditor  
1 Forest Gate  
Brighton Road  
Crawley  
West Sussex  
RH11 9PT

### **Banker**

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

# Ceres Power Limited

## Strategic report for the year ended 30 June 2015

The Directors present their strategic report on Ceres Power Limited (“Ceres”, “the Company”) for the year ended 30 June 2015.

### Review of the Business

#### *Strategy*

The company's strategy is to create a fuel cell for the mass market. As a technology provider Ceres is able to focus on developing and improving its unique Steel Cell technology, while leveraging the expertise of some of the world's largest power companies to develop different product applications around Ceres' technology. Ceres is therefore able to access the growing markets of Asia and the US through strategic partnerships and this approach of licencing and using outsourced manufacturers will enable the Company to scale the business.

The £20 million of funds raised by the ultimate parent, Ceres Power Holdings plc, in July 2015 is an endorsement of the Company strategy.

#### *Commercial*

Over the past year Ceres has focused on two areas of customer engagements: Firstly demonstrating that this relatively new and disruptive technology is mature enough for commercialisation by leading power system companies; secondly, that it has the potential to increase its performance to enable its application to other product applications beyond the residential micro Combined Heat and Power (mCHP) platform.

The Company has reached a point now in the technology's maturity where it is able to engage with more customers globally, across a range of geographies, in response to increasing interest in the Steel Cell for a variety of applications.

In order to best realise this market potential the Company is investing in its commercial team globally and is pleased to welcome Tony Cochrane to the business as Chief Commercial Officer. Brought in to spearhead the Company's commercial activities, Tony has considerable experience in the fuel cell sector from his time in Ballard Power Systems, where he led the commercialisation of their Stationary Power business. Tony is based in North America, further boosting access to this market segment.

Expanding the Company presence and platform in Asia and building on the progress made through the local office in Japan, the Company has recently opened an office in Seoul, South Korea. With the entire stationary fuel cell market forecast as having revenue potential of US\$15bn alone by 2022, South Korea is a key target market for the Company, both to support the existing business relationships and to address further opportunities there.

#### *Technology*

Internal and external validation of the technology has been a key focus over the past year. It is important to customers that the Company can evidence lifetime and robustness equivalent to more established, early generation fuel cell technologies, while simultaneously demonstrating the significant uplift in performance and low cost of the Steel Cell. This has been a Company-wide effort and called for significant additional investment in the test and operations capability.

The technical progress the Company has made resulted in the recent release of the V3 technology to customers following extensive internal testing and validation proving durability and lifetime through accelerated and steady state testing. This validation included multiple stack testing over 10,000 hours achieving degradation rates equivalent to those required for product life of over 7 years and comparable to fuel cell competitors in Japan. Stack tests on earlier generations of the technology also surpassed 20,000 hours providing greater confidence in the long lifetime potential of the Steel Cell technology.

With robustness to cycling representing another key differentiator over conventional early generation SOFC, the Company has also completed aggressive accelerated testing (including redox and thermal cycling tests) equivalent to 10+ years of performance.

# Ceres Power Limited

## Strategic report for the year ended 30 June 2015 (continued)

### *Technology (continued)*

The Company is now working on the V4 release which is due to reach customers in 2016 and serves two primary purposes: preparing the technology for scale-up, as well as improving performance and reducing cost further.

In terms of performance, high electrical efficiency relative to other technologies, particularly at small scale, is a key driver for the adoption of SOFC technology. The Company has already demonstrated performance equivalent to the best available systems in Japan and aims to achieve over 50% net electrical efficiency in the next year.

Such performance not only enhances the already significant benefit to the residential consumer, but more importantly, widens the potential of the technology to other markets such as power-only and back-up power applications for the commercial and light-industrial business sectors.

The technology team has also been continuously improving the power output of the Steel Cell. The Company has shown power density improvements of 40% in the year and expects this to translate into lower-cost product offerings to customers in future releases of the technology.

At a system level the Company has also made great progress and expects to release the latest version of its prototype system architecture, the Steel Gen, which is fully compliant with all emission standards and probably the most compact SOFC system design available. This meets the key requirements to access the wider markets for installations in high-rise apartments in Asia.

In response to customer interest in higher-power products for light-commercial applications (such as the commercial market of 5-10kW power-only products), the Company has begun to develop multi-kW systems and anticipates further progress in this area during the year.

All of the above improvements in performance, robustness and cost result in an improved economic payback for the end user, at an affordable price point and serve to strengthen the USP and competitive position.

### *Manufacturing and Operations*

Ceres is competing with – and in some instances looking to partner with – a number of the largest ceramics companies in the world, hence the quality and scalability of the manufacturing processes is key and represents a source of great commercial value. Accordingly, Ceres continues to invest in the manufacturing processes in Horsham which are unique to Ceres and a valuable asset.

Ceres is pleased to have strengthened the Manufacturing and Operations team with the recent addition of James Falla as Chief Operating Officer. James joins Ceres with a track record in establishing operations in Asia for leading Tier 1 automotive companies.

Significant progress has been made on production scale-up projects, designed to demonstrate and validate production processes suitable for high-volume fuel cell manufacture. These are on track for delivery early next year through the V4 programme.

A good example of progress is the development of a high-speed screen print line which has been procured and part funded with an Innovate UK grant. Print-cycle time will reduce from 30 seconds to just 3 seconds.

In an example of innovation driving down costs still further, the latest cell design release also incorporates a change to the electrolyte deposition from spraying to screen printing. This key technical advance serves to replace a cost-intensive process with a faster, more economical and controllable printing process.

Looking ahead, Ceres is in discussions with several manufacturing partners to scale the business in line with OEM demand with a particular focus on Asia as a first market.

### *Financial*

The Ceres Power Holdings plc group (the “Group”) is well financed to deliver its business plan, having raised £19.6M in equity, mostly from new investors at the start of the financial year, in an oversubscribed private placing. The Group ends the year with £18.2M in cash and cash equivalents and short-term investments (2014: £7.7M).

# Ceres Power Limited

## Strategic report for the year ended 30 June 2015 (continued)

### *Financial (continued)*

The Company's commercial progress has not translated directly into the revenue streams that were expected in the year. As a result the revenue, which is primarily generated from customer evaluation and joint development agreements, and other operating income, fell in the year from £1.8M to £0.9M.

The Company continues to make use of available government grants, which remain flat at £0.6M, while underlying revenue fell from £0.5M to £0.3M. Overall revenue has declined to £0.3M (2014: £1.2M) as in 2014 the Group released £0.7M of deferred revenue to the income statement due to the ending of a legacy agreement with Bord Gais Eirann.

An important form of funding to the business comes in the form of R&D tax credits. The Company received £1.2M of tax credit relating to the prior year within the year (2014: £1.0M) and is aiming to increase this going forward in line with the R&D activity of the business.

The Company's loss for the financial year rose from £6.5M in 2014 to £9.1M, in line with internal expectations as we have invested significantly in test, validation and engineering capability as we grow the business.

### *Risks*

The Company faces a number of risks and uncertainties, which could affect the execution of its strategic objectives. The key business and financial risks are outlined in the Directors' Report.

### *Outlook*

Over the past year Ceres has deployed its technology in Japan, South Korea and the UK, completing all testing to date successfully, adding to its growing reputation in the industry. This has required Ceres to demonstrate considerable maturity as an organisation in order to compete with some of the world-leading ceramics companies and engage with global power systems players.

The Company has hit and surpassed key technical milestones, with the highlight being the release to customer programmes of the latest version of the cell and system technology. In order to do this the Company has invested in manufacturing and test capabilities in Horsham and also significantly in key hires for the team, broadening and deepening the capabilities and competences.

Looking ahead Ceres expects to convert a number of evaluation initiatives into significant development programmes and increase the number of partners it has in all stages of engagement. Ceres continues to build relationships with a focus on securing the right strategic partners and expects to announce further progress on key relationships in the near future.

In particular, Ceres shall target securing partners for new applications outside of the traditional residential market and plan to demonstrate a multi-kW platform capability in the coming year which will open up new markets based on the common platform of the Steel Cell technology.

As a technology company Ceres expects to continuously improve its technology in accordance with its roadmap. Over the coming year Ceres expects to announce further improvements at both core technology and system level with a focus on increasing power and efficiency as it looks to improve further the economic proposition to its customers.



**Mr Richard Preston**  
Chief Financial Officer  
16 November 2015

# Ceres Power Limited

## Directors' report for the year ended 30 June 2015

The Directors present their Directors' Report and the audited financial statements of the Company for the year ended 30 June 2015.

### Future developments

The Strategic report includes a review of the business and an outlook for the company.

### Results and dividends

The Company made a loss for the financial year of £9,076,202 (2014: £6,481,703).

The Directors are unable to recommend the payment of a dividend (2014: £nil).

### Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the immediate parent company Ceres Power Intermediate Holdings Ltd. The directors have received confirmation that Ceres Power Intermediate Holdings Ltd intends to support the company for at least 12 months from the date these financial statements are signed.

### Research and development activities

During the year, the Company incurred expenditure of £8,765,444 (2014: £6,703,371) on research and development, all of which was written off to the profit and loss account.

### Principal risks and uncertainties

In addition to financial risk management, there are a number of risks and uncertainties which could have a material impact on the execution of the Group'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 and mitigations in place are set out as follows:

Risk	Description	Mitigation	Change
<i>Technology</i>	<p>The risk that we will not be able to successfully develop and apply the Company's fuel cell technology to potential products.</p> <p>The progress of the internal and customer validations of the technology has reduced this risk in the year.</p>	<p>Ceres' prime focus is to deliver its technology for customers, as well as to continually improve the technology to maintain technological advantage.</p>	Decrease
<i>Intellectual Property protection</i>	<p>The Group's competitive advantage is at risk from unauthorised parties using the Group's technology in their own products.</p> <p>This risk has risen as we increasingly share more of our technology with partners.</p>	<p>There are internal procedures and controls in place to capture and exploit all Intellectual Property ('IP') as well as to protect, prevent and control disclosure to third parties and partners.</p> <p>Contractual provisions with partners and IP insurance provides additional protection for the Group for agreement, pursuit and defence of IP terms and rights.</p>	Increase

# Ceres Power Limited

## Directors' report for the year ended 30 June 2015 (continued)

### Principal risks and uncertainties (continued)

Risk	Description	Mitigation	Change
<i>Key personnel dependence</i>	There is a risk of disruption to operations and damage to the business due to key personnel leaving the business.	The Directors have put in place short-term incentive schemes and have granted share options to key personnel, which support their competitive remuneration packages and restrictive employment covenants already in place.	No change
<i>Operational</i>	There is a risk that the Company's operations or its supply chain cannot manufacture to quality or to time or support delivery or validation of technology for customer or internal programmes.	We closely monitor our manufacturing processes and work with suppliers to ensure their delivery to our required quality.	No change
<i>Commercial</i>	There is a risk that our partners do not use our technology in their products or go slower than anticipated.	We are increasing our pipeline of potential customers and market applications mitigating the risk of individual customers which may not wish to move forward.	No change
<i>Competitive and market</i>	Technology obsolescence through alternative technologies from competitors, fuel prices, changing regulations and the development of markets all impact the Group's future profitability and growth opportunity.	Our strategy addresses different geographical markets and we are broadening the applications available, mitigating failure in a single market or product.  We monitor competitor activity and market developments continuously.	No change
<i>Access to capital</i>	Despite its £20m fundraise in the financial year, the Group is likely to be reliant on future equity funding to fully commercialise its technology.	The Group is targeting meeting its financing needs from a mix of customer revenue, grant funding, tax credits and equity funding, which may be sought from institutional, retail or strategic sources.	No change

### Financial risk management

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

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 2015, 100% (2014: 100%) of foreign currency purchase commitments were either hedged by foreign currency contracts or cash cover held.

Note 14 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 Company and how these are managed at a group level.



# Ceres Power Limited

## Directors' report for the year ended 30 June 2015 (continued)

### Directors

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

Mr Philip Caldwell (Chief Executive Officer)  
Mr Richard Preston (Chief Finance Officer)  
Mr Jonathan Watkins (Commercial Director) – resigned 23 June 2015  
Dr Mark Selby (Chief Technical Officer)  
Mr James Falla (Chief Operations Officer) – appointed 30 July 2015

### Directors' and Officers' liability insurance

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

### Statement of directors' responsibilities

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).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

### Directors' statement on disclosure of information to Auditor

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

### Independent auditor

On the 8 May 2015 KPMG LLP were appointed as auditor pursuant to section 485 of the Companies Act 2006.

### By order of the Board



**Mr Richard Preston**  
Director  
16 November 2015

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

We have audited the financial statements of Ceres Power Limited for the year ended 30 June 2015 set out on pages 9 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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, and express an opinion on, 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.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## **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 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK 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 Strategic Report and 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.



**James Ledward (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

1 Forest Gate  
Brighton road, Crawley  
RH11 9PT

Date: 18 November 2015

# Ceres Power Limited

## Profit and loss account for the year ended 30 June 2015

	Notes	2015 £	2014 £
<b>Turnover</b>	2	324,073	1,223,943
Cost of sales		(191,256)	(265,000)
<b>Gross Profit</b>		132,817	958,943
Operating costs	5	(11,401,197)	(9,143,906)
Other operating income	5	620,808	581,440
<b>Operating loss</b>		(10,647,572)	(7,603,523)
Interest receivable and similar income		847	276
<b>Loss on ordinary activities before taxation</b>	5	(10,646,725)	(7,603,247)
Tax on loss on ordinary activities	6	1,570,523	1,121,544
<b>Loss for the financial year</b>	14	(9,076,202)	(6,481,703)

The notes on pages 11 to 24 form an integral part of these Financial Statements.

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 2015

	Notes	2015 £	2014 £
<b>Fixed assets</b>			
Tangible assets	7	2,080,391	1,779,624
<b>Current assets</b>			
Debtors	8	2,645,027	2,434,629
Cash at bank and in hand		1,000,930	842,430
		3,645,957	3,277,059
<b>Creditors: amounts falling due within one year</b>	9	(1,382,764)	(858,594)
<b>Net current assets</b>		2,263,193	2,418,465
<b>Total assets less current liabilities</b>		4,343,584	4,198,089
<b>Creditors: amounts falling due after more than one year</b>	10	(74,627,721)	(66,318,013)
<b>Provisions for liabilities</b>	11	(1,254,663)	(1,408,365)
<b>Net liabilities</b>		(71,538,800)	(63,528,289)
<b>Capital and reserves</b>			
Called up share capital	12	4,176	4,176
Share premium account	14	9,547,273	9,547,273
Profit and loss account	14	(81,090,249)	(73,079,738)
<b>Total shareholders' deficit</b>	15	(71,538,800)	(63,528,289)

The notes on pages 11 to 24 form an integral part of these Financial Statements.

The financial statements on pages 9 to 24 were approved by the board of Directors on 16 November 2015 and were signed on its behalf by:



Mr Richard Preston

Director

Ceres Power Limited

Registered Number: 04222409

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2015

### 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, is set out below.

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

During the year, the Company incurred a loss of £9,076,202 (2014: loss of £6,481,703) and had net liabilities of £71,538,800 at 30 June 2015 (2014: £63,528,289 net liabilities). The Company is dependent on its immediate parent company, Ceres Power Intermediate Holdings Ltd, 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 the Company has in place a subordinated unsecured term loan facility with Ceres Power Holdings plc and Ceres Power Intermediate Holdings Ltd, which are due within 5 years of the year end. All creditors of the Company will be paid in full before the amounts owing to Ceres Power Holdings plc and Ceres Power Intermediate Holdings Ltd can be repaid.

Based on the above the Directors consider it appropriate to prepare the accounts on a going concern basis.

#### 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.

The Company applies FRS 11 “Impairment of Fixed Assets and Goodwill” if a fixed asset or group of fixed assets has become impaired. Impairment reviews are carried out when there is some indication that impairment has occurred.

#### 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.

## Notes to the financial statements for the year ended 30 June 2015 (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 pension plans and are charged to the profit and loss account as they become payable.

#### 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 evaluation and development contracts are recognised as revenue when earned, as calculated on a percentage of completion basis, based on costs incurred to date versus 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. If a loss is expected in respect of a contract, the entire loss is recognised immediately in the profit and loss account. All direct costs relating to these evaluation and development contracts are recorded as cost of sales.

#### Government grants

Grants are recognised on a case-by-case basis. Revenue grants are recognised in the profit and loss account as other operating income. Capital grants are recognised in deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets. For grants with no technical milestones, and where recovery is assured, the grant is recognised on an accruals basis in order to match the associated expenditure with the grant. For grants with technical milestones, grants are 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 and lease incentives

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

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, which prepares publicly available consolidated accounts.

## Notes to the financial statements for the year ended 30 June 2015 (continued)

### 1 Principal accounting policies (continued)

#### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Provisions have been made for future dilapidations costs on leased property and on onerous leases. These provisions are the Directors' best estimates as the actual costs and timing of future cash flows are dependent on future events. 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 in the UK. A geographical analysis of the Company's turnover by destination is presented below:

	2015	2014
	£	£
Europe	58,650	738,000
Asia	265,423	485,943
	324,073	1,223,943

During the 2014 year Bord Gais and Ceres agreed to end their agreement to develop and supply product for sale in the Republic of Ireland. As a result £738,000 of deferred revenue, being the unamortised portion of up-front milestone payments relating to Bord Gais, was released to the profit and loss account without any cash impact.

### 3 Directors' emoluments

	2015	2014
	£	£
Aggregate emoluments	578,350	633,934
Company contributions to defined contribution pension schemes	41,533	36,190
	619,883	670,124
<b>Highest paid Director</b>	<b>2015</b>	<b>2014</b>
	£	£
Aggregate emoluments	215,000	171,250
Company contributions to defined contribution pension schemes	15,000	8,834
	230,000	180,084

Directors' emoluments of £nil (2014: £112,916) were paid during the year to one Director of Ceres Power Limited by the ultimate holding company, Ceres Power Holdings plc. Three Directors of the Company are also directors of other Group companies and the direct costs of these Directors have been recharged to other Group companies based on an apportionment of their daily activities undertaken in respect of each Group company. The emoluments included above are the total costs incurred by the Company and are not reduced by any costs recharged to other Group companies. The value of the recharges relating to Directors emoluments in the year is £147,302 (2014: £nil).

Four Directors (2014: four) have retirement benefits accruing under defined contribution pension schemes.

Four Directors (2014: four) held options in the ultimate holding company, Ceres Power Holdings plc, at 30 June 2015. No Directors exercised options held in the holding company during the year (2014: One).

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**4 Employee information**

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

	2015 Number	2014 Number
<b>By activity:</b>		
Servicing customers	4	4
Research and development	79	53
Administration	13	14
	<b>96</b>	<b>71</b>

	2015 £	2014 £
<b>Staff costs (for the above persons):</b>		
Wages and salaries, including compensation for loss of office	<b>4,513,250</b>	3,362,160
Social security costs	<b>498,450</b>	380,825
Share-based payment charge (note 13)	<b>1,065,691</b>	811,176
Other pension costs	<b>301,381</b>	220,855
	<b>6,378,772</b>	<b>4,775,016</b>

A total of £45,425 was payable in respect of pension contributions by the Company at the year end (2014: £33,924).



**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**5 Loss on ordinary activities before taxation**

	2015	2014
	£	£
<b>Operating costs are split as follows:</b>		
Research and development costs	8,765,444	6,703,371
Administrative expenses – recurring	2,635,753	2,440,535
	<b>11,401,197</b>	<b>9,143,906</b>
	2015	2014
	£	£
<b>Loss on ordinary activities before taxation is stated after charging/(crediting):</b>		
Depreciation charge for the year on tangible owned fixed assets	972,000	1,164,428
Release of deferred income (grants)	(46,214)	(96,458)
Operating lease rentals - plant and machinery	29,934	36,670
- other operating leases	282,054	244,246
Auditors' remuneration:		
Audit services		
- remuneration receivable by the Company's auditor for the auditing of the financial statements	21,250	25,400
Other services		
- other services relating to taxation	4,500	17,496
- other services pursuant to legislation	750	5,500
Other operating income – grant income	(620,808)	(581,440)
(Gain)/loss on foreign exchange	(17,634)	42,777
Share-based payments charge	1,065,691	811,176

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**6 Tax credit on loss on ordinary activities**

	2015	2014
	£	£
UK corporation tax – R&D tax credit	1,519,000	1,000,000
Adjustment in respect of prior years – R&D tax credit	51,523	121,544
<b>Tax credit on loss on ordinary activities</b>	<b>1,570,523</b>	<b>1,121,544</b>

No corporation tax liability has arisen during the year (2014: £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.

The tax assessed for the year is different from the standard rate of small profits UK corporation tax of 20% (2014: 20%). The differences are explained below:

	2015	2014
	£	£
Loss on ordinary activities before taxation	(10,646,725)	(7,603,247)
Loss on ordinary activities before taxation at the UK tax rate of 20% (2014: 20%)	(2,129,345)	(1,520,648)
Effects of:		
Enhanced tax deductions for R&D spend	(1,374,536)	(910,275)
Expenses not deductible for tax purposes	204,862	152,356
Accelerated capital allowances and other timing differences	201,265	235,600
Losses carried forward	698,676	364,990
Adjustment in respect of prior years – R&D tax credit	(51,523)	(121,544)
Difference between R&D tax credit and small company tax rates	880,078	677,977
<b>Total current tax credit</b>	<b>(1,570,523)</b>	<b>(1,121,544)</b>

The small profits UK corporation tax rate remained at 20% throughout the year.

**Deferred taxation**

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

	Amount recognised 2015 £	Amount recognised 2014 £	Amount unrecognised 2015 £	Amount unrecognised 2014 £
Tax effect of timing differences because of:				
Difference between capital allowances and depreciation	–	–	(1,727,175)	(1,615,828)
Deductions relating to share options	–	–	(353,569)	(362,718)
Short term timing differences	–	–	–	(4,800)
Losses carried forward	–	–	(8,585,040)	(7,886,364)
	–	–	<b>(10,665,784)</b>	<b>(9,869,710)</b>

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.

# Ceres Power Limited

## Notes to the financial statements for the year ended 30 June 2015 (continued)

### 7 Tangible assets

	Leasehold improvements £	Plant and machinery £	Computer equipment £	Fixtures and fittings £	Assets under construction £	Total £
<b>Cost</b>						
At 1 July 2014	1,906,330	7,753,891	1,099,029	139,086	144,370	11,042,706
Additions	51,242	1,221,525	-	-	-	1,272,767
Transfers	-	144,370	-	-	(144,370)	-
Disposals	-	(1,756,097)	(354,892)	(69,036)	-	(2,180,025)
<b>At 30 June 2015</b>	<b>1,957,572</b>	<b>7,363,689</b>	<b>744,137</b>	<b>70,050</b>	<b>-</b>	<b>10,135,448</b>
<b>Accumulated depreciation</b>						
At 1 July 2014	935,806	7,185,584	1,003,533	138,159	-	9,263,082
Charge for the year	335,491	569,705	66,760	44	-	972,000
Disposals	-	(1,756,097)	(354,892)	(69,036)	-	(2,180,025)
<b>At 30 June 2015</b>	<b>1,271,297</b>	<b>5,999,192</b>	<b>715,401</b>	<b>69,167</b>	<b>-</b>	<b>8,055,057</b>
<b>Net book value</b>						
<b>At 30 June 2015</b>	<b>686,275</b>	<b>1,364,497</b>	<b>28,736</b>	<b>883</b>	<b>-</b>	<b>2,080,391</b>
At 30 June 2014	970,524	568,307	95,496	927	144,370	1,779,624

### 8 Debtors

	2015 £	2014 £
<b>Amounts falling due within one year:</b>		
Trade debtors	80,000	-
Corporation tax recoverable	1,519,000	1,165,544
Other debtors	581,881	531,977
Prepayments and accrued income	282,627	635,522
	<b>2,463,508</b>	<b>2,333,043</b>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by group undertakings	181,519	43,717
Prepayments and accrued income	-	57,869
	<b>181,519</b>	<b>101,586</b>
	<b>2,645,027</b>	<b>2,434,629</b>

The amounts owed by Group undertakings comprise inter-company loans and recharges and are subordinated to all other creditors. Full repayment of this amount is due within 5 years of the year end and no interest is due on this balance.

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

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

	2015	2014
	£	£
Trade creditors	480,469	288,750
Taxation and social security payable	153,284	117,863
Other creditors	74,627	47,316
Deferred income - grant contributions to capital expenditure	-	35,464
Accruals and deferred income	674,384	369,201
	<b>1,382,764</b>	<b>858,594</b>

The grant contributions to capital expenditure are amortised over the expected lives of the related assets.

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

	2015	2014
	£	£
Amounts owed to group undertakings	73,560,404	65,137,911
Accruals and deferred income	1,067,317	1,180,102
	<b>74,627,721</b>	<b>66,318,013</b>

The amounts owed to group undertakings comprise inter-company loans and recharges which are non-interest bearing. Full repayment of this amount is due within 5 years of the year end. The Company has a subordinated unsecured term loan facility in place with Ceres Power Holdings plc and Ceres Power Intermediate Holdings Ltd which are due within 5 years of the year end. Amounts owed by the Company to Ceres Power Holdings plc of £71,757,836 (2014: £65,137,911) and Ceres Power Intermediate Holdings Ltd of £1,802,568 (2014: £nil) are subordinated to all other creditors of the Company.

**11 Provisions for liabilities**

	Property dilapidations	Onerous leases	Total
	£	£	£
At 1 July 2014	657,223	751,142	1,408,365
Charged to profit and loss account	181,000	-	181,000
Utilised	(82,487)	(252,215)	(334,702)
<b>At 30 June 2015</b>	<b>755,736</b>	<b>498,927</b>	<b>1,254,663</b>

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**11 Provisions for liabilities (continued)**

	Property dilapidations	Onerous leases	Total
	£	£	£
Current	57,591	227,457	285,048
Non-Current	698,145	271,470	969,615
<b>At 30 June 2015</b>	<b>755,736</b>	<b>498,927</b>	<b>1,254,663</b>

The dilapidation provision recognised matches 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 various leasehold properties at the end of their respective leases. The onerous lease provision recognised provides for the full cost of the remaining life of the leases on properties after the date that the company expects these properties to have no further use.

**12 Called up share capital**

	2015	2014
	£	£
<b>Allotted and fully paid</b>		
4,176,306 (2014: 4,176,306) ordinary shares of £0.001 each	<b>4,176</b>	<b>4,176</b>

**13 Share options**

The total charge recognised in the year ended 30 June 2015 relating to employee share-based payments was £1,065,691 (2014: £811,176).

The parent company has a number of share option schemes and savings-related share option plans for its employees and a separate scheme for Executive Directors.

	2015	2014
	£	£
a) 2004 Employees' share option scheme	<b>1,012,934</b>	749,748
b) 2011 Sharesave Plan	-	37,637
b) 2014 Sharesave Plan	<b>38,592</b>	20,036
b) 2015 Sharesave Plan	<b>14,165</b>	-
c) Executive Directors' one-off award	-	3,755
	<b>1,065,691</b>	<b>811,176</b>

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**13 Share options (continued)**

**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 £0.01 ordinary shares in Ceres Power Holdings plc at prices ranging from £0.01 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 between three and six 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.

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

	2015		2014	
	Number ( <sup>'000</sup> )	Weighted average exercise price	Number ( <sup>'000</sup> )	Weighted average exercise price
Outstanding at 1 July	59,906	£0.07	42,353	£0.07
Granted	19,950	£0.086	23,220	0.083
Lapsed	(3,987)	£0.145	(5,667)	£0.13
Outstanding at 30 June	75,869	£0.09	59,906	£0.07
Exercisable	3,119	£0.88	901	£1.85

No options were exercised in the year or the previous year.

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

	2015		2014	
	Weighted average exercise price	Number ( <sup>'000</sup> )	Weighted average exercise price	Number ( <sup>'000</sup> )
Expiry date – 30 June				
2015	-	-	£0.67	189
2016	£2.35	750	£1.50	587
2017	£2.22	365	£2.18	243
2018	-	-	£2.23	45
2019	£0.68	4	£0.82	37
2023	£0.02	33,615	£0.02	35,730
2024	£0.08	21,785	£0.08	23,075
2025	£0.09	19,350	-	-

The options outstanding at the end of the year have a weighted average contractual life of 8.1 years (2014: 8.7 years).

In addition, during the prior year certain option-holders under the 2004 share option scheme were awarded Employee Shareholder Status (ESS) shares in the Company's immediate parent, Ceres Power Intermediate Holdings Ltd. The ESS shares were granted as a modification to the unexercised 2004 Employees' share scheme options providing the relevant employees with additional exercise rights. The modification has not changed the vesting period or exercise price. The total fair value charge of the options remains unchanged and the gross benefit received cannot exceed the gain realisable under the original share options and it cannot be received at an earlier time.

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**13 Share options (continued)**

**b) Ceres Power Holdings Sharesave scheme**

During the year, a fifth 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 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.

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

	2015		2014	
	Number (‘000)	Weighted average exercise price	Number (‘000)	Weighted average exercise price
Outstanding at 1 July	3,131	£0.06	95	£0.48
Granted	2,222	£0.05	3,112	0.06
Lapsed/cancelled	(1,114)	£0.07	(76)	£0.49
Outstanding at 30 June	4,239	£0.06	3,131	£0.06
Exercisable	-	-	19	£0.40

The weighted average fair value of options granted in the year was £0.05 (2014: 0.06).

The expiry dates of options outstanding at the end of the year are as follows:

	2015		2014	
	Actual & weighted average exercise price	Number (‘000)	Actual & weighted average exercise price	Number (‘000)
Expiry date – 30 June				
2015	-	-	£0.40	19
2018	£0.06	2,017	£0.06	3,112
2019	£0.05	2,222	-	-

The options outstanding at the end of the year have a weighted average contractual life of 2.6 years (2014: 3.1 years).

**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**13 Share options (continued)**

**c) Executive Directors' one-off award**

No options were granted during the year or the previous year.

All 'one-off' options remain outstanding and unexercisable at 30 June 2015. No options were granted, exercised or lapsed during the year or the previous year.

The expiry dates of options outstanding at the end of the year are as follows:

	2015		2014	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2019	£2.00	1,688	£2.00	1,156
2020	£2.00	213	£2.00	213

The options outstanding at the end of the year have a weighted average contractual life of 3.6 years (2014: 4.6 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:

	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

**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 2015	Sharesave scheme 2015	2004 Scheme 2014	Sharesave scheme 2014
<b>Grant date</b>	<b>23 Jul 14 - 2 Jun 15</b>	<b>19 Dec 14</b>	<b>17 Sep 13 - 9 May 14</b>	<b>23 Dec 13</b>
<b>Share price at date of grant (£)</b>	<b>0.069 – 0.104</b>	<b>0.073</b>	<b>0.06 – 0.087</b>	<b>0.079</b>
<b>Exercise price (£)</b>	<b>0.069 – 0.102</b>	<b>0.054</b>	<b>0.06 – 0.087</b>	<b>0.063</b>
<b>Expected volatility (%)</b>	<b>56%</b>	<b>56%</b>	<b>62%</b>	<b>62%</b>
<b>Expected option life (years)</b>	<b>Up to 6 years</b>	<b>3.5 years</b>	<b>Up to 7 years</b>	<b>3.5 years</b>
<b>Average risk-free interest rate (%)</b>	<b>1.40%</b>	<b>1.0%</b>	<b>2.4%</b>	<b>2.4%</b>
<b>Expected dividend yield</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

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 the Group restructured in 2012. 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.



**Notes to the financial statements for the year ended 30 June 2015  
(continued)**

**14 Reserves**

	Share premium account £	Profit and loss account £
At 1 July 2014	9,547,273	(73,079,738)
Loss for the financial year	-	(9,076,202)
Share-based payments charge (note 13)	-	1,065,691
<b>At 30 June 2015</b>	<b>9,547,273</b>	<b>(81,090,249)</b>

The profit and loss reserve includes an amount of £504,000 (2014: £504,000) that is non-distributable.

**15 Reconciliation of movements in shareholders' deficit**

	2015 £	2014 £
Opening shareholders' deficit	(63,528,289)	(57,857,762)
Loss for the financial year	(9,076,202)	(6,481,703)
Share-based payments charge (note 13)	1,065,691	811,176
<b>Closing shareholders' deficit</b>	<b>(71,538,800)</b>	<b>(63,528,289)</b>

**16 Contingent liabilities**

£705,000 (2014: £705,000) of government grants received, or an element thereof, may require repayment if the Company generates revenue (net of expenses and reasonable overheads) from the intellectual property created from the grant. In such case, the Company may be liable to pay back the grant at a rate of 5% of the net revenue generated in any one year. The Directors of the Company believe it is unlikely that any of the grants received will need to be repaid in the foreseeable future.

**17 Operating lease commitments**

At 30 June 2015, the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2015 £	Other 2015 £	Land and buildings 2014 £	Other 2014 £
Leases expiring:				
Up to and including one year	-	4,273	-	2,401
Between two and five years inclusive	478,225	6,300	478,225	32,743
	<b>478,225</b>	<b>10,573</b>	<b>478,225</b>	<b>35,144</b>

# **Ceres Power Limited**

## **Notes to the financial statements for the year ended 30 June 2015 (continued)**

### **18 Capital commitments**

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £507,000 as at 30 June 2015 (2014: £544,000).

### **19 Related party transactions**

The Company has taken advantage of the exemption under paragraph 3 (c) from the provisions of FRS 8, "Related Party Disclosures", 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 controlling party**

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 the United Kingdom.

Ceres Power Holdings plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 30 June 2015.

Copies of the consolidated financial statements of Ceres Power Holdings plc can be obtained from the Company Secretary, Ceres Power Holdings plc, Viking House, Foundry Lane, Horsham, West Sussex, RH13 5PX.