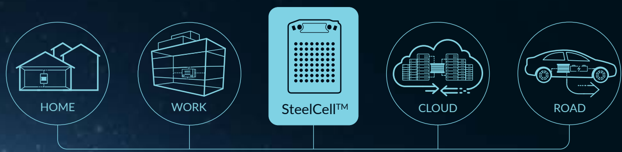
CeresPower®

Power for a Changing World

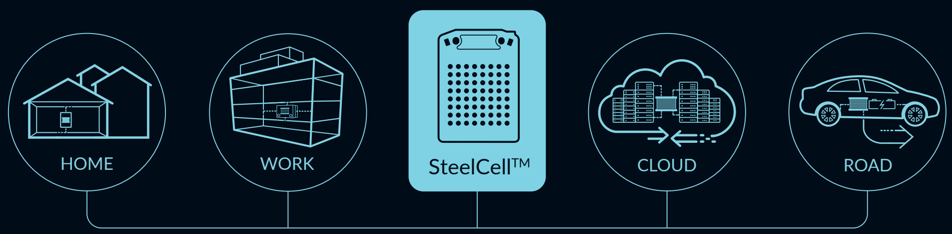
Annual Report 2017



Welcome to our 2017 Annual Report

Ceres Power Holdings plc is a fuel cell technology and engineering company. **We are working with world-leading partners to embed our SteelCell™ technology in mass-market energy products** for the commercial, residential and transportation markets.

It is our vision to bring cheaper, cleaner energy to businesses, homes and vehicles around the world.



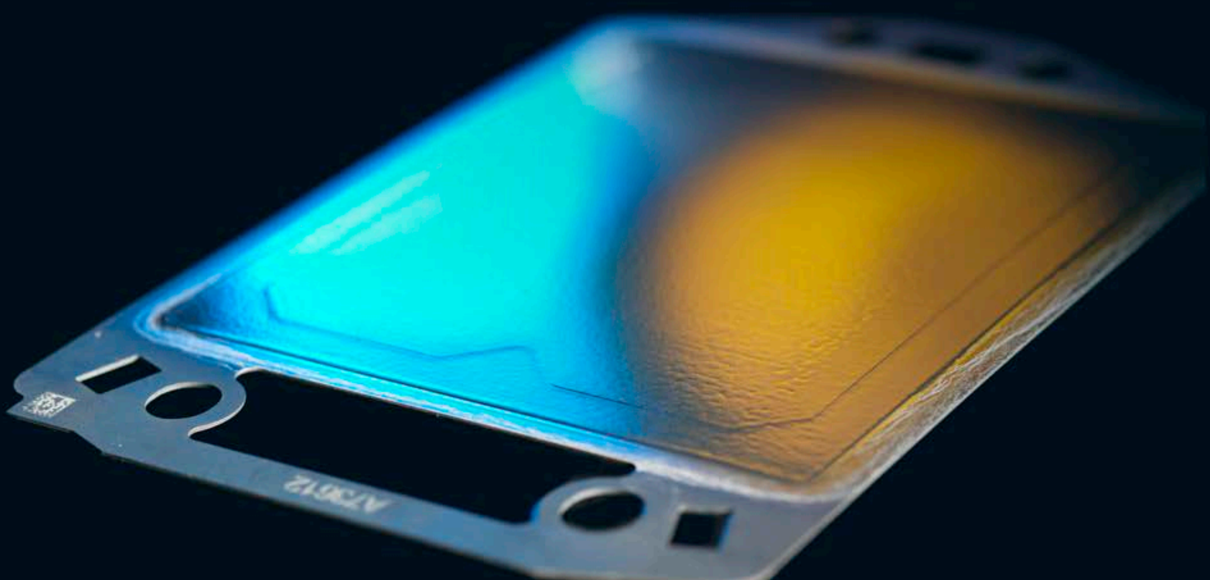
In brief

As the world shifts to a combustion-free future in order to tackle climate change and air pollution, flexible, resilient technologies that complement and enable the deployment of renewables and electric vehicles are critical. Fuel cells are the most efficient method of converting fuel to power and fuel-flexible Solid Oxide Fuel Cells (SOFC) that work on natural gas now as well as future fuels like hydrogen are highly sought after. Ceres Power's cutting-edge SteelCell™ is endorsed by multiple world-leading OEMs*, who are working with this unique technology as the platform upon which they can build their power products to address the array of global growth markets.

About SteelCell™

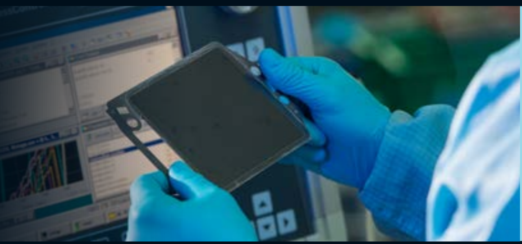
SteelCell™ is Ceres Power's next generation Solid Oxide Fuel Cell (SOFC). In simple terms, SteelCell™ is a perforated sheet of steel with special screen-printed ceramic layers that electrochemically convert a variety of fuels directly into power. Ceres Power's core technology platform is protected by 50 patent families and is attracting the attention of leading OEMs* around the world.

For more on our unique technology, read page 4



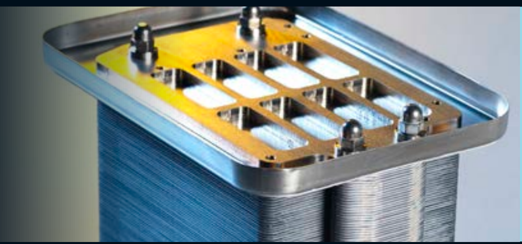
*OEMs; Original Equipment Manufacturers

A Strong Proposition



ENABLING A LOW-CARBON WORLD

Further improving our technology and expanding our offering



FLEXIBLE TECHNOLOGY FOR A CHANGING WORLD

SteelCell™ as the 'no regrets' option for the energy transition

GLOBAL MARKET OPPORTUNITY

A $44bn* multi-application, global marketplace for Fuel Cells by 2030

HIGH QUALITY, EXPERIENCED TEAM

Established senior management team committed to success

CUSTOMER ENGAGEMENT

Deepening relationships with partners and attracting interest worldwide

STRONG FINANCIAL BACKING

Well supported by institutional investors

*Source: Fuji Keizai Co.

CONTENTS

NAVIGATING THE REPORT

For further information within this document and relevant page numbers

Additional information online

Video content online

Chairman's Statement

Major disruptions in the power generation and automotive sectors are providing exciting new opportunities for Ceres Power.

Driven by international commitment to achieve COP21 decarbonisation targets, legislative action to reduce carbon emissions and more recently action on air pollution, major changes have been set in motion around the world.

The first major disruption is to conventional power generation. The cost of renewables has fallen to levels at which integrating them into the energy system has become financially credible and centralised power plants are increasingly undercut by the ever-decreasing cost of renewables. However, intermittent renewable power needs to be balanced out with flexible power generation and, as a result, in countries like Japan and Germany there are active programmes to promote the deployment of distributed generation technologies including fuel cells.

The second major disruption is the rise of electric vehicles. While decarbonisation continues to be the focus of international efforts, the importance of improving air quality has risen rapidly up the legislative agenda. This has led to clear commitments to ban combustion engines by governments and cities around the world including by 2025 in Norway, through to 2040 in France and the United Kingdom.

Though 2040 still seems relatively distant, electric vehicles are predicted to match the cost of, and become cheaper than, conventional vehicles by 2020. This disruption is driving the major engine manufacturers to switch their R&D and product development away from combustion engines to electrochemical power generation technologies including fuel cells.

With more demand for power (a major driver being the exponential rise in demand for power-hungry data centres, a new market for Ceres), there is increasing tension on existing, centralised systems which are, in many cases, already struggling to keep pace with current consumption levels.

Distributed generation technologies, like the SteelCell™, avoid expensive grid reinforcement, as they can use the existing gas infrastructure. Established providers of conventional systems to the power generation and transportation sectors, such as Ceres Power's world-class partners Honda and Nissan, are turning to us to develop our robust, highly efficient, low-carbon technology that operates on existing fuels such as natural gas and biofuels.

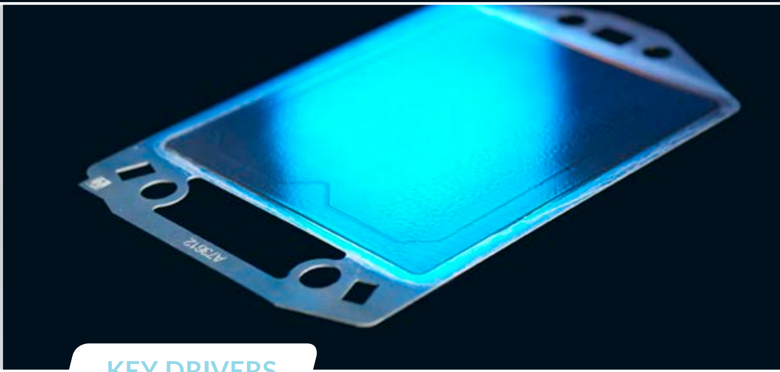
Ceres Power had traditionally been focused on micro combined heat and power (Micro-CHP) in the residential market. However, significant progress in the last year has enabled us to rapidly establish ourselves in markets where higher power output is required, expanding our ability to address the enormous opportunities that the global energy transition is enabling. Indeed, the majority of our customer demand is now for larger power systems.

Ceres Power's partnerships with leading global OEMs positions us well as we continue to work to achieve our vision of embedding the SteelCell™ technology into world-leading products within the home, business, data centre and electric vehicle markets.

This strategy of developing partnerships with world-class companies, addressing multiple growth markets, means that the business is well positioned to further capitalise on opportunities in the coming year.

Read more about our strategy on pages 12 to 13

Read more about our governance on pages 24 to 29



The Company strengthened its balance sheet by raising £20 million from new and existing institutional investors in October 2016, which enables us to secure key commercialisation agreements by the end of 2018. The growing appetite for investment in the energy sector and the Company's strong existing financial backing gives us confidence that we can access future growth capital as we continue to deliver against our strategy.

The Board has continued to strengthen its governance structure to ensure it provides effective control and oversight of the business as it grows and is very clear and focused on its priorities. The Governance Report sets out in detail how the Board embeds Ceres Power's culture and values in everything we do. For more on Corporate Governance read pages 24 to 29.

I would like to offer my thanks to the Board and all our employees for their efforts to achieve our targets over the past year.

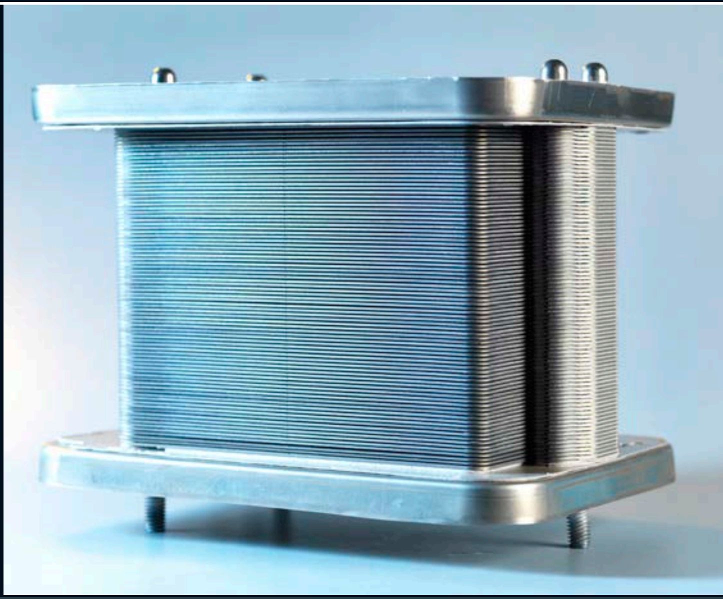
We look forward to demonstrating further progress in the next 12 months, both with existing and new partners as Ceres Power reinforces its reputation as a world leader in the fast-growing clean energy sectors.

Alan Aubrey
Chairman
4 October 2017

KEY DRIVERS

- The Paris Agreement, the push for clean air and leading global corporates are maintaining the momentum towards cleaner, distributed power generation
- The rise of data centres and electric vehicles will increase demand for electricity, while increased renewable generation destabilises the centralised power generation model
- The rapid reduction in cost of renewables, in particular solar and wind, as well as batteries, is accelerating deployment of these technologies far faster than analysts anticipated
- Advancements in the SteelCell™ technology have opened up opportunities to include sectors that are accelerating their deployment of low-carbon technologies, such as data centres, large corporates and transportation
- As demonstrated in residential field trials, SteelCell™ is a compelling low-carbon alternative to existing technologies

Our Unique Technology



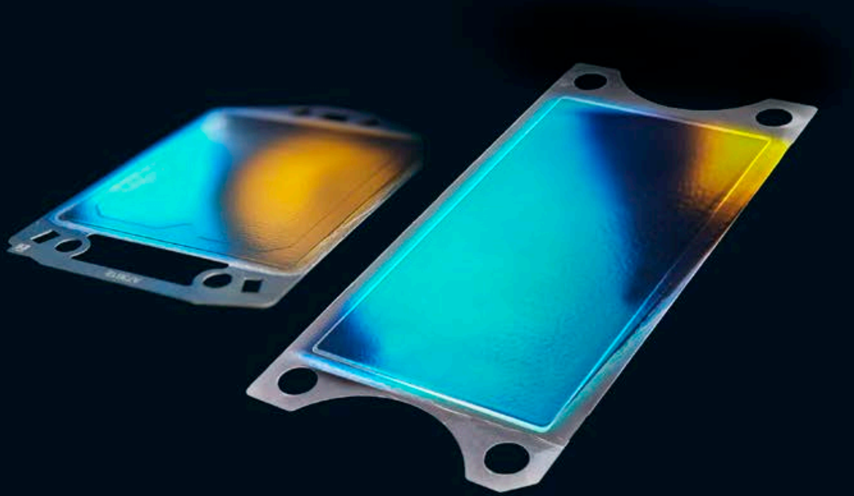
The fuel-flexible SteelCell™ can generate power from conventional fuels like natural gas and from sustainable fuels like biogas, ethanol or hydrogen and it does so at very high efficiency. Our technology can significantly lower carbon emissions and pollutants, lowers running costs and enables renewables and as such is a compelling proposition in a world that is working to tackle air pollution and climate change.

STEELCELL™ INTELLECTUAL PROPERTY

Made from mass-market and widely available materials, the SteelCell™ is inherently cost-effective, robust and scalable. We protect our unique technology, system architecture and manufacturing know-how through a growing IP portfolio of 50 patent families. The SteelCell™ is a perforated sheet of steel with special screen-printed ceramic layers that convert fuel directly into electrical power at the point of use, enabling the switch to decentralised energy generation for homes and businesses.

Demand for Higher Power

Often recognised as a 1kW residential micro combined heat and power technology, improvements in performance and increasing customer demand for higher power applications means that SteelCell™ is also being developed in parallel 5kW and 10kW programmes. A blend of larger configurations and modular systems opens up significant opportunities including in the fast-growing business and data centre sectors.



Our active markets

RESIDENTIAL

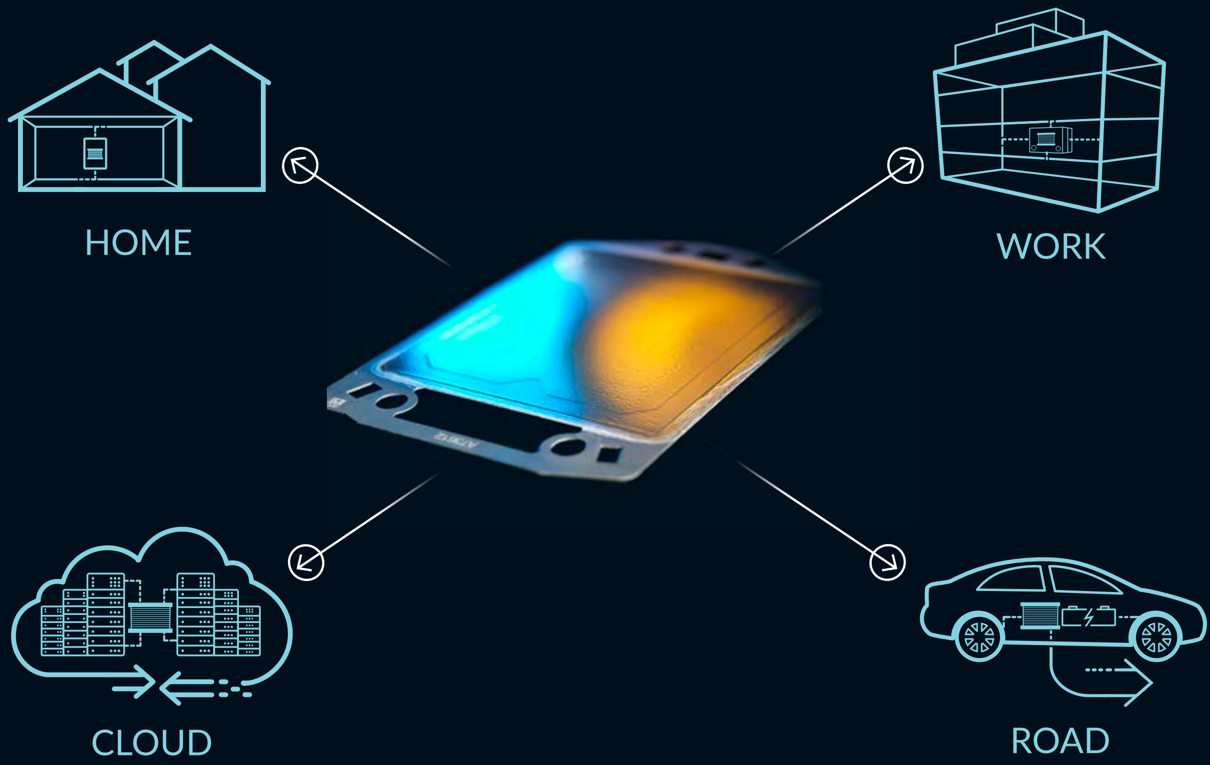
"**Electricity demand has the potential to increase significantly and the shape of demand will also change**. This is driven initially by electric vehicles and later on by heat demand. It will require a range of solutions, including distribution infrastructure."

Future Energy Scenarios
– National Grid, July 2017

COMMERCIAL

"The Power Forward 3.0* report indicates **a clear increase in corporate ambition to tackle climate change**. Corporate sourcing of power from renewables in the US has reached record levels and 48% of the Fortune 500 have climate-related targets."

New Report Shows US Corporates' Ambitious Climate Targets
– The Climate Group, April 2017



DATA CENTRES

"The energy consumed by today's data centres – which act as repositories for billions of gigabytes of information – is continuing to grow as increasing data exchanges push the energy demands of these facilities. In fact, **data centres account for about 3 per cent of global power consumption**."

How can the data centre industry achieve a green approach?
– Information Age, September 2017

TRANSPORT

"Once Battery Electric Vehicles (BEVs) beat Internal Combustion Engine cars (ICEs) on price and quality, transition can move fast. **A growth path in which BEVs near a 100% share in new cars in Europe by 2035 is increasingly realistic**."

Breakthrough of Electric Vehicle Threatens European Car Industry
– ING, July 2017

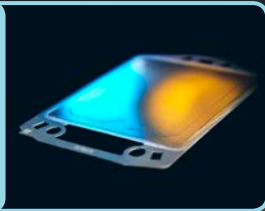
*Source: Report commissioned by WWF

Our year in review

We are delivering against our targets of securing five leading OEM partners by the end of 2017, with two in go-to-market programmes by the end of 2018.

£20 million fundraise secures financial strength

Version 4 SteelCell™ released



Field-trialling as part of EU-wide ene.field programme starts

Q2

Q3

HONDA
Ongoing Agreement

NISSAN
Ongoing Agreement

Awarded US Department of Energy grant with Cummins to develop modular multi-kW system for Data Centres

CUMMINS

Confidential partner agreement signed to develop and launch a Multi-kW CHP product for Business sector

CONFIDENTIAL PARTNER

KEY

- Financial progress
- Commercial progress
- Operations
- Technology milestones

3rd shift added to provide additional capacity

Existing partner to develop Residential power systems with Ceres Power

Q4

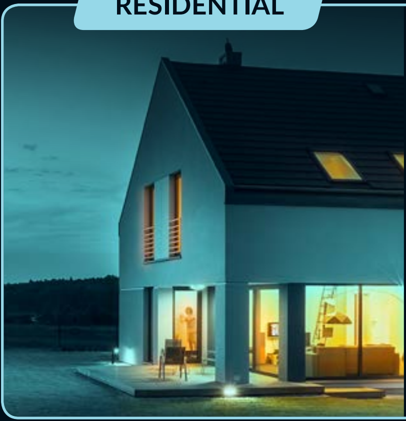
Field-trialling as part of EU-wide ene.field programme successfully concludes

POST YEAR END

The Global Opportunity

Applications for the SteelCell™ are numerous; the principal markets for the technology include the Commercial, Data Centre, Residential and Transportation sectors.

RESIDENTIAL



Over 100 million gas boilers are installed in European homes with 8 million sold annually. Residential fuel cell micro-CHP can cut the energy bills in these homes by around 30% and can also reduce annual CO_2 emissions by around 1.5 tonnes per year per house.[6] Fuel cell micro-CHP will support the move towards the decarbonising of heat and electricity supply and can operate on existing fuel infrastructure as well as renewable fuel sources.

In Europe, over €500 million in funding is available to support deployment of fuel cell micro-CHP into homes and small businesses.[7] In Japan, more than 200,000 are already installed and they are targeting 5.3 million homes by 2030.[8]

Ceres Power has successfully completed field trials in homes in England and is working in partnership with a world-class OEM to develop SteelCell™ enabled residential power systems.

DATA CENTRES

From a standing start in the late 1990s data centres currently account for 3% of global electricity[9] and the exponential growth of cloud storage is increasing the sector's power demand by around 14% per year.[10] Driven by US tech titans like Apple, Google and Microsoft, the businesses that are building data centres are having to design them with reduced energy consumption and carbon emissions in mind. Data centre outages can have serious financial and reputational ramifications.

Ceres Power is working with Cummins and the US Department of Energy in North America to develop a modular power system to address commercial applications like data centres. Primary power systems for data centres require reliability and resilience, areas in which the SteelCell™ excels and is an attractive alternative to grid plus diesel backup systems.

CURRENT TRENDS

- In Europe wholesale electricity prices have slumped from around €80 a megawatt-hour in 2008 to €30-50[14]
- Utilities across Europe wrote off €120 billion of assets because of low power prices between 2010 and 2015[15]
- The cost of wind turbines has fallen by nearly a third since 2009 and solar panels by 80%[16]
- Sales of plug-in electric vehicles last year were 42% higher than in 2015[17]
- China has more than a third of the world's wind power capacity; a quarter of its solar power; six of the top 10 solar panel makers; four of the top wind turbine makers and more battery-only electric cars sales last year than the rest of the world combined.[18]

1 International Energy Agency, Hydrogen and Fuel Cell Roadmap, 2015
2 European Commission, Roadmap for Moving to a Low Carbon Economy in 2050, 2011.
3, 16, 17, 18 Financial Times: FT Big Read – 'The Big Green Bang'
4 Residential Distributed Energy Resources, Global Capacity and Revenue Forecasts 2016-2025, Navigant Research
5 Fuji Keizai Co.
6, 11 Delta Energy & Environment
7 TEP (Technology Rollout Programme)

THE CHALLENGE

200%
Global electricity demand is predicted to double by 2050[1]

80%
The amount Europe needs to reduce CO_2 emissions by 2050 to achieve its low carbon objectives[2]

>50%
of new power generation capacity added worldwide in 2016 was renewable[3]

THE OPPORTUNITIES

\$19.7bn → \$92.7bn
Projected growth in annual revenue from the global residential distributed energy resources market from 2016 to 2025[4]

\$44bn
Expected global revenue from fuel cells by 2030[5]

COMMERCIAL

In Europe, homes, offices, shops and other buildings account for nearly 40% of final energy consumption and 36% of greenhouse gas emissions.[11] Large corporates around the world face significant challenges as their energy profile evolves against the backdrop of an ambitious climate agenda. As generation capacity from intermittent renewables rises, energy systems of the future require new concepts of complementary supply, such as efficient, distributed power generation from natural gas.

Ceres Power is working with a major OEM in this sector to develop power systems for commercial end-users. With its high efficiency, ability to save energy and virtually eliminate pollutants, while still being highly reliable, the customer demand for the SteelCell™ in commercial applications is on the rise.

TRANSPORT

After recent announcements from governments around the world, analysts assert that by 2035 all new car sales in Europe will be electric.[12] Naturally, this will increase tension on existing power grids as demand increases and the National Grid believes that an additional 6-18GW of electricity will be required to power electric vehicles across the UK[13]. Constraints at a local level will necessitate grid reinforcement from new distributed power generation technologies.

Not only is Ceres Power working with Nissan on using the SteelCell™ technology as a range extender for battery electric vehicles, but the business is investigating how fuel cells can help overcome grid constraints and play a positive role in the consumer's changing relationship with energy generation and consumption.

FUTURE TRENDS

- Forecasts suggest that electric vehicles could increase peak demand far beyond the level that the existing power system can generate.[19]
- Gas is critical to security of supply now and as Britain continues the transition to a low carbon future. It will have a long-term role as a flexible, reliable and cost-effective energy source favoured by many consumers.[20]

8 Ene-Farm
9 Information Age
10 'Data Centres & Power: Fact or Fiction' Tech UK
12 'Breakthrough of electric vehicle threatens European car industry' ING Bank N.V.
13, 19, 20 'Future Energy Scenarios 2017' National Grid
14, 15 The Economist: Renewable Energy Briefing 'A world turned upside down'

How we create value

OUR ENABLERS

Highly experienced and knowledgeable team

A large, protected IP portfolio

Unique manufacturing capability

Established relationships with partners and research institutes

Strong financial backing

WHAT WE DO

Research and develop

We work continuously to improve the performance of our SteelCell™ technology, regularly releasing new product platforms. We have a 1kW SteelCell™ platform and demand from partners is driving development of 5kW and 10kW modular configurations.

Joint product development

We work with partners to embed the SteelCell™ in their products, collaborating closely on system design. As part of this we can develop prototype products to accelerate their plans.

HOW WE ENSURE THE VALUE WE DELIVER IS SUSTAINABLE

Our Intellectual Property

Our technology advantage is protected by 50 patent families. We employ our deep technical know-how to continually improve our products. Our IP extends to how we manufacture the SteelCell™ as well as how it operates.

WHY STAKEHOLDERS WANT OUR TECHNOLOGY
(the benefits of the SteelCell™)

Cost savings
Significant improvements in energy efficiency and as such lower energy costs for end-users of SteelCell™ enabled technology.

Security
SteelCell™ offers end-users a more dependable source of energy compared with centralised sources like national power grids and seasonally intermittent renewable technologies.

Cleaner
As the most efficient way to convert fuel to power, fuel cells offer significant environmental benefits on a global scale, such as the reduction of carbon emissions, as well as zero SOx, NOx and particulates.

Acceleration to market
Our mature technology combined with our expertise allows our partners to go to market significantly more quickly than if they developed the technology themselves.

HOW WE CREATE VALUE

Fees for engineering services and product development
We can support our partners at different stages of development by providing access to technology and engineering support services, for a variety of power applications.

Access to SteelCell™ and IP under licence
We offer partners access to our considerable IP and know-how under licence, and supply of the SteelCell™ will be through our approved manufacturing partners.

Our Talent
Our talent pool of over 500 man-years of fuel cell and systems knowledge is critical to the success of the business. As such we work to attract high quality into our engineering and programme delivery departments to support our growing number of customer programmes.

Read more in CSR on pages 20 and 21

Strategy and Key Performance Indicators

Our strategic objective

To bring cheaper, cleaner energy to business, homes and vehicles by embedding our SteelCell™ technology in the power products of world-class companies.

To achieve this we will:

1 DEVELOP

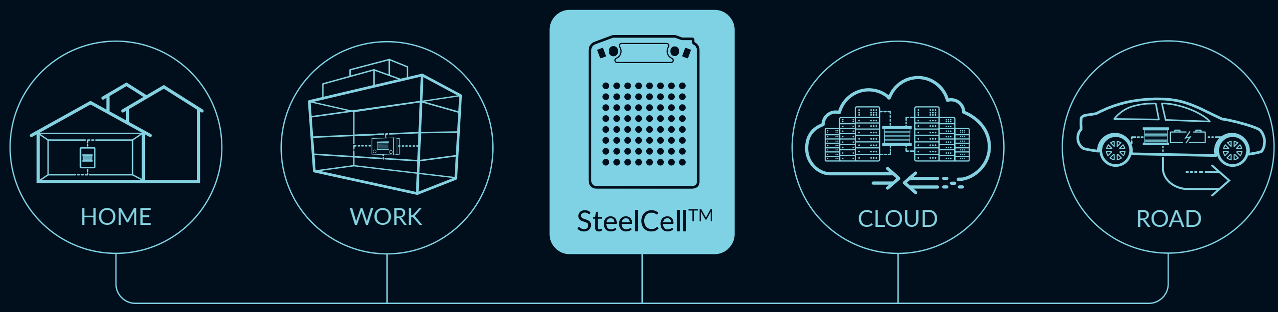
We will continue to invest in and improve our SteelCell™ technology to maintain our leadership position in a wide variety of markets and industries.

2 COMMERCIALISE

We are targeting being in two market launch programmes by the end of 2018, and will scale production of the SteelCell™ to meet demand.

3 GROW

We intend to scale-up the business to be able to capitalise upon new and existing opportunities.



INVEST IN R&D
We will continue to invest in research and development to maintain and gain competitive advantage in different sectors.

RECRUIT AND RETAIN
We will continue to recruit and retain the best people available.

PARTNER WITH LEADING OEMS
We aim to secure five OEMs by the end of 2017, enter into two 'go-to-market' agreements by the end of 2018 and to continue the full commercialisation of the business.

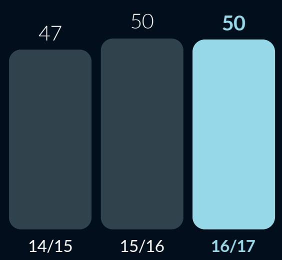
SCALE-UP MANUFACTURING
We will continue to invest in our manufacturing capability and engage with partners across the globe to scale-up the manufacture of the SteelCell™.

OPEN NEW MARKETS
We will expand the range of different markets in which we can apply our SteelCell™ technology.

MEASURING OUR PROGRESS THROUGH:

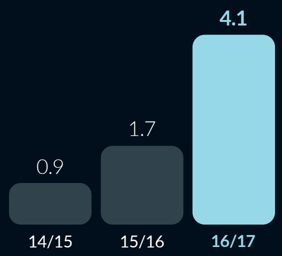
Net Electrical Efficiency
% LHV at 1kW scale

1



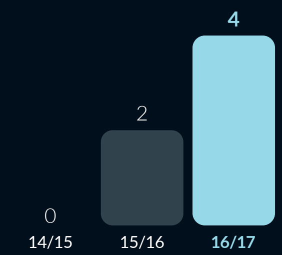
Revenue & other income (£ million)

1 2 3



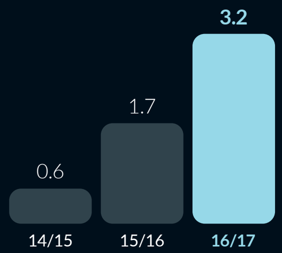
Partners at Joint Development Agreement
Cummins and an unnamed company joined Honda and Nissan as confirmed partners

2 3



Order book[1] (£ million)
Order book at the date of signing accounts

2



1 Order book – contracted commercial and grant revenue scheduled to be realised in future years.

Chief Executive's Review of Performance

Overview of performance

This has been Ceres Power's most successful year to date with significant commercial, operational and technological progress, further establishing our world-leading position in metal-supported Solid Oxide Fuel Cells (SOFC). Our total revenue and other operating income grew by 140% to £4.1 million. We have secured two further world-class customers including Cummins and an OEM who remains confidential at this point, both of whom are focused on our 5 to 10 kW platform. This is in addition to the ongoing partnerships with Honda and Nissan, which are progressing well.

This progress with partners represents four out of the five joint development agreements which is our stated end-of-2017 target; additionally, we have signed our first 'go-to-market' agreement which includes technology transfer and a licence to our system architecture. We have also further demonstrated the growing maturity of the SteelCell™ platform by successfully completing field trials of 1kW home systems in the UK as part of the ene.field programme, as well as developing larger 5kW stacks to open up new markets.

Commercial Progress

In September 2016, we signed a Joint Development Agreement with Cummins Inc., a global leader in power systems, as part of a consortium backed by the US Department of Energy (US DoE) to develop a multi-kW power system for use in data centres and other commercial and industrial applications. This was our first significant entry into the US market and our first development of a modular multi-kW system. Together, Ceres Power and Cummins will work closely with consortium partners to develop an innovative, modular 10kW Solid Oxide Fuel Cell system which will target high electrical efficiency of 60% and be inherently scalable to meet multiple distributed power applications.

The initial target application will be the fast-growing data centre market which currently accounts for ~3 % of global electricity consumption. Cummins are a global leader in supplying backup and temporary power systems to this market and are an ideal partner for us. I am pleased to say in the first year of this collaboration we have achieved all key milestones

In December we announced our first 'go-to-market' partnership with a Joint Development License Agreement for a multi-kW combined heat and power (CHP) product targeting applications in the business sector with an OEM who is a market leader in this field. This was our fourth partnership and most notably the first agreement which includes technology transfer and a licence to scale up our 1kW system architecture to a multi-kW scale, which leads to future Steel Cell™ stack supply. Details of this relationship are commercially confidential, but I'm pleased to report the technology transfer of our system architecture has been completed to time and the programme is proceeding to plan. Commercialisation should lead to further revenues for the Company in the form of future royalty payments and SteelCell™ stack supply.

As the majority of our partners are based in Asia or the US it was pleasing to have the opportunity to join the European-wide field testing programme of residential micro-CHP units (ene.field) in partnership with British Gas. We entered this programme in September last year and while we have now successfully completed the formal programme which finished at the end of August 2017, we intend to run on a number of units to continue to gather real-world lifetime and durability data.

The field trial programme here in the UK has successfully demonstrated the robustness of the technology to our OEM partners around the world and was a contributory factor in May of this year to us signing a new two-year agreement with an existing OEM partner to jointly develop power systems for residential applications. Recognising decarbonisation of residential heating as a critical success factor for meeting CO_2 reduction targets, the UK Government is supporting our technology through the provision of £0.7 million of funding from BEIS (Department of Business, Energy and Industrial Strategy) and Innovate UK.

In addition to developing new partnerships we have deepened our existing customer relationships with partners like Honda and Nissan. We are now in the second year of our two year joint stack development with Honda R&D and have hit key deliverables to date. Furthermore, we are working with Nissan UK to develop a 5kW stack which runs on biofuels. This would extend the range of electric vehicles, enabling drivers to experience the same range and refuelling time as a conventional combustion engine vehicle, but with significantly lower carbon and emissions. I'm pleased to say we have met all of the performance targets set by Nissan and are on track to put on test our first 5kW stack by the end of 2017.

Over the past year we have also carried out a series of new Technology Evaluation Agreements with prospective OEMs in Asia and Europe which have advanced to the point of negotiating potential new partnerships. The order book[1] at the date of this report stands at £3.2 million and we are confident of continued success in 2017/18.

HIGHER POWER APPLICATIONS AND INCREASING DEMAND

BY TONY COCHRANE, CCO

IN FOCUS

Demand for existing and potential partners to develop the SteelCell™ for higher power applications has further increased this year.

Our work with Cummins and the US Department of Energy to develop a 10kW power only system is on track and we have achieved key deliverables, including the development of larger format cells and stacks. These will be integrated into scalable, modular power systems which are targeting high electrical efficiency of >60%.

This project initially targets the rapidly expanding market for Data Centres around the world. Energy consumption from this sector, primarily driven by an exponential increase in data storage brought about by Cloud Computing, is growing at around 14% per annum. Fuel cells offer data centre operators the promise of more reliable power alongside reduced capital expenditure and ongoing costs as well as being able to decarbonise.

In the second year of the programme we will integrate 5kW stacks into a first of a kind 10kW modular power system. When this system meets the required performance the intention is to proceed with testing in a data centre test facility.

We are also addressing the business sector through our work with our fourth partner. This 'go-to-market' agreement involves developing a multi-kW CHP product for a number of commercial markets. We are on track and are meeting all of the customer milestones and timeline for the product development.

The progress in Higher Power applications significantly expands the global opportunities for the SteelCell™ technology to fulfil its potential in multiple markets.

1 Order book is the contracted commercial and grant revenue scheduled to be realised in future years. There is no comparable figure disclosed in the financial statements as this figure represents future anticipated revenue and other operating income in the form of grants. Management use order book as a performance measure as they believe that it is a useful measure to demonstrate the Group's progress towards commercialisation.

Chief Executive's Review of Performance

Technology Update

An important focus for our Engineering Department this year has been the development of larger 5kW stacks and modular multi-kW systems to support our customer programmes with Nissan and Cummins and includes data centre, commercial-scale CHP and power-only applications. We have demonstrated a number of firsts, including rapid start-up times, over 3,000 repeated cycles and Ceres Power now has two stack configurations to address the 1kW and 5kW+ markets.

Our Version 4 (v4) technology was officially released to customers in the summer of 2016 and has performed well with the longest running stacks now in operation for more than 18 months. The next generation R&D cells are showing higher efficiency, lower degradation and increased power density.

Our core fuel cell R&D team has a continued focus on improving lifetime and performance and this year has delivered a number of exciting developments around degradation. By unlocking a significant reduction in underlying degradation rate the programme has demonstrated a potential ten year life. Degradation is not the only factor that is important for lifetime and we have several projects looking at increasing lifetime and reliability at the cell and stack level. Some of these improvements will be brought forward to customers in our v5 platform release next year, as we look to maintain our leadership position in metal-supported solid oxide fuel cells.

The technology team has enabled rapid progress with our first 'go-to-market' customer by completing a successful technology transfer. The customer has designed and built its first prototype multi-kW commercial CHP in less than nine months, after a successful transfer of our 1kW SteelGen design.

Furthermore, in support of customer programmes Ceres Power has underscored the fuel flexible potential of the SteelCell™ technology in multiple projects including running Solid Oxide Fuel Cell stacks on fuels as diverse as diesel – without generating SOx, NOx or particulates – and pure hydrogen.

RESIDENTIAL FIELD TRIALS SUCCESS FOR STEELCELL™

BY MARK SELBY, CTO

IN FOCUS

The recent field trials of the SteelCell™ in several homes in London and the South-East of England represented a significant step in proving out the potential of the technology in real-life conditions.

Over the course of the trials, the prototype units:

- operated with more than 90% uptime
- reduced the electricity bought from the grid by more than 70%
- reduced the carbon footprint of the houses by *c.*1.5 tonnes p.a.
- exported up to 40% of the electricity generated to the grid, an amount sufficient for typical overnight charges of a small family electric vehicle

Given the debate in the UK and elsewhere about how to provide the extra power that will charge millions of electric vehicles, the SteelCell™ offers a near-term solution to this problem by generating power at the point of use.

Our trials were part of a larger field-trial programme (ene.field) across Europe which demonstrated fuel cells in homes could save consumers around £400 per annum.

Operations Update

In 2016/17 we manufactured a record number of cells, having invested in manufacturing processes and new equipment during the year and added a third shift to give us additional capacity. The new process technology not only reduces material usage but also increases yield levels.

We are now at a stage where we need to invest in additional manufacturing capacity, particularly for higher power applications, due to a significant increase in customer demand. As such, we are currently evaluating options to invest in further capacity in the UK to ensure the company can deliver against customer demand for the next few years, as well as demonstrating the scalability of our manufacturing to potential partners.

In addition to this investment in near-term additional capacity in the UK and consistent with our long-term strategy we are continuing to discuss potential manufacturing partnerships for high volumes to meet our customer needs locally in different parts of the world.

GEARING UP FOR OPERATIONAL GROWTH

BY JAMES FALLA, COO

IN FOCUS

Ceres Power has further accelerated manufacturing scale-up preparations over the last 12 months. We are now planning to expand manufacturing capacity beyond our Horsham site and broaden our operational capability in support of 'go-to-market' programmes and in reply to expected customer demand.

We will further expand our Quality Department, consolidating quality processes and adding resource into process audits and supplier developments and we will invest in equipment to support incoming supplier quality.

We will establish an Advanced Manufacturing Engineering (AME) group to complement process engineering and production engineering functions.

At the same time we will continue to develop the processes to support larger power cells and stacks.

These are all important steps as we move to service our increasing number of customers globally, demonstrate the scalability of our manufacturing to potential partners and gear up towards the addition of a second manufacturing site.

Financial

This commercial success has put us in a strong financial position. Revenue and other operating income grew 140% to £4.1 million (2015/16: £1.7 million), which was split £3.1 million revenue from customers and £1.0 million from grants and other income. This progress led to a reduction of EBITDA[2] loss of 11% to £10.3 million (2015/16: £11.5 million) despite the company investing significantly in people, technology and operations to support the strategic growth into higher power applications. Equity free cash outflow[3] reduced 17% from £11.3 million in 2016 to £9.4 million in 2017.

We have had a strong start to the 2017/18 year and our order book for future years is currently £3.2 million, up from £1.7 million last year. We expect to continue to grow top line revenue as we increase our number of new customers and as existing customers progress through from evaluation to product development and to commercial launch. Subject to any investment to increase manufacturing capacity we expect this will translate to a continued improvement in our financial results.

In October 2016 we raised £20 million to fund the next stage of the company's growth through a placing with approximately £10 million from existing institutional investors holding or increasing their position in the Company as well as further new institutional investors. As of June 2017 we held £17.2 million cash, cash equivalents and short-term investments, which puts us in a strong position as we look to secure key commercialisation agreements by the end of 2018.

People

Once again we have been able to attract talented people to join the team at Ceres Power. The growth in the team this year has added to the commercial, engineering and programme delivery side of the business to support our growing number of customer programmes.

I would personally like to thank everyone within the business for their continued contribution towards what has been a very successful year and I am looking forward with confidence to next year.

Outlook

Ceres Power is making good progress against our aim of securing five global engineering companies as customers in Joint Development Agreements by the end of 2017, with the intent to be in two launch programmes with OEM partners by the end of 2018.

We intend to maintain our technology leadership position through continually advancing the performance and maturity of the SteelCell™ and by advancing manufacturing readiness levels and scaling up supply of our core technology to meet customer demand.

The Company's reputation continues to grow within the industry and the demand for low carbon, flexible, near zero emission technologies such as ours has never been stronger. This is an exciting stage in the Company's growth and I look forward to being able to announce further commercial progress against these objectives in the year ahead.

P. Caldwell

Phil Caldwell
Chief Executive Officer
4 October 2017

2 EBITDA (earnings before interest, depreciation and amortisation) is calculated as the operating loss (£11.5 million) less depreciation (£1.2 million). Management use EBITDA as an alternative performance measure to operating loss as they believe that it is a more relevant and comparable measure of the operating activities of the Group.

3 Equity free cash outflow (EFCF) is the net change in cash and cash equivalents in the year (-£2.8 million) less net cash generated from financing activities (£19.6 million) plus the movement in short-term investments (£13.0 million). Management use EFCF as an alternative performance measure to the net change in cash and cash equivalents as they believe that it is a more relevant and comparable measure of the overall cash flows of the Group as it excludes any funding activities or changes in investments.

Principal risks and uncertainties

Our approach to risk

There are a number of risks and uncertainties that could potentially have an impact on the execution of the Group's strategy, as well as on its short-term results. The Executive Directors regular review the risks facing the Company and the Board is in the process of building on the existing risk framework. The Board has identified the risks that are deemed principal to its business due to their potential severity. These principal risks are identified on this page and on page 19, along with the mitigations the Group uses to manage any possible impact.

Risk management process

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

The Executive Directors are responsible for identifying, managing and mitigating the risks to the Company. The Audit Committee reviews the processes and controls for ensuring material business risks are identified and managed appropriately. The various Board committees review these risks and mitigations. Technical and operational risks are reviewed monthly by the Technical and Operations Committee. These risks, along with financial, commercial and other risks, are reviewed by the Audit Committee twice a year and subsequently put to the Board annually for inclusion in the Annual Report.

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

ALIGNMENT TO STRATEGY	RISK	DESCRIPTION	MITIGATION	CHANGE
VALUE PROPOSITION	1 Technology	The risk is that we will not be able to successfully develop and apply the Company's fuel cell technology to potential products at the right cost point or performance. The risk that technology is successfully developed but slower than anticipated. The risk that technical failure at customer trials could affect customer sentiment.	Ceres Power's prime focus is to deliver its technology for customers, as well as to continually improve the technology to maintain technological advantage. Targeting new markets that require different technical attributes also mitigates the risk.	→
VALUE PROPOSITION	2 Competitive and market	The risk is the competitive advantages of our technology are eroded and this impacts the Group's future profitability and growth opportunities. The risk is reducing as the following drivers to risk are becoming more favourable: the development of new markets such as EV recharging and data centres, changing regulations and trends against fossil fuels, obsolescence and emerging and similar technologies.	Our strategy addresses different geographical markets and we have broadened the applications available, mitigating failure in a single market or product. We monitor competitor activity and market developments continuously.	↓
VALUE PROPOSITION	3 Intellectual Property protection	The Group's competitive advantage is at risk from successful challenges to its patents, unauthorised parties using the Group's technology in their own products, or others designing around existing IPR. This risk has risen as we increasingly share more of our technology with partners and supply chain, to meet our scale-up objectives, in line with our strategy.	There are internal procedures and controls in place to capture and exploit all Intellectual Property ("IP") as well as to protect, limit and control disclosure to third parties and partners. Contractual provisions with partners and IP insurance provides additional protection to the Group for agreement, pursuit and defence of IP.	↑

TREND DIRECTION: ↑ Increasing → Unchanged ↓ Decreasing

ALIGNMENT TO STRATEGY	RISK	DESCRIPTION	MITIGATION	CHANGE
SHORT AND MEDIUM-TERM REVENUES	4 Commercial	There is a risk that our partners do not use our technology in their products or go to market slower than anticipated.	We continue to increase our pipeline of customers and have expanded market applications, mitigating the risk of individual customers who may not wish to move forward.	→
OPERATIONAL/ SHORT AND MEDIUM-TERM REVENUES	5 Operational	There is a risk that the Company is unable to satisfy customer contracts due to supply chain, growth management, short-term manufacturing or technical issues. The impact of this risk has risen as our customers demand a greater proportion of our manufacturing capacity.	We continually monitor our manufacturing processes and resources to best deliver programmes and hold spares, where possible. We work with suppliers to ensure quality and timely delivery. We are currently looking at additional manufacturing options to provide capacity and separate development from production activities.	↑
OPERATIONAL	6 Key personnel dependence	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 a long-term incentive scheme (LTIP) and have granted share options to key personnel, which support their competitive remuneration packages and restrictive employment covenants already in place.	→
	7 Supplier dependence	There is a risk that our supply chain partners may be unable or unwilling to co-develop or supply key components.	We continue to work closely with our suppliers and partners aiming to put in place strategic partnerships, where appropriate.	→
FINANCIAL	8 Access to capital	It is likely the Group will need additional equity funding to fully commercialise its technology. There is a risk that the Company will be unable to attract such funding.	The Group is targeting meeting its financing needs from a mix of customer revenue, grant funding and tax credits. Equity funding may be sought from institutional, retail or strategic sources to complete any requirements.	→

Corporate Social Responsibility

In a disruptive, challenging world our aim is to enable the energy transition by embedding our unique technology in the power products of world-leading OEMs and in so doing ensure the decarbonisation and decentralisation of the energy system. To achieve this, our people need to be as dynamic, flexible and innovative as our technology.

IN FOCUS

ENSURING WE RECRUIT AND RETAIN THE BEST PEOPLE

Ceres Power is a rewarding place to work. The business believes in investing in people; it offers competitive employment packages, comprehensive training programmes and this year it has introduced an annual graduate intake with a scheme to be accredited by the Institute of Mechanical Engineering. The working environment has benefited from investment and the business keeps employees up to date through regular internal communications and visual management systems.

Our people

While Ceres Power is a technology developer, at heart we are a people business with more than 130 employees. Employee engagement is fundamental to developing our technology, developing partnerships with world-class companies and ensuring that our people are part of our sustainable competitive advantage. We have a diverse, multinational workplace – >20% of our employees are non-UK citizens – working from our headquarters in the south of England.

Our partners and suppliers

Ceres Power's supply chain is an important part of the impact our business has on our community and on the environment. Managing these relationships correctly is essential for us to develop the technology that makes the business competitive, while broadening the economic opportunities that we create. By setting out our requirements clearly and working with our suppliers to meet them, we can help to spread responsible best practice.

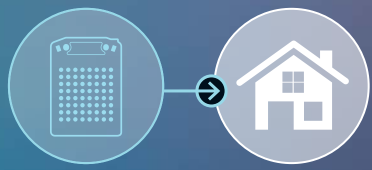
Enabling society through our technology

At its core, the philosophy of Ceres Power is about playing a positive role in the global transition to cheaper, cleaner power. Whether it be for businesses, homes or transportation, we are passionate about our cutting-edge technology and ensuring that it is available to all. As end-users take an increasingly active role in energy, the efficiency, flexibility and reliability of fuel cells makes them an attractive proposition.

SAVING ENERGY

Combined Heat and Power (CHP) systems, which are more efficient than the grid, save around 30% of a home's typical energy consumption.[1] Deploying 5 million systems in the UK would equate to 14 major new centralised gas power plants and save an estimated £2.4 billion on the total energy system each year.

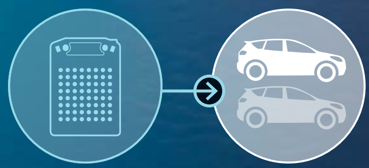
27%



CUTTING CARBON

When tested, domestic fuel cell CHP units cut carbon by 30%. Fuel cells in 5 million homes also save the same amount of CO_2 every year as ten carbon and capture storage plants.[2]

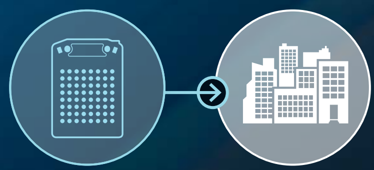
30%



CUTTING POLLUTION

Fuel cells reduce SOx and NOx emissions to nearly zero, significantly improving urban air quality.[3]

99%



[1,3] FCH-JU Fuel Cell Commercialisation Study, Roland Berger, 2014.

[2] Fuel Cells the Smart Power Revolution, Ecuity, August 2014.

IN FOCUS

REAL-LIFE EXAMPLE OF STEELCELL™ IN ACTION

As a part of the ene.field programme, several employees in London and the South East of England, have benefited from having a SteelCell™ enabled power system in their homes for the last 12 months. These quiet, highly efficient prototypes have reduced energy costs by around £400 per household and reduced carbon emissions by up to 1.5 tonnes per year, the equivalent of taking a diesel car off the road for a year.

In homes the technology is configured to generate the majority of a home's power and all of their hot water. These successful trials also demonstrated that homeowners can generate most of the power needed for their home, and also export enough surplus power to either benefit from Government-supported Feed-in Tariffs or charge a typical Electric Vehicle (EV). While the field trials have now finished, the householders continue to benefit from the power and hot water that these prototypes continuously provide.

Board of Directors & Executive team

PHIL CALDWELL
Chief Executive Officer

Phil joined the Company in September 2013 as CEO. He was previously Corporate Development Director at Intelligent Energy Limited, a company specialising in PEM fuel cell systems, where he led commercial and strategic business development activities, including securing OEM partners, executing licence deals and joint ventures. Prior to joining Intelligent Energy, Phil was responsible for business development for the Electrochemical Technology Business within ICI. He has a Master's degree in Chemical Engineering from Imperial College, holds an MBA from IESE Barcelona and is a Sainsbury Management Fellow.

Brings to the Board:

Depth of experience commercialising fuel cells across multiple markets and geographies. Successful track record delivering clear strategic goals. Expertise in building strong teams.

Committee memberships: N/A

RICHARD PRESTON
Chief Financial Officer

Richard joined Ceres Power in 2008 as Financial Controller, performing key finance and programme manager roles across the business. He was appointed to the Board in February 2013. Previously, Richard held a number of senior roles in business transformation and project finance at Cable & Wireless. He is a Chartered Accountant and Corporate Treasurer and holds a Master's in Engineering and Management Studies from the University of Cambridge.

Brings to the Board:

Business acumen, drives and holds the Company to account. Comprehensive understanding of the business. City experience.

Committee memberships: N/A

MARK SELBY
Chief Technology Officer

Mark joined Ceres Power in 2006 and is responsible for leading all aspects of the strategy and delivery of the SteelCell™ technology development. He was appointed to the Board in 2014 and prior to joining Ceres Power he was part of the Control & Electronics Department at Ricardo UK Limited. Mark has degrees in Electronics, Dynamics and Control Systems awarded by the University of Leeds.

Brings to the Board:

Unrivalled knowledge of the Ceres Power technology and system architecture. Hands-on and inspiring leadership.

Committee memberships: TO

TONY COCHRANE
Chief Commercial Officer

Tony joined Ceres Power in August 2015. Previously, he was at Ballard Power Systems for 17 years, where he held leadership positions in manufacturing, product engineering, technology strategy and strategic marketing. Most recently Tony was Commercial Director for Dantherm Power A/S and Director of Product Line Management at Ballard, where he built the stationary power business globally. Tony is a registered professional engineer and holds a BScE in Mechanical Engineering from Queen's University and an MBA from Cornell University.

Brings to the Group:

Successful commercialisation and deep-set knowledge of the fuel cell industry. Extensive experience in Asia, Europe and North America.

Committee memberships: N/A

JAMES FALLA
Chief Operating Officer

James joined the Company in March 2015 and has over 20 years' international experience in the automotive industry, holding senior operational, engineering and programme management positions. He has significant experience of establishing operations, product launches and operational growth and restructuring. Prior to joining Ceres Power, James was an Executive Director at Air International in Shanghai. Previous roles include ASEAN Operations Director for TRW Automotive and management positions for GKN Driveline. James is a Chartered Mechanical Engineer (FIMechE) with BEng (Hons) from Bath University.

Brings to the Group:

Mature operational know-how of systems and processes aligned to Ceres Power's objectives. Experienced in establishing outsource and manufacturing plants offshore in Asia.

Committee memberships: TO

ALAN AUBREY
Chairman

Alan joined the Company in December 2012 as Chairman. He is the CEO of IP Group plc, a FTSE 250 company and leading global intellectual property commercialisation company. He is also Non-Executive Chairman of Proactis, an AIM-listed software company and a Non-Executive Director in a number of other leading technology companies. From 2008 to 2014, he was a Non-Executive Director of the Department for Business, Innovation & Skills (BIS). Previously, Alan was a partner in KPMG where he specialised in providing advice to fast-growing technology businesses. He is a fellow of the Institute of Chartered Accountants of England and Wales. Alan holds a BA in Economics and an MBA.

Brings to the Board:
Wealth of experience commercialising new technologies in fast growth companies. Expertise in investor relations and City practices.

Committee memberships: R NG

STEVE CALLAGHAN
Senior Independent Director

Steve joined the Company in December 2012 to lead the turnaround and strategy reset phase. He was appointed Senior Independent Director in March 2014. He is also Chairman of Navtech Radar Ltd and CEO of Northgate Public Services. Prior to joining Ceres Power, Steve held a number of senior executive and CEO positions in both public and private businesses over a period of 20 years. He has a degree in Electrical and Electronic Engineering from Cranfield University.

Brings to the Board:
Excellent knowledge of the Company. Business transformation leadership. Track record in delivering successful business performance through commercial rigour and focused execution.

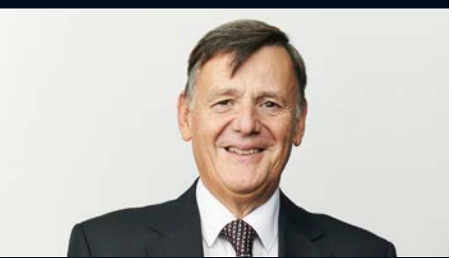
Committee memberships: R NG A

AIDAN HUGHES
Non-Executive Director

Aidan joined Ceres Power in February 2015 as Non-Executive Director and Chairman of the Audit Committee. He has over 20 years of senior finance experience in a variety of listed companies, including as Finance Director at the Sage Group Plc from 1993 to 2000 and as a director of Communisis Plc from 2001 to 2004. Since 2004 he has been Non-Executive Director of Dialog Semiconductors plc, where during his tenure Aidan chaired its Audit Committee. He is also an investor and advisor to a number of international private technology companies. Aidan is a Fellow of the Institute of Chartered Accountants in England and Wales.

Brings to the Board:
Extensive experience working within listed companies. Strong credentials in corporate governance and risk management.

Committee memberships: R NG A



MIKE LLOYD
Non-Executive Director

Mike joined Ceres Power in July 2012. He has more than 40 years of experience in engineering, manufacturing and supply chain roles in the electrical machinery and power sectors. His senior leadership roles have included: President of Rolls Royce Gas Turbines Operations, Technical Director of GEC Large Machines and Managing Director of Alstom Transport. Mike is presently Chairman of Aerospace Tooling Ltd and a Non-Executive Director of a number of energy sector related companies. He has a BSc in Electrical Engineering, a PhD in Electrical Machines and is a Fellow of the Royal Academy of Engineering.

Brings to the Board:
Wide-ranging experience of engineering businesses. In-depth understanding of the process of commercialising technology.

Committee memberships: R NG A TO

ROBERT TREZONA
Non-Executive Director

Robert joined the company in December 2012. He has worked with high technology clean energy companies for over a decade, with particular expertise in fuel cells. He is currently Head of Cleantech at IP Group and was previously Head of Research and Development at the Carbon Trust. He has also worked for McKinsey & Company where he focussed on energy and materials. He began his career as a fuel cell scientist, initially at Johnson Matthey, then at Ceres Power. He holds a PhD in Materials Science from the University of Cambridge.

Brings to the Board:
Deep understanding of fuel cell technology coupled with experience of cleantech investment. Leading expert in the commercialisation of early stage energy technologies.

Committee memberships: TO

KEY R Remuneration NG Nomination and Governance A Audit TO Technical and Operations N/A None

Chairman's corporate governance report

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Dear Shareholder,

On behalf of the Board I am pleased to present the Ceres Power Holdings plc corporate governance report for the year ended 30 June 2017. The Board of Directors has established and continues to improve its governance structure that it believes provides effective control and oversight of the business and supports the business in protecting its reputation, shareholder value and delivering its growth strategy.

As the Company is listed on AIM, it is not required to adopt the provisions of the 2016 UK Corporate Governance Code (the "Code") although it is subject to the UK City Code on Takeovers and Mergers and is committed to applying the spirit of good corporate governance as envisaged by the Financial Reporting Council (FRC). In the following Corporate Governance Report on pages 25 to 29, we aim to explain how the Board leads the Group and discharges its governance responsibilities.

This year we have continued to build upon last year's efforts to improve corporate governance, as far as we consider appropriate for a company of our size and at our stage on the corporate journey. We comply with the requirements of the Corporate Governance Code for Small and Mid-Size Quoted Companies published by Quoted Companies Alliance ("QCA Code") and FRC guidelines as far as practicable and of course the 2006 Companies Act.

Board effectiveness

Your Board has remained unchanged in 2016/17 which is a reflection on our confidence that we have a good range of skills and experience and balance of knowledge and independence in all the key areas required to drive the business forward. We had an external Board effectiveness review during the year, details of which are on pages 26 and 27. I am pleased to report that your Board continues to function effectively and is very clear and focused on its priorities.

Shareholder communications

Maintaining regular contact with our shareholders remains an important part of our activities and is fundamental to good corporate governance.

The Company actively communicates with its shareholders via a combination of public announcements and press releases through the London Stock Exchange's Regulatory News Service (RNS), analyst briefings, face-to-face meetings, presentations at investor conferences and press interviews during the year. It also maintains its website (www.cerespower.com) providing information on its activities including presentations and its Annual Report allowing shareholders to create an informed view of the Group and the corporate governance principles adopted by the Company.

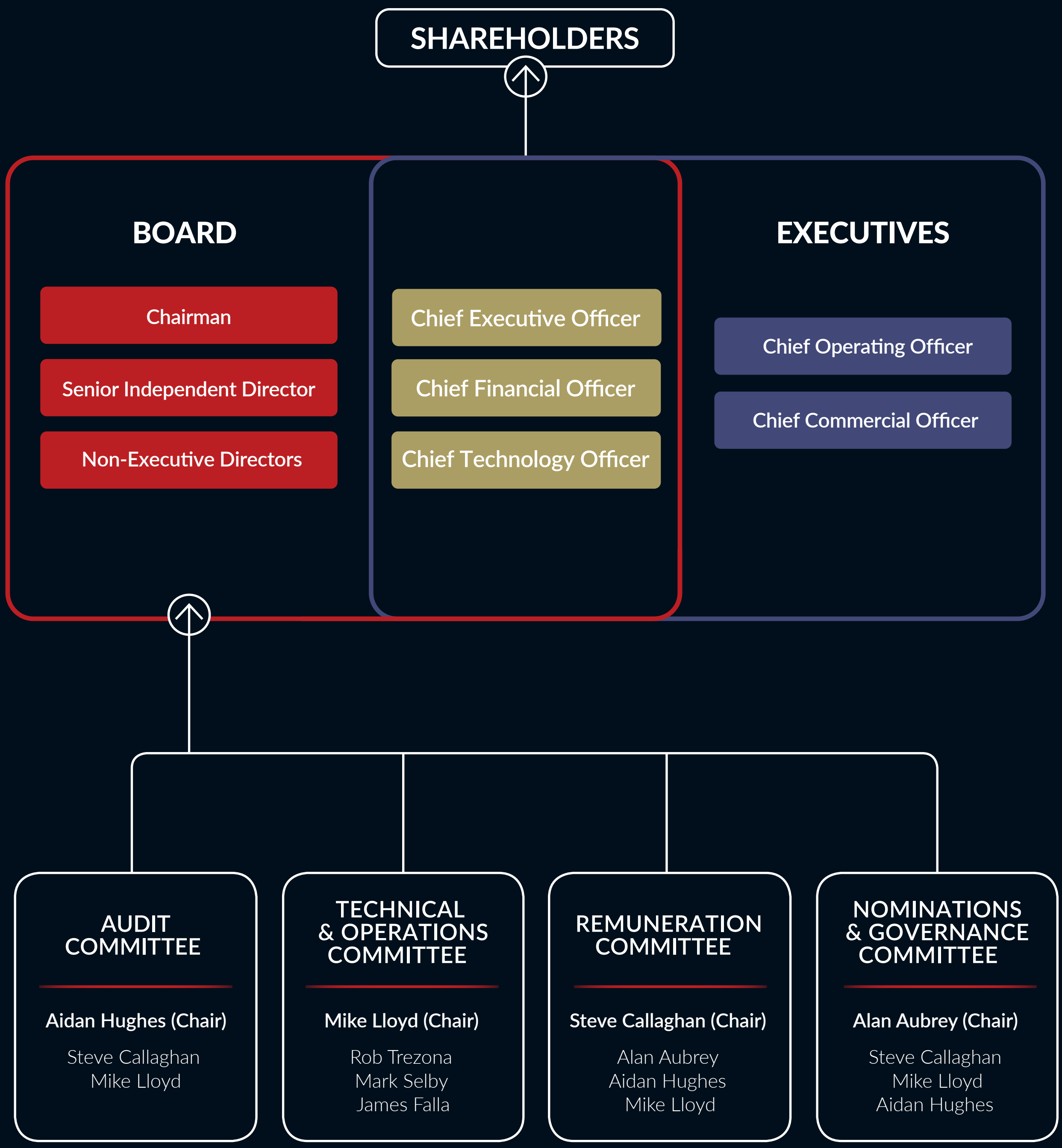
The Company's brokers and advisors pass on the views of major shareholders and give the Company feedback from investor meetings. Regular updates from the Executive Directors keep the Board appraised of the views of major shareholders.

AGM

The AGM will be held at Viking House, Foundry Lane, Horsham, RH13 5PX on 6 December 2016 at 2pm, and I very much look forward to meeting shareholders able to attend. The meeting will give investors an opportunity to meet the Board and ask questions about the Group's activities.

Alan Aubrey
Chairman

Governance framework



Read more about our
Board of Directors on pages 22 to 23

Corporate governance report

The Board of Directors

Roles and responsibilities

The Board is responsible to shareholders for the creation and delivery of sustainable performance and long-term shareholder value. It sets Group strategy, although it delegates operational responsibility to the CEO and the Executive.

The Board annually sets itself clear objectives including setting budgets and a mix of financial and operational KPIs and monitors progress against each throughout the year. The Board rigorously challenges itself on delivery of strategy, financial performance measured against budgets, governance and operational performance issues. Details of the Board members and their contribution to the business are set out on pages 22 and 23.

Schedule of matters

The Board has a Schedule of Matters Reserved to it which includes: consideration and development of the Group's strategy; setting of annual operating budgets and approving any major expenditure; regular review of progress against strategy and budgets; approval of financial results; changes in Board composition; acquisitions and disposals; significant commercial contracts; capital structure and approval of raising of new equity and share schemes; treasury policy; dividends; material litigation and various statutory and regulatory approvals. This Schedule of Matters Reserved to the Board is available on the Company's website.

The Board meets regularly to receive updates on commercial performance, technology issues, risk, market analysis and investor relations and consider proposals within its remit setting the Company's strategic aims while ensuring effective control of risks. The Chief Executive Officer, Chief Financial Officer and Company Secretary ensure that all Directors are kept advised of key developments; receive accurate, timely and clear information; and actively participate in the decision making process. Board agendas are reviewed and agreed in advance to ensure each Board meeting utilises the Board's time most efficiently. Board members are encouraged to openly and constructively challenge the proposals made by the CEO and the Executive.

Board effectiveness review

A Board effectiveness review, which is part of a three year cycle, was carried out by Mrs Pat Chapman-Pincher, an external Board Effectiveness Consultant, in November 2016. This robustly challenged all aspects of the Board including the performance of the Chairman, each Director, Board Committees and the Board as a whole.

Following the review, in order to maximise the input from its Non-Executive Directors and to give wider and further consideration to risk given the advances the Company is making, the Board has agreed a new structure for holding Board meetings. It was agreed that the Board should transition from monthly full Board meetings to monthly Executive Board meetings and bi-monthly full Board meetings which would enable the Board to concentrate on more strategic issues. The Board recognises that risk is an area that needs further consideration given the changing focus of the Group as it moves closer to commercialisation. It also recognises that diversity in succession planning is an area that can be given further consideration.

During the year the Board collectively received updates on AIM rules and the Market Abuse Regulation and the various fuel cell markets. The Board also receives written updates on governance, regulatory and financial matters as they are published.

KEY AREAS OF FOCUS IN THE YEAR AND SINCE THE YEAR END

During the year the Company has:

- Further improved its corporate governance to be more aligned with the Code and the QCA and FRC recommendations, while recognising that it is not required to fully adopt these
- Gone through an external Board Effectiveness evaluation process
- Changed its meetings structure to allow for more strategic planning between Board meetings
- Reviewed and updated the terms of reference for the Board Committees
- Introduced greater focus on the review of customer and internal programmes

Since the year end the Board:

- Has started to review and consider changing the process by which the Company manages risks to better align it with the changing business; and
- Is putting into action the findings of the Committee internal effectiveness reviews

The membership of each Board Committee has remained unchanged except with the addition of Mr Aidan Hughes to the Nominations & Governance Committee which further strengthens the work that it does. Following the positive external evaluation of the Board last November the Committees are carrying out their own internal evaluations which so far have confirmed that their compositions and effectiveness are still appropriate with members possessing suitable skills and experience required for each of their functions. The membership, function and key activities of each committee are set out on pages 28 and 29.

Composition of the Board

Throughout 2016/17 the Board comprised eight directors including the Non-Executive Chairman, the Senior Independent Director, three Non-Executive Directors, the Chief Executive Officer, Chief Financial Officer and Chief Technology Officer. Each Director has a mix of skills in the areas of strategy, finance, engineering and technology to assist with the implementation of the strategy.

The roles of the Chairman and the Chief Executive Officer

There is a clear division of responsibilities between the Chairman and Chief Executive Officer, details of which can be found on the website. The Chief Executive Officer and Chairman have an excellent working relationship, meeting and speaking regularly outside of scheduled Board meetings to discuss strategy and performance, and to ensure that Board meetings cover relevant matters. This relationship and regular dialogue helps to underpin the working of the Board, providing an open forum in which matters are discussed openly and robustly.

Independence of Non-Executive Directors

The Board considers that Steve Callaghan, Mike Lloyd and Aidan Hughes are independent in accordance with the recommendations of the QCA Code. It is the opinion of the Board that the Chairman is not considered to be independent as he is also CEO of IP Group plc, a major shareholder. Dr Rob Trezona, who also represents IP Group plc, is also not considered independent according to the Code but he has extensive experience with high technology clean energy companies and cleantech investment which is of great use to the Board. The Board has agreed that it has sufficient independent Non-Executive Directors of good standing and judgement to balance the Board and that the Chairman is able to bring to the role his own commercial experience and the Board is therefore considered effective.

The Non-Executive Directors do not participate in any of the Company's pension schemes or bonus arrangements, although two Non-Executive Directors have share options as disclosed on page 35. They receive no other remuneration from the Company other than the Directors' fees and reimbursement of expenses.

The Board has a clear policy for dealing with any conflicts or potential conflicts of interest. Each Director is required to declare such conflict arising on any matter and in certain circumstances the Board is able to consider whether such conflicts prejudice the Company in any way and if not will agree that the conflicted Director can still participate in the relevant decision making in accordance with its Articles and with the Companies Act 2006. Apart from the remuneration of Directors or Directors' fees there were no instances when a Director had to abstain from voting on a matter due to a conflict of interest during 2016/17.

Director appointments and rotation

The Board has agreed that the Non-Executive Directors should serve two terms of up to three years each. If it is in the interests of the Company to do so, appointments of Non-Executive Directors may be extended beyond six years, with the approval of the Nominations Committee, the Board and the individual Director concerned. The renewals of terms for a Non-Executive Director will take into account ongoing performance, continuing independence and the needs and balance of the Board as a whole. Directors are subject to election by shareholders at the first Annual General Meeting ("AGM") following their initial appointment, and at each AGM one-third of the Directors shall retire by rotation and put themselves forward for re-election.

Aidan Hughes, Mike Lloyd and Phil Caldwell will stand for reappointment at the 2017 AGM and their biographies are set out on pages 22 to 23.

The Company maintains Directors' and Officers' liability insurance cover, the level of which is reviewed annually.

Corporate governance report

Board attendance

The Chief Operating Officer and Chief Commercial Officer were invited to the Board meetings during 2017 and they and other senior management will be invited to future Board and Committee meetings, as appropriate.

Details of Directors' and Executives' attendance at scheduled Board and Committee meetings during the year are shown in the table below. There were also further ad hoc meetings as and when required during the year.

	Board	Technical and Operations Committee	Audit Committee	Remuneration Committee	Nominations and Governance Committee
Meetings held in the year	10	11	3	2	2
Executive Directors					
Phil Caldwell	10	n/a	3	n/a	1
Richard Preston	10	n/a	3	n/a	n/a
Mark Selby	7	11	n/a	n/a	n/a
Non-Executive Directors					
Alan Aubrey	9	n/a	n/a	1	2
Steve Callaghan	8	n/a	2	2	1
Mike Lloyd	8	10	2	1	1
Rob Trezona	9	10	n/a	n/a	n/a
Aidan Hughes	10	n/a	3	2	1
Executives					
James Falla	9	11	n/a	n/a	n/a
Tony Cochrane	7	n/a	n/a	n/a	n/a

Internal controls and risks

The Board has an overall framework for reviewing and assessing risk and taking mitigating actions as part of the execution of the Company's strategy. It has delegated responsibility to the Audit Committee for oversight of the Group's system of internal financial controls, although the Directors acknowledge their responsibility for establishing and maintaining the Group's systems of internal financial controls. These are designed to safeguard the assets of the Group, and to ensure the reliability of financial information for both internal and external use in order to manage the risk of failure of achieving business objectives.

The Group prepares detailed management accounts and monthly working capital cash flow projections which the Board considers when approving detailed budgets and cash flow projections. The Board collectively identifies and evaluates the significant risks that face the Group. It is understood that any system of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that risk of failure to achieve business objectives is eliminated.

The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the systems of internal control operated effectively throughout the financial year and up to the date that the financial statements were signed.

The Annual Report

The Board has considered the governance requirements for an AIM company and it confirms that the Annual Report taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Committees of the Board

The Board has delegated certain items of business to its Committees namely an Audit Committee, Remuneration Committee, Technical and Operations Committee and a Nominations and Governance Committee. Each Committee operates under clear terms of reference which were updated in 2017 and are available on the Company's website. Each Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties and to obtain outside legal or other professional advice on any matter within its terms of reference. Each of these committees meets on a regular basis throughout the year as appropriate and each is accountable to the Board. Each Committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating effectively and recommends any changes it considers necessary to the Board for approval.

The Chair of the Remuneration Committee has prepared his Committee report, which is on pages 30 to 35.

Audit committee

The Audit Committee is comprised entirely of Non-Executive Directors and is chaired by Aidan Hughes alongside Steve Callaghan and Mike Lloyd. It is considered to have sufficient, recent and relevant financial experience and competence to discharge its responsibilities. Aidan Hughes, who has served as Non-Executive Director and Chairman of the Committee since 2015, has significant senior financial experience, which is further detailed in his biography on page 23 of this Annual Report.

The Audit Committee's role is to assist the Board in its oversight of the financial stewardship of the Group. It is responsible for ensuring the effective financial integrity of the Group through the regular review of its financial processes and performance and by remaining up to date with the latest regulatory changes and evolution of best practice. It, alongside the Technical and Operations Committee, is also responsible for ensuring that the Group has appropriate risk management and internal controls, and that external audit processes are robust thereby enhancing trust in the Company among shareholders.

Meetings of the Committee are attended, at the invitation of the Committee, by the external auditor, the Chief Executive Officer, the Chief Financial Officer and others as appropriate. The Committee meets with the external auditor on a regular basis without the Executive Directors being present.

The Audit Committee's main responsibilities include:

- to satisfy itself as to the integrity of the financial statements and other formal announcements relating to the Group's financial performance, ensuring compliance with applicable accounting standards, regulations and rules;
- to monitor and review the effectiveness of the Group's internal financial controls and risk management policies and systems (noting the Technical and Operations Committee's responsibility relating to technical and operational risks);
- to monitor and review the going concern status of the Group;
- to satisfy itself of the independence and effectiveness of the external auditor, and to make recommendation to the Board in relation to the appointment and remuneration of the external auditor and policy relating to their non-audit services;
- to regularly consider the need for the requirement of an internal audit function; and
- to consider the Group's whistle-blowing procedures to ensure that employees are able to raise concerns, in confidence, about possible wrong doing or malpractice.

During the year the Committee reviewed its work and terms of reference through an internal evaluation of its performance and assessed that it was performing effectively. In addition, the Committee reviewed its need for an internal audit function, which it will reconsider in future years.

It also reviewed its whistleblowing policy, which remains unchanged. The Group is committed to the highest standards of openness, integrity and accountability. It seeks to conduct its affairs in a responsible manner taking into account the requirements of customers, employees and wider stakeholders. We therefore operate an independent whistleblowing service to allow employees to raise concerns in a constructive way without fear of recrimination. In accordance with a clearly documented procedure, all reports go to the Company Secretary and Senior Independent Director and are investigated independently. The outcome of investigations is reported to the Chairman of the Audit Committee. During 2016/17 there were no whistleblowing reports.

Technical and Operations Committee

The members of the Committee are Mike Lloyd as Chairman, Rob Trezona, Mark Selby, the Chief Technology Officer, and James Falla, the Chief Operating Officer.

This committee advises the Board on issues relating to the execution of the Company's technology roadmap and monitors and reviews technical and operational risks.

In 2017 the Committee has reviewed and approved updated Terms of Reference.

Nominations and Governance Committee

The members of the Committee are Alan Aubrey as Chairman, Mike Lloyd, Steve Callaghan and Aidan Hughes.

The Board has appointed the Nominations and Governance Committee to oversee the composition of the Board and Committees, senior executive recruitment and succession, and the process for appointments of Directors. The Committee also considers any relevant governance issues as and when they arise to make recommendations to the Board. In 2017 the Committee has reviewed and approved updated Terms of Reference.

The Board remains mindful of the need to have the right diversity and balance on the Board and future Board changes will take this into consideration. The Nominations and Governance Committee will continue to monitor Board structure and succession plans for both the Board and senior management below Board level.

It should be noted that Alan Aubrey as Chairman, whilst also the Chair of the Nominations and Governance Committee, would not chair the Nominations and Governance Committee in any dealings regarding the appointment of his successor.

Remuneration committee report

Dear Shareholder,

The Remuneration Committee has been asked by the Board to implement a remuneration framework for the Company's Executive Directors and Group employees, which is aligned with Group strategy.

Chaired by myself, Stephen Callaghan, the Remuneration Committee is comprised exclusively of independent Non-Executive Directors, Alan Aubrey, Mike Lloyd and Aidan Hughes. The Chief Executive Officer, Chief Financial Officer and Company Secretary have all been invited to attend meetings where appropriate throughout 2016/17.

The Remuneration Report is split into three sections:

- Firstly, I give an annual statement to summarise the work of the Remuneration Committee done in 2016/17.
- Secondly, the Remuneration Policy Report (the "Policy") that sets out the Company's policy on Directors' remuneration. We set out in full the Policy on this page and pages 31 to 32.
- Finally, the Annual Report on Remuneration sets out the remuneration paid to Directors in 2016/17.

While it is unusual for the Company Chairman to sit on the Remuneration Committee, the Board has considered that as Alan Aubrey brings extensive commercial experience to the Committee discussions he should continue to serve as a Committee member in 2017/18.

During the year Mercer has continued to provide useful independent remuneration advice where I have felt it necessary.

Annual Statement summarising the work of the Remuneration Committee

During the year the Committee's key activities have included:

- reviewing and agreeing Executive remuneration, including annual pay and achievement against performance targets for the 2016/17 bonuses and agreeing Long Term Incentive Plan (LTIP) awards, as well as considering wider inclusion in the LTIP beyond the Executive team. As part of this activity the Committee also considered recent corporate governance developments in relation to Executive Remuneration;
- considering and agreeing the annual Group-wide salary increase allocation;
- reviewing, considering and bringing to the Board's attention market trends in the fee levels for Non-Executive Directors and the Chairman;
- considering the dilution effect of LTIP awards and Save As You Earn (SAYE) share options and best practices regarding the exercise of share options;
- considering appropriate key performance targets for the 2017/18 finacial year; and
- reviewing and agreeing updated Terms of Reference for the Committee and carrying out a committee effectiveness review.

The results of the effectiveness review were useful in showing that Committee members understand the Committee's role, responsibilities and the issues that face the Group. It confirmed that members have adequate time and information to properly discharge their responsibilities, including effective communication with shareholders as regards LTIP considerations, and in summary the Committee members believe that it performs well and consistent with what might be expected of an AIM company.

Remuneration policy report

The Committee's policy this year recognises the commercial improvements made and the Company's increased momentum in moving towards a position to commercialise the SteelCell™ technology on an industrial scale. The purpose of the remuneration policy is to provide material incentives to drive Executive Directors and key individual contributors to deliver stretching strategic and financial performance and to grow long-term sustainable shareholder value. To that end we have aimed to continue to provide an appropriate balance of short-term and long-term remuneration packages.

The remuneration of Non-Executive Directors is always a matter for the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

Remuneration policy for Executive Directors

Remuneration packages are developed to attract, retain and motivate Executive Directors without being excessive, and to be aligned with the long-term interests of shareholders and Company strategy. Remuneration takes into account the responsibilities and risks involved and the remuneration packages of comparable companies that have similar scale operations. When setting the remuneration of Executive Directors, the Remuneration Committee has regard to remuneration and benefits paid across the Company's employee population.

Current policy for Executive Directors is to pay base salary with a performance-related bonus each year. The Company has also continued with its LTIP for the Executive team and others which is aligned to share price performance and other Key Performance Indicators. A significant proportion of remuneration is structured so as to link rewards to corporate and individual performance and is designed to promote the long-term success of the Company.

The Remuneration Policy summarises each element of remuneration for the Executive Directors including an explanation of its purpose and link to strategy, its operation, maximum opportunity and performance measures.

Executive Directors – short-term incentives

Base salary

Base salary is based on a number of factors, including market rates, as well as the individual Director's experience, responsibilities and performance. Individual salaries are subject to review annually. Salaries for the financial year 2017/18 have been set at £203,490 for the CEO, £135,760 for the CFO and £129,795 for the CTO, being inflationary increases of 2.0% from £199,500, £133,100 and £127,250 respectively.

Performance related bonus

The purpose of the bonus is to reward and incentivise the Executive Directors, members of the Executive team and senior management to deliver strategic and financial success as well as long-term growth.

Measures and targets for the annual bonus for the Executive Directors and team are set annually by the Committee. The annual bonus plan is awarded against achievement of both corporate and individual performance targets. Typically, the majority of the bonus will be based on the delivery against key commercial, technical, operational and financial deliverables. The measures have been chosen to provide a balance between incentivising the delivery of the Group's key priorities in any particular year and important individual strategic objectives. The Committee may vary the specific measures and targets year-on-year to ensure that they reflect the key financial and strategic priorities for the Company in any given year.

Bonuses are paid annually based on performance in the relevant financial year. The amount is determined based on published full year results after the financial year end. Award levels and performance measures are reviewed annually. The Committee ensures that performance measures remain aligned to the Company's business objectives and strategic priorities for the year.

Maximum bonuses available as a percentage of base salaries are 50% for the CEO, and 30% for the CFO and CTO.

The Committee has reviewed individuals' achievements against their targets for the year and has determined that the actual bonuses to be awarded are 90% of the maximum award for the CEO, 88% for the CFO and 92% for the CTO (2016: achievement against targets was 80% for the CEO, 51% for the CFO and 53% for the CTO).

Pension and other benefits

All Executive Directors, along with other employees, can take part in the Group's pension scheme, where they receive a pension contribution from the Group of up to 8% of salary plus employer's National Insurance saved on employee pension contributions. They also receive life assurance of four times salary.

Executive Directors – long-term incentives

Long Term Incentive Plan (LTIP)

The purpose of the LTIP is to provide a long-term performance and retention incentive linking long-term share rewards to the creation of long-term sustainable shareholder value, by delivering on the Group's agreed strategic objectives.

Last year the Remuneration Committee set up an LTIP and invited the Executive team and certain key individuals in the Group to join it. The maximum awards for all participants are determined by the Remuneration Committee with appropriate input from independent advisors. The maximum opportunity in the initial award was 250% of salary for the CEO and 75% for the CFO and CTO. Performance is based on achieving targets, which may vary. Targets are major milestones aligned to the Group's strategic plan and also a sliding scale of total shareholder return (TSR), and are measured over a period of three years. Malus, two-year hold and clawback conditions apply. The Remuneration Committee actively considers further LTIP awards to the Executive Directors, members of the Executive team and senior management on an annual basis.

Share options

Historically members of the Executive team and many of the employees have been awarded share options at market price. These options generally have vesting periods of between three and six years and have no performance criteria attached. They heavily incentivise the Company to increase overall shareholder value over the medium term.

All staff and Executive Directors are eligible to take part in any HMRC-approved Sharesave schemes.

Executive Director service agreements

All Executive Directors have service agreements that terminate on six months' notice.

Non-Executive Directors

The Board determines the fees paid to Non-Executive Directors and the Chairman, on the recommendation of the Remuneration Committee. The Chairman and the Non-Executive Directors do not decide on their own remuneration.

The Chairman's fee reflects his responsibilities and time commitment for the role, leading an effective Board enabling the delivery on the Group's growth strategy and creation of long-term sustainable shareholder value. The Chairman's remuneration also covers his chairmanship of the Nominations Committee.

Similarly, the Non-Executive Directors' fees are to retain individuals who have the expertise, responsibility and time commitment to contribute to an effective Board and to deliver long-term sustainable shareholder value. The Company also reimburses Non-Executive Directors for reasonable expenses incurred such as travel and hotel accommodation.

In July 2017, the Committee recommended to the Board that the fees paid to Non-Executive Directors and the Chairman be increased by £5,000 to better align with prevailing market conditions and to reflect the value that our Directors contribute. The Board subsequently approved this increase in fees.

Non-Executive Directors are not eligible to participate in the Group's LTIP, bonus arrangements, pension scheme or other benefits.

The Non-Executive Directors and Chairman all have one month's notice of termination in their letters of engagement.

Remuneration policy for senior managers and other employees of the Company

The remuneration policy of key senior managers in the Company is similar to that of the Executive Directors. Where appropriate, they participate in the discretionary annual bonus plan as well as the LTIP, and thus a significant element of their remuneration is dependent upon the performance of the Company against its objectives, in addition to their individual performance. Remuneration for all other employees is set taking into account market conditions and to ensure that pay and benefits attract and retain employees. A large proportion of employees participate in the annual SAYE scheme giving employees an option to save and purchase shares in the Company at a discount to the market price. All employees are also offered membership of the pension scheme on joining the Company, which is compliant with legal requirements with both the employee and employer making contributions under automatic enrolment provisions.

Annual Report on Remuneration

Total remuneration (audited)

The remuneration of each of the Directors for the year ended 30 June 2017 is set out in the table below.

	Salary/fee £	Pension £	Bonus £	**Total 2016/17 £**	Total 2015/16 £
Executive					
Phil Caldwell	199,500	15,960	90,000	**305,460**	289,680
Richard Preston	133,100	10,648	35,000	**178,748**	161,210
Mark Selby	127,250	10,180	35,000	**172,430**	155,000
Non-Executive					
Alan Aubrey	35,000	–	–	**35,000**	35,000
Stephen Callaghan	30,000	–	–	**30,000**	30,000
Aidan Hughes	30,000	–	–	**30,000**	30,000
Mike Lloyd	30,000	–	–	**30,000**	30,000
Robert Trezona	30,000	–	–	**30,000**	30,000

Details of Directors' interests in share options (audited)

	At 1 July 2016 number	Granted number	Exercised	Lapsed/ Surrendered number	**At 30 June 2017 number**	Exercise price	Exercise period
Phil Caldwell							
Options (unapproved)	2,000,000	–	–	–	**2,000,000**	£0.085	September 2014 – November 2023
Options (unapproved)	2,000,000	–	–	–	**2,000,000**	£0.085	September 2015 – November 2023
Options[1]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2016 – November 2023
Options[1]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2017 – November 2023
Options[1]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2018 – November 2023
Options[1]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2019 – November 2023
Sharesave options (approved)[2]	143,312	–	(143,312)	–	**–**	£0.063	February – July 2017
Options (unapproved)	1,000,000	–	–	–	**1,000,000**	£0.085	July 2017 – July 2024
Options (unapproved)	1,000,000	–	–	–	**1,000,000**	£0.085	July 2018 – July 2024
Options (unapproved)	1,000,000	–	–	–	**1,000,000**	£0.085	July 2019 – July 2024
Options (unapproved)	1,000,000	–	–	–	**1,000,000**	£0.085	July 2020 – July 2024
Sharesave options (approved)	208,333	–	–	–	**208,333**	£0.043	May – October 2019
Sharesave options (approved)	–	136,363	–	–	**136,363**	£0.067	February – September 2020
LTIP	–	6,507,000	–	–	**6,507,000**	£0.010	September 2019 – September 2026
	16,351,645	6,643,363	(143,312)	–	**22,851,696**		

[1] A portion of these share options are EMI approved.

[2] These Sharesave options were exercised on 14 March 2017 at a market price of £0.0891 and the gain on exercise was £3,769. Having exercised these share options, Phil Caldwell has retained the 143,312 shares.

	At 1 July 2016 number	Granted number	Exercised	Lapsed/ Surrendered number	**At 30 June 2017 number**	Exercise price	Exercise period
Richard Preston							
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2016 – January 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2017 – January 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2018 – January 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2019 – January 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2016 – April 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2017 – April 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2018 – April 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2019 – April 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2017 – July 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2018 – July 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2019 – July 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2020 – July 2024
Sharesave options (approved)	165,441	–	–	–	**165,441**	£0.054	February – July 2018
Sharesave options (approved)	208,333	–	–	–	**208,333**	£0.043	May – October 2019
LTIP	–	1,302,000	–	–	**1,302,000**	£0.010	September 2019 – September 2026
	4,973,774	1,302,000	–	–	**6,275,774**		
Mark Selby							
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2016 – January 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2017 – January 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2018 – January 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	January 2019 – January 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	September 2016 – September 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	September 2017 – September 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	September 2018 – September 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	September 2019 – September 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	August 2017 – August 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	August 2018 – August 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	August 2019 – August 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	August 2020 – August 2024
Sharesave options (approved)	165,441	–	–	–	**165,441**	£0.054	February – July 2018
Sharesave options (approved)	208,333	–	–	–	**208,333**	£0.043	May – October 2019
LTIP	–	1,245,000	–	–	**1,245,000**	£0.010	September 2019 – September 2026
	3,833,774	1,245,000	–	–	**5,078,774**		

	At 1 July 2016 number	Granted number	Exercised	Lapsed/ Surrendered number	**At 30 June 2017 number**	Exercise price	Exercise period
Stephen Callaghan							
Options (unapproved)	1,500,000	–	–	–	**1,500,000**	£0.099	April 2016 – April 2023
	1,500,000	–	–	–	**1,500,000**		
Mike Lloyd							
Options (unapproved)	750,000	–	–	–	**750,000**	£0.010	December 2015 – December 2022
Options (unapproved)	170,000	–	–	–	**170,000**	£0.099	April 2016 – April 2023
	920,000	–	–	–	**920,000**		

All options outlined above are fully exercisable at the Director's discretion during the relevant exercise period subject to any applicable performance criteria being met.

In addition, during the 2016 and 2014 years, certain key employees and Directors who are option-holders under the 2004 share option scheme were awarded Employee Shareholder Status (ESS) shares in the Company's subsidiary, 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 issue of the ESS shares has not changed the vesting period or exercise price of the unexercised 2004 Employees' share scheme options granted. 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. As part of this, in 2014, Phil Caldwell, Richard Preston and Mark Selby were awarded 8,932,516, 1,500,000 and 360,000 ESS shares respectively.

Directors' interests in shares

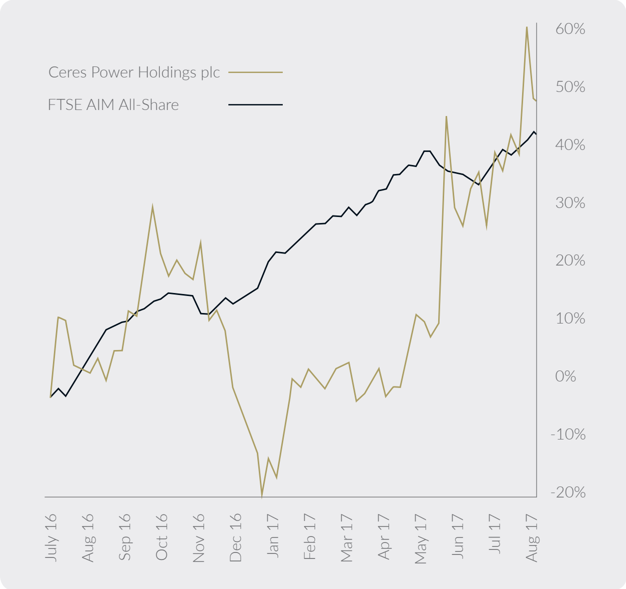
The Directors also had the following interests in shares in the Company as at the date of the signing of this Annual Report:

Stephen Callaghan: 4,062,792 shares; Mike Lloyd: 1,330,597 shares; Phil Caldwell: 260,958 shares; Richard Preston: 222,645 shares, Robert Trezona: 124,544 shares and Mark Selby: 25,325 shares. Alan Aubrey held an interest in IP Group plc, the parent company of IP2IPO Ltd, a substantial shareholder of the Company.

Since the year end the Remuneration Committee agreed to put in place a minimum shareholdings policy for Non-Executive Directors and PDMRs, to ensure the interests of investors remain aligned with those of Directors and key management. Non-Executive Directors will be expected to build up their shareholding in the Company over time to 100% of their annual fees, where allowable. The CEO and other PDMRs should build up their shareholding and value of exercisable share options to 150% and 100% of their salaries respectively.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return ("TSR"), compared with the performance of the FTSE AIM (rebased) for the year ended 30 June 2017. One key measure of the LTIP is TSR, measured over a three-year performance period.



This report was approved by the Board of Directors and authorised for issue on 4 October 2017 and was signed on its behalf by:

Stephen Callaghan
Remuneration Committee Chairman

Directors' report

FOR THE YEAR ENDED 30 JUNE 2017

The Directors present their Annual Report and the audited financial statements for the year ended 30 June 2017.

Principal activities

The Ceres Power Group is a world-leading developer of low cost, next generation fuel cell technology.

Review of business and future developments

A review of the Group's business, including events since the year end and an outlook for the future, is set out in detail in the Chairman's Statement and the Chief Executive's Statement on pages 2 to 3 and 14 to 17.

The Directors continue to monitor developments in respect of the United Kingdom's prospective withdrawal from the European Union and the impact this may have on employee working rights, current and future grant funding and customers and suppliers located in the European Union.

Results and dividends

The consolidated results of the Group for the year are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income on page 42.

The Directors do not recommend the payment of a dividend (2016: £nil).

Research and development

During the year, the Group incurred expenditure of £10,516,000 (2016: £10,588,000) on research and development, all of which was expensed to the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The Chief Executive's Statement reports on progress during the year.

Charitable and political contributions

The Group made no charitable or political donations and incurred no political expenditure during the year (2016: £nil).

Principal risks and uncertainties

In addition to financial risk management which is detailed in note 16 to the financial statements, there are a number of risks and uncertainties which could have a material impact on the execution of the Group's strategy which are laid out in the Strategic Report on pages 18 and 19.

Directors

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

- Alan Aubrey (Non-Executive Chairman)
- Phil Caldwell (Chief Executive Officer)
- Steve Callaghan (Senior Independent Director)
- Aidan Hughes (Non-Executive Director)
- Mike Lloyd (Non-Executive Director)
- Richard Preston (Chief Financial Officer)
- Mark Selby (Chief Technology Officer)
- Robert Trezona (Non-Executive Director)

Directors' and Officers' liability insurance

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

Substantial shareholders

The Company has been notified of the following holdings of 3% or more of the 1,013,654,929 ordinary shares of £0.01 each of the Company on 30 September 2017:

Investor	Number of £0.01 ordinary shares	Percentage
IP Group plc	274,109,722	27.0%
Richard Griffiths	181,003,117	17.9%
Lansdowne Partners	98,941,264	9.8%
Oceanwood Capital	75,225,714	7.4%
Lombard Odier Asset Management	51,005,492	5.0%

Policy and practice on payment of creditors

It is the Group's policy, for all suppliers, to agree payment terms in advance of the supply of goods and services and to adhere to those payment terms. Trade creditors of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 35 days (2016: 37 days). Trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 11 days (2016: 20 days).

Corporate governance

The Directors recognise the importance of good corporate governance. The principles of how the UK Corporate Governance Code 2016 and other corporate governance guidelines have been applied are in the Corporate Governance section of this report and on the Company's website (www.cerespower.com).

Financial instruments

At the end of the year, the Group does not have any complex financial instruments. The financial instruments it does have primarily comprise cash and liquid resources, forward exchange contracts and other various short-term assets and liabilities such as trade debtors and trade creditors which are used to manage the Group's operations.

Statement of Directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, Strategic Report, Directors' Report and the Group and parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether 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 Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

Having reviewed the Group's forecast income and expenditure, performing appropriate sensitivity and scenario analyses, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy and to secure the commercial agreements expected by the end of the 2018 financial year. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Directors' statement on disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirmed that so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that 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.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Richard Preston
Chief Financial Officer
4 October 2017

Independent auditor's report
TO THE MEMBERS OF CERES POWER HOLDINGS PLC

1. Our opinion is unmodified

We have audited the financial statements of Ceres Power Holdings plc ("the Company") for the year ended 30 June 2017 which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated statement of financial position, company balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, company statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality: Group financial statements as a whole		£480,000 (2016:£450,000) 4.2% (2016: 3.6%) of Group loss before tax
Coverage		100% (2016: 100%) of Group loss before tax
Risks of material misstatement vs 2016		
Recurring risks	Risk of error over revenue recognition	◀ **Revenue** ▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters were as follows:

	The risk	Our response
Revenue (£3.1 million; 2016: £1.1 million) Refer to page 46 (accounting policy) and page 51 (financial disclosures)	**Subjective estimate; Accounting application:** Each commercial revenue contract agreed with a customer is bespoke with differing components and performance obligations over varying time periods. Revenue is allocated to the key components, which are defined as supply of hardware and ongoing engineering services at the outset of the contract at relative fair value. Revenue on the supply of hardware is recognised over the period of supply defined in the contract and revenue on engineering services is calculated on a percentage of completion basis based on costs incurred to date versus total estimated costs at completion. There is judgement as to the allocation of revenue to the key components. There is also judgement as to the progress of recognition based on percentage of completion. These judgements give rise to a risk that revenue is not recognised appropriately.	**Our procedures included:** – **Test of detail:** We read material commercial revenue contracts to form our own understanding of the goods and services provided. We compare our understanding to management's workings of revenue to be recognised, being made up of cost incurred and margin to be achieved on each component. We agreed workings back to contract requirements, forecasts of costs to be incurred and margins to be achieved to ensure that revenue is recognised appropriately. – **Test of detail:** We assess the percentage of completion by comparing the costs incurred to date to total expected costs. We challenge total estimated costs by comparing actual costs to budget. – **Assessing transparency:** We also assess the Group's disclosures in respect of the degree of estimation involved in arriving at the revenue recognised.
Investment in subsidiaries (£67.3 million; 2016: £46.6 million) Refer to pages 69 and 70 (accounting policy) and page 71 (financial disclosures)	**Low risk, high value** The carrying amount of the company's investment in its subsidiary, held at cost less impairment, represents 85% of the company's total assets. We do not consider the recoverable amount of this investment to be at a high risk of significant misstatement. However, due to its materiality in the context of the company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.	**Our procedures included:** – **Test of detail:** Assessing for any indications of impairment such as market value declines, negative changes in technology, changes in amounts and cost of financing, net assets of the company higher than market capitalisation, or worse economic performance than expected and consideration of the work performed by the group audit team in respect of current year results. – **Test of detail:** Comparing the carrying amount of the investment in subsidiary with the current market value of the Group, being an approximation of its recoverable amount, to identify whether in excess of its carrying amount.

3. Our application of materiality and an overview of the scope of our audit

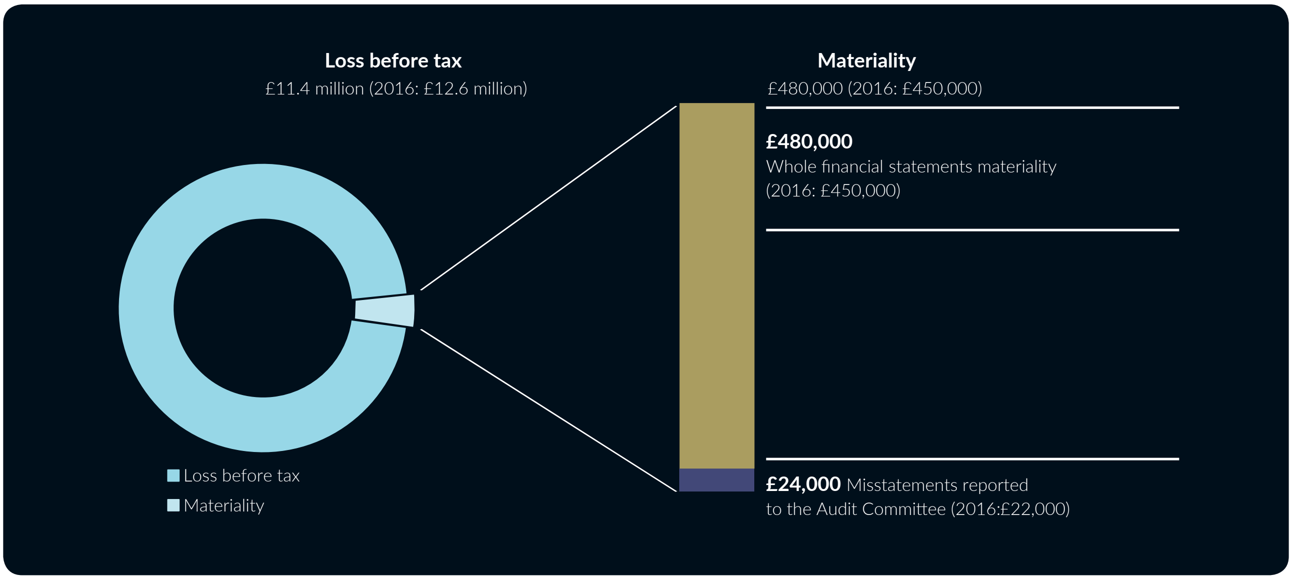
Materiality for the financial statements as a whole was set at £480,000 (2016: £450,000), determined with reference to a benchmark of Group loss before tax (of which it represents 4.2% (2016: 3.6%)).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £24,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above.

Materiality for the parent company financial statements as a whole was set at £480,000 (2016: £450,0000). This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.61% of the Company's total assets (2016: 0.76%).

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in Horsham, West Sussex.



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least 12 months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 37, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road
Crawley, RH11 9PT

4 October 2017

Consolidated statement of profit and loss and other comprehensive income

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 £'000	2016 £'000
Revenue	2	**3,119**	1,113
Cost of sales		**(1,334)**	(336)
Gross profit		**1,785**	777
Other operating income	3	**957**	555
Operating costs	3	**(14,264)**	(14,026)
Operating loss		**(11,522)**	(12,694)
Finance income	4	**89**	77
Loss before taxation	3	**(11,433)**	(12,617)
Taxation credit	7	**2,025**	2,157
Loss for the financial year and total comprehensive loss		**(9,408)**	(10,460)
Loss per £0.01 ordinary share expressed in pence per share:			
– basic and diluted	8	**(1.00)p**	(1.35)p

All activities relate to the Group's continuing operations and the loss for the financial year is fully attributable to the owners of the parent.

The notes on pages 46 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

AS AT 30 JUNE 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**1,913**	2,309
Total non-current assets		**1,913**	2,309
Current assets			
Inventories	11	**595**	–
Trade and other receivables	12	**1,339**	497
Other assets	13	**1,123**	612
Derivative financial instruments	16	**8**	28
Current tax receivable		**1,805**	1,997
Short-term investments	14	**14,000**	1,000
Cash and cash equivalents	14	**3,158**	5,947
Total current assets		**22,028**	10,081
Liabilities			
Current liabilities			
Trade and other payables	15	**(2,654)**	(2,121)
Derivative financial instruments	16	**(8)**	(7)
Provisions	17	**–**	(78)
Total current liabilities		**(2,662)**	(2,206)
Net current assets		**19,366**	7,875
Non-current liabilities			
Accruals and deferred income	15	**–**	(31)
Provisions	17	**(828)**	(866)
Total non-current liabilities		**(828)**	(897)
Net assets		**20,451**	9,287
Equity attributable to the owners of the Parent			
Share capital	18	**10,124**	7,779
Share premium account		**107,349**	90,120
Capital redemption reserve		**3,449**	3,449
Merger reserve		**7,463**	7,463
Accumulated losses		**(107,934)**	(99,524)
Total equity		**20,451**	9,287

The notes on pages 46 to 66 are an integral part of these consolidated financial statements.

The financial statements on pages 42 to 66 were approved by the Board of Directors on 4 October 2017 and were signed on its behalf by:

Phil Caldwell
Chief Executive Officer

Richard Preston
Chief Financial Officer

Ceres Power Holdings plc
Registered Number: 5174075

Consolidated cash flow statement

FOR THE YEAR ENDED 30 JUNE 2017

	Note	**2017 £'000**	2016 £'000
Cash flows from operating activities			
Cash used in operations	20	**(10,822)**	(11,773)
Taxation received		**2,217**	1,679
Net cash used in operating activities		**(8,605)**	(10,094)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(863)**	(1,302)
Movement in short-term investments		**(13,000)**	5,000
Finance income received		**89**	77
Net cash (used in)/generated from investing activities		**(13,774)**	3,775
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**20,209**	54
Expenses from issuance of ordinary shares		**(635)**	–
Net cash generated from financing activities		**19,574**	54
Net decrease in cash and cash equivalents		**(2,805)**	(6,265)
Exchange gains on cash and cash equivalents		**16**	28
		(2,789)	(6,237)
Cash and cash equivalents at beginning of year		**5,947**	12,184
Cash and cash equivalents at end of year	14	**3,158**	5,947

The notes on pages 46 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
At 1 July 2015		7,725	90,120	3,449	7,463	(90,076)	18,681
Comprehensive income							
Loss for the financial year		–	–	–	–	(10,460)	(10,460)
Total comprehensive loss		–	–	–	–	(10,460)	(10,460)
Transactions with owners							
Issue of shares, net of costs	18	54	–	–	–	–	54
Share-based payments charge	19	–	–	–	–	1,012	1,012
Total transactions with owners		54	–	–	–	1,012	1,066
At 30 June 2016		7,779	90,120	3,449	7,463	(99,524)	9,287
Comprehensive income							
Loss for the financial year		–	–	–	–	(9,408)	(9,408)
Total comprehensive loss		–	–	–	–	(9,408)	(9,408)
Transactions with owners							
Issue of shares, net of costs	18	2,345	17,229	–	–	–	19,574
Share-based payments charge	19	–	–	–	–	998	998
Total transactions with owners		2,345	17,229	–	–	998	20,572
At 30 June 2017		**10,124**	**107,349**	**3,449**	**7,463**	**(107,934)**	**20,451**

The notes on pages 46 to 66 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
FOR THE YEAR ENDED 30 JUNE 2017

1. Summary of significant accounting policies

The Company is incorporated and domiciled in the United Kingdom and is registered on the London Stock Exchange Alternative Investment Market (AIM).

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared on a going concern basis, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, the IFRS Interpretations Committee (IFRS-IC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its entity financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and these are presented on pages 67 to 72.

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

Basis of consolidation

The consolidated financial statements of Ceres Power Holdings plc include the results of the Company and subsidiary entities which are controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Going concern

Having reviewed the Group's forecast income and expenditure, performing appropriate sensitivity and scenario analyses, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy and to secure the commercial agreements expected by the end of the 2018 financial year. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Material estimates and assumptions are made in particular with regard to the timing and value of evaluation and development revenue recognised.

Revenue recognition

The material estimates and assumptions regarding revenue recognition are specifically in relation to the timing and value of the revenue being recognised. A revision in cost estimates could have a material impact on revenue in the next period.

Revenue is allocated to key components of each contract at the outset and recognised during the contract life when earned, either on delivery or calculated on a percentage of completion basis, based on costs incurred to date versus total estimated costs over the period that the work is performed. The revenue allocated to key components is reassessed throughout the contract life, as and when required, to take account of factors such as changes to the key components of the contract, the underlying assessment of costs to complete the contract, foreign exchange movements and the timing and length of the contract, to name a few.

1. Summary of significant accounting policies continued

Further details regarding revenue recognition can be found in the 'Revenue and direct costs' accounting policy.

Capital risk management

The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure. Total capital, which is the Group's primary source of funding, is calculated as 'Total equity' as shown in the Consolidated Statement of Financial Position. The Group protects its capital by eliminating/hedging treasury risks that could expose the Group to the risk of material loss of capital (refer to note 16).

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income during the financial period in which they are incurred. The Directors annually consider the need to impair these assets.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and in hand, pooled money market funds and short-term deposits with an original maturity of less than or equal to one month, reduced by overdrafts to the extent that there is a right of offset against other cash balances.

Short-term investments

These include short-term bank deposits with an original maturity greater than one month and less than or equal to 12 months.

Inventories

Inventories consist of raw materials and work in progress in relation to commercial activities. Work in progress includes timing differences between when the direct costs on commercial activities are incurred and when the revenue is recognised. Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material cost and, where applicable, direct labour costs and direct overheads that have been incurred. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

As detailed further in the research and development expenditure accounting policy, expenditure relating to the Group's continued research and development activities is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense and when incurred.

1. Summary of significant accounting policies continued

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently held at amortised cost less an allowance for any uncollectable amounts that are made when the full amount is no longer considered receivable. Actual bad debts are written off when identified. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Trade and other payables

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

Taxation

The taxation credit for the year comprises current and deferred tax and any adjustment to tax payable or receivable in respect of previous years. Tax is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax receivable is the expected tax receivable on the activities for the year, using tax rates enacted or substantively enacted at the year end. The current tax receivable represents the Directors' best estimate of tax due to the Group at the year end.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end.

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

Share-based payments

The Group has a number of employee and executive share option and award schemes under which it makes equity-settled share-based payments.

The fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. For share-based payment awards with non-vesting conditions, the fair value of the share-based payment, determined at the grant date, is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the parent Company grants options over its own shares to the employees of the Group, these are accounted for as equity-settled in the consolidated accounts of the Group.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Group's presentational currency. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the foreign exchange rate ruling at the year end. Foreign exchange differences arising on translation are recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Pension scheme arrangements

The Group operates a defined contribution pension plan for employees. The plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Profit and Loss and Other Comprehensive Income in the period during which services are rendered by employees.

1. Summary of significant accounting policies continued

Revenue and direct costs

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, other sales taxes and after eliminating sales within the Group. The revenue primarily consists amounts received or receivable under evaluation, development and licence contracts. Revenue is allocated to key components of the contract and recognised when earned, either on delivery or as calculated on a percentage of completion basis, based on costs incurred to date versus total estimated costs over the period that the work is performed. The revenue recognition is subject to certainty of receipt of cash, or when any specific conditions in agreements have been met. Where there is a timing difference between the recognition of revenue and invoicing under a contract, an accrued income asset or deferred income liability is recognised.

All costs incurred in fulfilling the components of a customer contract are recognised in line with the associated revenue and recorded as a cost of sale. Where there is a timing difference between when these costs are incurred and when the revenue is recognised, an asset is recognised in inventories. These include costs such as direct labour, direct materials, and, where applicable, an allocation of overheads that relate directly to the contract. If a loss is expected in respect of a contract, the entire loss is recognised immediately in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Government grants

Grants are recognised on a case-by-case basis. Revenue grants are recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as other operating income. Capital grants are recognised in property, plant and equipment against the assets to which they relate and are credited to the Consolidated Statement of Profit and Loss and Other Comprehensive Income on a straight-line basis over the expected lives of the related assets as a reduction to depreciation expense.

For grants with no technical milestones, and where recovery is reasonable, the grant is recognised on an accruals basis in order to match the associated expenditure with the grant. For grants with technical milestones, these grants are held on the Consolidated Statement of Financial Position as deferred income and are recognised only when the relevant milestone has been achieved and the associated cash has been received.

Research and development expenditure

Expenditure on research activities is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense when incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Research and development costs in the year include all related costs of the ongoing enhancement of the Group's core technology and related systems. These costs include, but are not limited to, staff salaries and related costs, the direct cost of manufacturing cells and systems for R&D and the testing and analysis of the technology.

As the Group is still pursuing significant internal and customer development programmes, the above criteria and those set out in IAS 38, 'Intangible assets', have not been met; therefore, the Group has not yet capitalised any development costs.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are amortised over the full lease term.

1. Summary of significant accounting policies continued

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses forward contracts to hedge against foreign currency denominated income and expenditure commitments. The use of financial derivatives is governed by the Group's treasury policy, as approved by the Board. The Group does not use derivative financial instruments for speculative purposes. Details of financial instruments are shown in note 16.

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as they arise and are shown in note 3.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation where relevant.

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 and are updated periodically. These estimates are supported by advice received from professional advisors. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Details of the Group's provisions are set out in note 17.

Reserves

The Consolidated Statement of Financial Position includes a merger reserve and a capital redemption reserve. The merger reserve represents a reserve arising on consolidation using book value accounting for the acquisition of Ceres Power Limited at 1 July 2004. The reserve represents the difference between the book value and the nominal value of the shares issued by the Company to acquired Ceres Power Limited. The capital redemption reserve was created in the year ended 30 June 2014 when 86,215,662 deferred ordinary shares of £0.04 each were cancelled.

Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018). Management are in the process of assessing the impact of the adoption of this standard.
- IFRS 16 Leases (effective date January 2019). Management are in the process of assessing the impact of the adoption of this standard.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

2. Revenue and segmental information

For management purposes, the Group is organised into one operating segment, which is the development and commercialisation of its fuel cell technology.

The Group has adopted IFRS 8, 'Operating Segments'. IFRS 8 defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Chief Executive Officer, the Chief Financial Officer, the Chief Technology Officer, the Chief Commercial Officer and the Chief Operating Officer. The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being the development and commercialisation of its fuel cell technology. The Chief Operating Decision Maker assesses the performance of the operating segment on financial information which is measured and presented in a manner consistent with that in the financial statements.

Of the Group's revenue of £3,119,000, £715,000 was derived from Europe, £1,674,000 from Asia and £730,000 from North America (2016: Group revenue was £1,113,000, of which £586,000 was derived from Europe and £527,000 was from Asia). All of the Group's non-current assets are located in the United Kingdom. During the year deferred revenue of £439,000 (2016: £586,000) was released in respect of contracted work completed for British Gas.

3. Loss before taxation

	2017 £'000	2016 £'000
Operating costs are split as follows:		
Research and development costs	**10,516**	10,588
Administrative expenses	**3,907**	3,714
	14,423	14,302
Reversal of provision relating to onerous lease and property dilapidations (note 17)	**(159)**	(276)
	14,264	14,026
Loss before taxation is stated after charging/(crediting):		
Staff costs, including share-based payments (note 5)	**8,221**	6,974
Depreciation on property, plant and equipment (note 9)	**1,259**	1,178
Operating lease rentals payable – property, plant and machinery	**341**	336
Other operating income – grant income	**(957)**	(555)
Repairs expenditure on property, plant and equipment	**259**	248
Net change in fair value of financial instruments at fair value through profit or loss	**21**	–
Net foreign exchange gain	**(16)**	(49)
Services provided by the Group's auditor		
During the year the Group obtained the following services from the Group's auditor as detailed below:		
Fees payable to the Company's auditor for the audit of parent Company and consolidated financial statements	**10**	10
Fees payable to the Company's auditor for other services		
– the audit of the Company's subsidiaries	**30**	26
– other services relating to taxation	**16**	18
– other services	**12**	22
	68	76

4. Finance income

	2017 £'000	2016 £'000
Interest receivable on cash and short-term investments	**89**	77

5. Employees and Directors

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

	2017 Number	2016 Number
By activity:		
Commercial	**4**	5
Research and development	**104**	91
Administration	**15**	14
	123	110

	2017 £'000	2016 £'000
Staff costs (for the above persons) comprised:		
Wages and salaries, including compensation for loss of office	**6,173**	5,060
Social security costs	**646**	554
Other pension costs (note 6)	**404**	348
Share-based payments (note 19)	**998**	1,012
	8,221	6,974

	2017 £'000	2016 £'000
Directors' emoluments:		
Aggregate emoluments	**775**	725
Company contributions to defined contribution pension schemes	**37**	36
Gain on exercise of share options	**4**	–
	816	761

	2017 £'000	2016 £'000
Highest paid Director:		
Aggregate emoluments	**289**	274
Company contributions to defined contribution pension schemes	**16**	16
Gain on exercise of share options	**4**	–
	309	290

Three Directors (2016: three Directors) have retirement benefits accruing under defined contribution pension schemes.

5. Employees and Directors continued

Key management compensation

The Directors are of the opinion that the key management of the Group were the Chief Executive Officer, the Chief Financial Officer, the Chief Technology Officer, Chief Commercial Officer and the Chief Operating Officer. The key management compensation is summarised in the following table:

	2017 £'000	2016 £'000
Salaries and other short-term employment benefits	**981**	868
Post-employment benefits	**59**	55
Share-based payments	**596**	339
	1,636	1,262

6. Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension charge represents contributions payable by the Group to the funds and amounted to £404,000 (2016: £348,000). A total of £57,000 (2016: £nil) was payable to the funds at the year end.

7. Taxation

	2017 £'000	2016 £'000
UK corporation tax – R&D tax credit	**(1,805)**	(1,997)
Adjustment in respect of prior periods – R&D tax credit	**(220)**	(162)
Withholding tax charge	**–**	2
Taxation credit	**(2,025)**	(2,157)

No corporation tax liability has arisen during the year (2016: £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 small profits UK corporation tax of 19.75% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Loss before taxation	**11,433**	12,617
Loss before taxation multiplied by the UK tax rate of 19.75% (2016: 20%)	**(2,258)**	(2,523)
Effects of:		
Losses carried forward	**784**	748
Enhanced tax deductions for R&D expenditure	**(1,355)**	(1,476)
Expenses not deductible for tax purposes	**208**	190
Accelerated capital allowances and other timing differences	**257**	251
Adjustment in respect of prior periods – R&D tax credit	**(220)**	(162)
Difference between R&D tax credit and small company tax rates	**625**	870
Withholding tax	**–**	2
Share option relief	**(66)**	(57)
Total taxation credit	**(2,025)**	(2,157)

7. Taxation continued

Deferred taxation

Potential deferred tax assets have not been recognised but are set out below:

	2017 £'000	2016 £'000
Tax effect of temporary differences because of:		
Difference between capital allowances and depreciation	**(2,097)**	(1,954)
Deductions relating to share options	**(618)**	(343)
Losses carried forward	**(11,308)**	(10,976)
	(14,023)	(13,273)

The deferred tax assets have not been recognised as the Directors consider that it is unlikely that the asset will be realised in the foreseeable future.

8. Loss per share

Basic and diluted loss per £0.01 ordinary share of 1.00p for the financial year ended 30 June 2017 (2016: 1.35p) is calculated by dividing the loss for the financial year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Given the losses during the year, there is no dilution of losses per share in the year ended 30 June 2017 or in the previous year.

The loss for the financial year ended 30 June 2017 was £9,408,000 (2016: £10,460,000) and the weighted average number of £0.01 ordinary shares in issue during the year ended 30 June 2017 was 939,762,048 (2016: 773,999,046).

9. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost						
At 1 July 2015	**1,721**	**6,575**	**727**	**69**	**–**	**9,092**
Additions	94	1,117	91	–	105	1,407
At 30 June 2016	**1,815**	**7,692**	**818**	**69**	**105**	**10,499**
Additions	83	724	56	–	–	863
Transfers	–	105	–	–	(105)	–
At 30 June 2017	**1,898**	**8,521**	**874**	**69**	**–**	**11,362**
Accumulated depreciation						
At 1 July 2015	**1,155**	**5,087**	**701**	**69**	**–**	**7,012**
Charge for the year	378	759	41	–	–	1,178
At 30 June 2016	**1,533**	**5,846**	**742**	**69**	**–**	**8,190**
Charge for the year	349	872	38	–	–	1,259
At 30 June 2017	**1,882**	**6,718**	**780**	**69**	**–**	**9,449**
Net book value						
At 30 June 2017	**16**	**1,803**	**94**	**–**	**–**	**1,913**
At 30 June 2016	282	1,846	76	–	105	2,309
At 30 June 2015	566	1,488	26	–	–	2,080

10. Subsidiary undertakings

Details of the Group's subsidiaries at 30 June 2017 are as follows:

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held by the Company
Ceres Power Ltd	England and Wales	£0.001 ordinary shares	100%[1]
Ceres Intellectual Property Company Ltd	England and Wales	£1.00 ordinary share	100%[1]
Ceres Power Intermediate Holdings Ltd	England and Wales	£0.01 ordinary shares	100%

[1] Ceres Power Ltd and Ceres Intellectual Property Company Ltd are 100% held directly by Ceres Power Intermediate Holdings Ltd.

The principal activity of Ceres Power Ltd is the commercialisation and continued development of the Group's fuel cell technology. The principal activity of Ceres Intellectual Property Company Ltd is the administration of registered intellectual property developed within the Group. The principal activity of Ceres Power Intermediate Holdings Ltd is as a holding company to the other Group companies and to manage the Group's cash, cash equivalents and short-term investments. The results of Ceres Power Ltd, Ceres Intellectual Property Company Ltd and Ceres Power Intermediate Holdings Ltd are included within these consolidated financial statements.

The registered address of Ceres Power Holdings plc and all subsidiary undertakings is Viking House, Foundry Lane, Horsham, West Sussex, RH13 5PX.

11. Inventories

	2017 £'000	2016 £'000
Current:		
Raw materials	**198**	–
Work in progress	**397**	–
	595	–

12. Trade and other receivables

	2017 £'000	2016 £'000
Current:		
Trade receivables	**547**	53
Other receivables	**792**	444
	1,339	497

Other receivables primarily consist of amounts invoiced and recoverable in respect of grants, rent deposits and VAT. There is no material difference between the fair value of trade and other receivables and their carrying values and they are not materially overdue at 30 June 2017. There have been no provisions for impairment of receivables during the year (2016: £nil). The carrying amounts of the Group's trade and other receivables is primarily denominated in pounds sterling, euros and US dollars.

13. Other assets

	2017 £'000	2016 £'000
Current:		
Prepayments	**321**	365
Accrued income	**802**	247
	1,123	612

Accrued income is recognised in accordance with accounting policies and primarily consists of revenue, grant income and interest receivable on short-term bank deposits.

14. Cash and cash equivalents and short-term investments

	2017 £'000	2016 £'000
Cash at bank and in hand	**1,354**	805
Money market funds	**1,804**	5,142
Cash and cash equivalents	**3,158**	5,947
Short-term bank deposits greater than one month	**14,000**	1,000
	17,158	6,947

The Group holds surplus funds in accordance with the treasury policy, as set out in note 16.

	Interest rate type	2017 £'000	2016 £'000
Interest rate risk profile of the Group's financial assets:			
Cash at bank and in hand	Floating	**1,354**	805
Money market funds	Floating	**1,804**	5,142
Short-term bank deposits greater than one month	Fixed	**14,000**	1,000
		17,158	6,947

The fixed rate short-term bank deposits in pounds sterling have terms of between 32 days and 12 months and earn interest of between 0.45% and 1.00% (2016: term of 32 days and earned interest of 0.70%). Floating rate cash deposits, money market funds and other bank deposits earned interest based on relevant UK LIBID-related equivalents. The credit quality of financial assets has been assessed by reference to external credit ratings.

15. Trade and other payables

	2017 £'000	2016 £'000
Current:		
Trade payables	**679**	721
Taxation and social security	**–**	175
Other payables	**59**	17
Accruals	**1,171**	700
Deferred income	**745**	508
	2,654	2,121
Non-current:		
Accruals	**–**	31

16. Financial instruments

The Group only uses derivative financial instruments to hedge foreign currency exposures which arise from an underlying current or anticipated business requirement and not for any speculative purpose. The Group does not currently use derivative instruments to manage its interest rate risk. The Group does not trade in financial instruments.

Fair values of financial assets and financial liabilities

There is no difference between the fair value and the carrying value of the Group's financial assets and financial liabilities. Carrying value approximates to fair value because of the short maturity periods of these financial instruments.

The fair value of the forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). Forward exchange contracts are included in the Level 2 classification.

Other than the forward contracts noted below, none of the Group's assets and liabilities were measured at fair value at 30 June 2017 (2016: £nil).

The fair values of all financial assets and financial liabilities by class, together with their carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2017 £000	**Fair value 2017 £000**	**Level 2 2017 £000**	Carrying amount 2016 £000	Fair value 2016 £000	Level 2 2016 £000
Financial assets designated as fair value through profit or loss						
Forward exchange contracts	**8**	**8**	**8**	28	28	28
Financial liabilities designated as fair value through profit or loss						
Forward exchange contracts	**(8)**	**(8)**	**(8)**	(7)	(7)	(7)
Total financial instruments	**–**	**–**	**–**	21	21	21

Financial risk management

The Group's operations expose it to a variety of financial risks that include credit risk and market risk arising from changes to interest rates and foreign currency exchange rates. The Board reviews and agrees policies for managing each of these risks.

The principal risks addressed are as follows:

Credit risk

The Group's exposure to credit risk arises from holdings of cash and cash equivalents and short-term investments, and if a counterparty or customer fails to meet its contractual obligations. The Group's primary objective to manage credit risk from its holdings of cash and short-term investments is to minimise the risk of a loss of capital and eliminate loss of liquidity having a detrimental effect on the business.

The Group typically places surplus funds into pooled money market funds and bank deposits with durations of up to 12 months. The Group's treasury policy restricts investments in short-term sterling money market funds to those which carry short-term credit ratings of at least two of AAAm (Standard & Poor's), Aaa/MR1+ (Moody's) and AAA V1+ (Fitch) and deposits with banks with minimum long-term rating of A/A-/A3 and short-term rating of F-1/A-2/P-2 for banks which the UK Government holds less than 10% ordinary equity.

Trade receivables at the year end relate to four customers (2016: one), of which £369,000 relates to the Europe geographic region and £178,000 to North America (2016: £53,000 related to the Asia geographic region). The Group's customers are generally large multinational companies and are consequentially not considered to add significantly to the Group's credit risk exposure. All trade receivables are due within the agreed credit terms for the current and preceding years and are consequently stated at cost.

16. Financial instruments continued

Interest rate risk

Interest rate risk on the Group's liabilities is minimal.

The Group's finance income is sensitive to changes in interest rates. A change of 1% in interest rates would have impacted the finance income by £0.2 million in the year ended 30 June 2017 (2016: £0.1 million).

Liquidity risk

Liquidity risk is the risk arising from the Group not being able to meet its financial obligations. The Group manages its liquidity needs by preparing cash flow forecasts, including forecasting of the Group's liquidity requirements, to ensure the Group has sufficient cash to meet its operational needs.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	30 June 2017				30 June 2016			
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000
Non-derivative financial liabilities								
Trade and other payables and accruals	**(1,909)**	**(1,909)**	**(1,909)**	**–**	(1,644)	(1,644)	(1,613)	(31)
Derivative financial liabilities								
Forward exchange contracts:								
(Outflow)	**(8)**	**(1,300)**	**(1,300)**	**–**	(7)	(618)	(618)	–
Inflow	**–**	**1,279**	**1,279**	**–**	–	602	602	–

Foreign currency exposures

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

16. Financial instruments continued

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than pounds sterling. Foreign exchange differences arising on the retranslation of these monetary assets and liabilities are taken to the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

30 June 2017	US dollar £'000	Euro £'000	Japanese yen £'000	Canadian dollar £'000	Other £'000
Exposures to foreign currency risk:					
Cash and cash equivalents	**173**	**63**	**131**	**26**	**3**
Trade receivables	**178**	**9**	**–**	**–**	**–**
Trade payables	**(10)**	**(117)**	**(5)**	**–**	**–**
Forward exchange contracts – foreign currency inflow/(outflow)	**(893)**	**–**	**(393)**	**196**	**–**
Balance sheet exposure	**(552)**	**(45)**	**(267)**	**222**	**3**
Net contracted income and expenditure	**651**	**40**	**430**	**(228)**	**–**
Net exposure	**99**	**(5)**	**163**	**(6)**	**3**

30 June 2016	US dollar £'000	Euro £'000	Japanese yen £'000	Canadian dollar £'000	Other £'000
Exposures to foreign currency risk:					
Cash and cash equivalents	10	50	58	41	5
Trade payables	(39)	(10)	–	–	(20)
Forward exchange contracts – foreign currency inflow/(outflow)	406	166	(290)	198	–
Balance sheet exposure	377	206	(232)	239	(15)
Net contracted income and expenditure	(422)	(291)	186	(220)	(5)
Net exposure	(45)	(85)	(46)	19	(20)

A 10% weakening of the following currencies against pound sterling at 30 June would have resulted in a profit or loss charge to the Consolidated Statement of Profit and Loss and Other Comprehensive Income by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the comparative period.

	Profit or (loss)	
	2017 £'000	2016 £'000
US dollar	**(31)**	(34)
Euro	**(21)**	(19)
Japanese yen	**(12)**	21
Canadian dollar	**(2)**	(22)
Other	**–**	1

A 10% strengthening of the above currencies against pound sterling at 30 June would have had the equal but oppositeeffect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

17. Provisions

The movement in property dilapidation and onerous lease provisions charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income in the year are set out below along with the value of provisions at 30 June 2017:

Provisions for the year ended 30 June 2017

	Property dilapidations £'000	Onerous leases £'000	Total £'000
At 1 July 2016	809	135	944
Movements in the Consolidated Statement of Profit and Loss and Other Comprehensive Income:			
Increase in provision	74	–	74
Provision utilised	(18)	(13)	(31)
Reversal of provision no longer required	(37)	(122)	(159)
At 30 June 2017	**828**	**–**	**828**
Current	–	–	–
Non-current	828	–	828
At 30 June 2017	**828**	**–**	**828**

The dilapidation provision recognised at the year end 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 leasehold property at the end of its lease, details of which are in note 21.

The onerous lease provision recognised in prior years provided for the full cost of the remaining life of the leases on properties that the Company expected to have no further use of. During the year the remaining property leases for which a provision had been made were surrendered.

18. Share capital

	2017		2016	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
At 1 July	**777,857,841**	**7,779**	772,537,841	7,725
Allotted under share option schemes	**5,959,005**	**59**	5,320,000	54
Allotted on cash placing	**228,603,083**	**2,286**	–	–
Ordinary shares of £0.01 each at 30 June	**1,012,419,929**	**10,124**	777,857,841	7,779

During the year 5,959,005 ordinary £0.01 shares were issued for cash consideration of £206,000 on the exercise of employee share options (2016: 5,320,000 ordinary £0.01 shares for cash consideration of £54,000) (see note 19). During the year the Company completed a placing of 228,603,083 ordinary £0.01 shares for cash consideration of £20,003,000.

19. Share options

The total charge recognised in the year ended 30 June 2017 relating to employee share-based payments was £998,000 (2016: £1,012,000).

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

	2017 £'000	2016 £'000
a) 2004 Employees' share option scheme	**536**	922
b) Sharesave schemes	**97**	77
c) Long Term Incentive Plan (LTIP)	**365**	13
d) Executive Directors' one-off award	**–**	–
	998	1,012

a) 2004 Employees' share option scheme

The 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 Company in November 2004 and in subsequent years. The Company adopted the 'Ceres Power Holdings Ltd 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 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 ten years from the date of the grant, the options expire. Options are forfeited if the employee chooses to leave the Group before the options vest.

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

	2017		2016	
	Number ('000)	**Weighted average exercise price**	Number ('000)	Weighted average exercise price
Outstanding at 1 July	**76,434**	**£0.07**	78,289	£0.09
Granted	**–**	**–**	5,635	£0.08
Exercised	**(4,185)**	**£0.02**	(5,320)	£0.01
Lapsed	**(1,505)**	**£0.60**	(2,170)	£0.83
Outstanding at 30 June	**70,744**	**£0.06**	76,434	£0.07
Exercisable	**32,159**	**£0.05**	22,484	£0.07

The weighted average share price on the exercise date of options was £0.09 (2016: £0.06).

The weighted average fair value of options granted in the year was £nil (2016: £0.04).

19. Share options continued

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

	2017		2016	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2017	–	–	£2.22	365
2019	£0.68	4	£0.68	4
2023	£0.03	27,295	£0.03	30,850
2024	£0.08	20,425	£0.08	21,625
2025	£0.09	18,780	£0.09	19,350
2026	£0.08	4,240	£0.08	4,240

The options outstanding at the end of the year have a weighted average contractual life of 6.42 years (2016: 7.35 years).

In addition, during the 2016 and 2014 years, certain option-holders under the 2004 share option scheme were awarded Employee Shareholder Status (ESS) shares in the Company's subsidiary, 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 issue of the ESS shares has not changed the vesting period or exercise price of the unexercised 2004 Employees' share scheme options granted. The total fair value charge of these 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.

b) Sharesave scheme

During the year, a seventh 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:

	2017		2016	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	10,083	£0.05	4,239	£0.06
Granted	2,272	£0.07	6,157	£0.04
Exercised	(1,894)	£0.06	–	–
Lapsed/cancelled	(349)	£0.05	(313)	£0.06
Outstanding at 30 June	10,112	£0.05	10,083	£0.05
Exercisable	–	–	–	–

The weighted average share price on the exercise date of options was £0.09.

The weighted average fair value of options granted in the year was £0.04 (2016: £0.03).

19. Share options continued

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

	2017		2016	
Expiry date – 30 June	**Actual and weighted average exercise price**	**Number ('000)**	Actual and weighted average exercise price	Number ('000)
2018	**–**	**–**	£0.06	1,903
2019	**£0.05**	**1,971**	£0.05	2,023
2020	**£0.04**	**5,869**	£0.04	6,157
2021	**£0.07**	**2,272**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 2.30 years (2016: 2.66 years).

c) LTIP

During the prior year, a Long Term Incentive Plan (LTIP) was implemented by the Remuneration Committee. Participation in the LTIP is at the invitation of the Committee and is intended to be used to incentivise the performance and retention of the Company's Executives and certain key employees.

The maximum awards for all participants are determined by the Remuneration Committee with appropriate input from independent advisors. Performance is based on achieving targets, which may vary. Targets are major milestones aligned to the Group's strategic plan and also a sliding scale of total shareholder return (TSR), which is measured over a period of three years with an additional holding period of two years for Executives. Malus, hold and clawback conditions apply.

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

	2017		2016	
	Number ('000)	**Weighted average exercise price**	Number ('000)	Weighted average exercise price
Outstanding at 1 July	**4,629**	**£0.01**	–	–
Granted	**17,069**	**£0.01**	4,629	£0.01
Outstanding at 30 June	**21,698**	**£0.01**	4,629	£0.01
Exercisable	**–**	**–**	–	–

The weighted average fair value of options granted in the year was £0.07 (2016: £0.03).

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

	2017		2016	
Expiry date – 30 June	**Actual and weighted average exercise price**	**Number ('000)**	Actual and weighted average exercise price	Number ('000)
2026	**£0.01**	**4,629**	£0.01	4,629
2027	**£0.01**	**17,069**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 9.14 years (2016: 9.67 years).

19. Share options continued

d) Executive Directors' one-off award

All 1,806,000 'one-off' options remain outstanding and exercisable at 30 June 2017 (2016: 1,806,000). No options were granted or exercised in the current or prior year. No options lapsed during the year (2016: 94,000 lapsed with a weighted average price of £2.00).

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

	2017		2016	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2018	**£2.00**	**1,593**	£2.00	1,593
2019	**£2.00**	**213**	£2.00	213

The options outstanding at the end of the year have a weighted average contractual life of 1.57 years (2016: 2.57 years).

Assumptions

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

	Sharesave scheme 2017	2004 Scheme 2016	Sharesave scheme 2016
Grant date	6 January 2017	August 2015 – 2 March 2016	22 March 2016
Share price at date of grant (£)	**0.083**	0.055 – 0.090	0.054
Exercise price (£)	**0.066**	0.055 – 0.090	0.043
Expected volatility (%)	**58%**	55%	59%
Expected option life (years)	**3.25 years**	Up to 6 years	3.5 years
Average risk-free interest rate (%)	**1.00%**	1.00%	1.00%
Expected dividend yield	**Nil**	Nil	Nil

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 historical volatility of the Company's shares since the Company 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.

The inputs to the Monte Carlo simulation model were as follows:

Grant date	LTIP 2017 29 September and 6 December 2016	LTIP 2016 1 March 2016
Share price at date of grant (£)	**0.087 – 0.104**	0.055
Exercise price (£)	**0.010**	0.010
Expected volatility (%)	**58%**	55%
Expected option life (years)	**Up to 7 years**	Up to 7 years
Average risk-free interest rate (%)	**2.4%**	1.00%
Expected dividend yield	**Nil**	Nil

20. Cash used in operations

	2017 £'000	2016 £'000
Loss before taxation	**(11,433)**	(12,617)
Adjustments for:		
Other finance income	**(89)**	(77)
Depreciation of property, plant and equipment	**1,259**	1,178
Net foreign exchange gains	**(16)**	(49)
Net change in fair value of financial instruments at fair value through profit or loss	**21**	–
Share-based payments	**998**	1,012
Operating cash flows before movements in working capital	**(9,260)**	(10,553)
(Increase)/decrease in trade and other receivables	**(842)**	166
Increase in other assets	**(511)**	(300)
Increase in inventories	**(595)**	–
Increase/(decrease) in trade and other payables	**502**	(775)
Decrease in provisions	**(116)**	(311)
Change in working capital	**(1,562)**	(1,220)
Cash used in operations	**(10,822)**	(11,773)

21. Operating lease commitments

The Group leases premises and office equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 Land and buildings £'000	2017 Other £'000	2016 Land and buildings £'000	2016 Other £'000
No later than one year	**335**	**31**	365	6
Later than one year and no later than five years	**1,729**	**32**	207	10
Later than five years	**890**	**–**	–	–
	2,954	**63**	572	16

At the year end the property has a minimum lease term of 7.1 years (2016: 1.6 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The office equipment leases have an average term of 2.1 years (2016: 2.7 years). The Group extended the lease to its facilities in Viking House, Horsham, during the period.

22. Contingent liabilities

Grants received of £705,000 (2016: £705,000), or an element thereof, may require repayment if the Group generates revenue (net of expenses and reasonable overheads) from the intellectual property created from the grant. In such case, the Group 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 Group believe it is unlikely that any of the grants received will need to be repaid.

23. Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £190,000 as at 30 June 2017 (2016: £255,000), in respect of the acquisition of property, plant and equipment.

24. Related party transactions

The Group's related parties are its Directors, IP Group plc, through IP2IPO Ltd, which held 27.07% of the issued share capital at 30 June 2017 (2016: 23.37%), and Richard Griffiths, who held 17.88% of the issued share capital at 30 June 2017 (2016: 24.09%).

IP Group plc appointed Alan Aubrey as Chairman and Robert Trezona as a Non-Executive Director, both of whom served throughout the year. Compensation paid to the Group's Directors is disclosed in the Remuneration Committee Report on page 32. Transactions with IP Group plc during the year amounted to £182,000 (2016: £52,000) comprising primarily fees of £152,000 in relation of the placing which was taken in the form of 1,737,143 ordinary £0.01 shares, Non-Executive Director fees of £30,000 (2016: £30,000) and disbursements of £nil (2016: £3,000). There was no outstanding balance due as at 30 June 2017 (2016: £nil). There were no other related party transactions in the year or in the previous year.

Company balance sheet
AS AT 30 JUNE 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments	3	**67,309**	46,641
Current assets			
Debtors: amounts falling due within one year	4	**11,612**	12,432
Cash at bank and in hand		**130**	76
		11,742	12,508
Creditors: amounts falling due within one year	5	**(10,642)**	(10,711)
Net current assets		**1,100**	1,797
Net assets		**68,409**	48,438
Capital and reserves			
Called up share capital	7	**10,124**	7,779
Share premium account		**107,349**	90,120
Capital redemption reserve		**3,449**	3,449
Profit and loss account		**(52,513)**	(52,910)
Shareholders' funds		**68,409**	48,438

The notes on pages 69 to 72 are an integral part of these Company financial statements.

The financial statements on pages 67 to 72 were approved by the Board of Directors on 4 October 2017 and were signed on its behalf by:

Phil Caldwell
Chief Executive Officer

Richard Preston
Chief Financial Officer

Ceres Power Holdings plc
Registered Number: 5174075

Company statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2015		7,725	90,120	3,449	(53,247)	48,047
Comprehensive income						
Loss for the financial year		–	–	–	(675)	(675)
Total comprehensive loss		–	–	–	(675)	(675)
Transactions with owners						
Issue of shares, net of costs	7	54	–	–	–	54
Share-based payments charge	7	–	–	–	1,012	1,012
Total transactions with owners		54	–	–	1,012	1,066
At 30 June 2016		7,779	90,120	3,449	(52,910)	48,438
Comprehensive income						
Loss for the financial year		–	–	–	(601)	(601)
Total comprehensive loss		–	–	–	(601)	(601)
Transactions with owners						
Issue of shares, net of costs	7	2,345	17,229	–	–	19,574
Share-based payments charge	7	–	–	–	998	998
Total transactions with owners		2,345	17,229	–	998	20,572
At 30 June 2017		**10,124**	**107,349**	**3,449**	**(52,513)**	**68,409**

The notes on pages 69 to 72 are an integral part of these Company financial statements.

Notes to the Company financial statements
FOR THE YEAR ENDED 30 JUNE 2017

1. Accounting policies
These separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle), issued in July 2015 and effective immediately, have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

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

- IFRS 2 Share-based Payments in respect of Group-settled share-based payments

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention
The financial statements are prepared on the historical cost basis.

Trade and other debtors
Trade and other debtors are recognised initially at fair value. Where considered necessary they are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

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

Investments in equity securities
Fixed asset investments in subsidiaries are carried at cost less impairment.

Impairment of financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1. Accounting policies continued

The Directors have reviewed the investment in its subsidiary for indicators of impairment at year end. They have compared the carrying value of the investment against the Group's current market capitalisation and against the discounted value of estimated future cash flows from the investment. The discount rate used was based on management's best estimate using an appropriate risk adjusted rates of between 10% and 20%. They assessed the progress of technical development, funds held and the positive performance of the Group. The Directors do not consider there are any indicators of impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Capital redemption reserve

The capital redemption reserve was created in the year ended 30 June 2014 when 86,215,662 deferred ordinary shares of £0.04 each were cancelled.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax and any adjustment to tax payable in respect of previous years. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Share-based payments

The Group in which the Company is associated has a number of employee and executive share option and award schemes under which it makes equity-settled share-based payments.

The fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. For share-based payment awards with non-vesting conditions, the fair value of the share-based payment, determined at the grant date, is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries with the corresponding credit being recognised directly in equity.

2. Loss for the year

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its profit and loss account. The Company's result for the year was a loss of £601,000 (2016: loss of £675,000), which is stated after charging £10,000 (2016: £10,000) for remuneration receivable by the Company's auditor for the auditing of the financial statements.

3. Fixed asset investments

Shares in Group undertakings:

	2017 £'000	2016 £'000
Cost		
At 1 July	**59,083**	58,028
Capital contributions arising from share-based payment charge	**998**	1,001
Acquisition of shares in Ceres Power Intermediate Holdings Ltd	**19,670**	54
At 30 June	**79,751**	59,083
Provisions		
At 1 July	**(12,442)**	(12,442)
Impairment in fair value of investment in Ceres Power Intermediate Holdings Ltd	**–**	–
At 30 June	**(12,442)**	(12,442)
Net book value		
At 30 June	**67,309**	46,641

The capital contributions arising from the share-based payment charge are due to the Company granting share options to the employees of Ceres Power Ltd.

The Company's investments comprise interests in Ceres Power Intermediate Holdings Ltd which is the 100% owner of Ceres Power Ltd and Ceres Intellectual Property Company Ltd, details of which are shown below:

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held by the Company
Ceres Power Ltd	England and Wales	£0.001 ordinary shares	100%
Ceres Intellectual Property Company Ltd	England and Wales	£1.00 ordinary share	100%
Ceres Power Intermediate Holdings Ltd	England and Wales	£0.01 ordinary shares	100%

The principal activity of Ceres Power Ltd is the commercialisation and continued development of the Group's fuel cell technology. The principal activity of Ceres Intellectual Property Company Ltd is the administration of registered intellectual property developed within the Group. The principal activity of Ceres Power Intermediate Holdings Ltd is as a holding company to the other Group companies and to manage the Group's cash, cash equivalents and short-term investments. The results of Ceres Power Ltd, Ceres Intellectual Property Company Ltd and Ceres Power Intermediate Holdings Ltd are included within the consolidated financial statements. The Directors have reviewed the investments for evidence of impairment and have concluded that the carrying value is supported by the Group's current market capitalisation and the discounted value of estimated future cash flows.

The registered address of the Company and all subsidiary undertakings is Viking House, Foundry Lane, Horsham, West Sussex, RH13 5PX.

Notes to the company financial statements

FOR THE YEAR ENDED 30 JUNE 2017

4. Debtors: amounts falling due within one year

	2017 £'000	2016 £'000
Other debtors	–	8
Prepayments and accrued income	14	42
Amounts owed by Group undertakings	11,598	12,382
	11,612	12,432

The amounts owed by Group undertakings comprise inter-company loans and recharges. No specific repayment or interest terms are associated with these amounts. As of 30 June 2017, a provision of £59,316,000 (2016: £59,316,000) has been made against the inter-company loan to Ceres Power Ltd, reflecting management's best estimate of the recoverable amount.

A subordination agreement exists between the Company and Ceres Power Ltd. Amounts owed by Ceres Power Ltd to the Company of £69,575,000 (2016: £70,677,000) are subordinated to all other creditors of Ceres Power Ltd.

5. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	10	23
Taxation and social security	–	19
Accruals and deferred income	86	89
Amounts owed to Group undertakings	10,546	10,580
	10,642	10,711

6. Deferred taxation

Potential deferred tax assets have not been recognised but are set out below:

	2017 £'000	2016 £'000
Tax effect of timing differences because of:		
Deductions relating to share options	(3)	(3)
Losses carried forward	(1,082)	(1,019)
	(1,085)	(1,022)

The deferred tax assets have not been recognised as the Directors consider that it is unlikely that the asset will be realised in the foreseeable future.

7. Called-up share capital

	2017		2016	
	Number	£'000	Number	£'000
Allotted and fully paid				
Ordinary shares of £0.01 each	1,012,419,929	10,124	777,857,841	7,779

Details of shares issued in the period are provided in note 18 to the Group financial statements. Details of share options are disclosed in note 19 to the Group financial statements.

Directors and advisors

Directors of Ceres Power Holdings plc
Alan Aubrey (Non-Executive Chairman)
Phil Caldwell (Chief Executive Officer)
Steve Callaghan (Senior Independent Director)
Aidan Hughes (Non-Executive Director)
Mike Lloyd (Non-Executive Director)
Richard Preston (Chief Financial Officer)
Mark Selby (Chief Technology Officer)
Robert Trezona (Non-Executive Director)

Registered number
5174075

Company secretary
Caroline Buchan (appointed 14 October 2016)

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Notes

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