Ceres Power

A change of power

annual report 2016

Welcome

Ceres Power Holdings plc is a fuel cell technology and engineering company whose aim is to bring cleaner and cheaper energy to every home and business. We are working with some of the world's leading companies, aiming to create mass market fuel cell products for residential, transportation and commercial markets worldwide.

Our vision is a fuel cell in every home and business.

We've had a productive year...

NEW COMMERCIAL PARTNERS

HIGHER POWER APPLICATIONS

TECH ROADMAP ON TRACK

MANUFACTURING SCALE UP

NEW MARKETS: DATA CENTRES & ELECTRIC VEHICLES

CONTENTS

NAVIGATING THE REPORT

For further information within this document and relevant page numbers

Additional information online

Video content online

Read Our year in review on pages 6 to 7 for more information

A strong proposition...

CREATING MORE THAN JUST FINANCIAL VALUE

At the heart of Ceres Power is our desire to transform power generation and bring low cost, low carbon power to the mass market. Our fuel cell technology can cut costs, reduce emissions and improve reliability of power supply, enabling energy independence. The value we generate as a business extends far beyond our financial results.

See Corporate social responsibility on pages 20 to 21

DISRUPTIVE TECHNOLOGY

Our SteelCell is a highly differentiated, low cost, subsidy-free fuel cell technology, which uses the existing infrastructure of widely available fuels such as natural gas, and is suitable for multiple markets and applications.

See Our breakthrough technology on page 3

GLOBAL MARKET OPPORTUNITY

With our fuel flexible technology we are well positioned to benefit from the growing demand for cleaner energy that is transforming the electricity, heat and transport sectors.

See The global opportunity on pages 4 to 5

CUSTOMER ENDORSEMENT

We have a growing reputation and recognition with customers, demonstrating market leadership in robustness and cost. This is confirmed by our growing pipeline of partners who are leaders in their respective fields.

See the Chief Executive's statement on pages 14 to 17

HIGH QUALITY, EXPERIENCED TEAM

We have a strong team offering world-leading expertise and relevant experience from across a range of industry sectors.

See our Board of Directors & Executive team on pages 32 to 33

STRONG FINANCIAL BACKING

Ceres is financially well-backed, giving us strength and credibility as a leading independent technology company.

See our Directors' report on pages 34 and 35

OUR PARTNERS

British Gas

Cummins Power Generation

HONDA

NISSAN

KD Navien

OUR PEOPLE

114 employees ...from **16** different countries

We have more than **400 man-years** cumulative experience in the technology and engineering sectors

Our breakthrough technology

A key differentiator in the fuel cell market

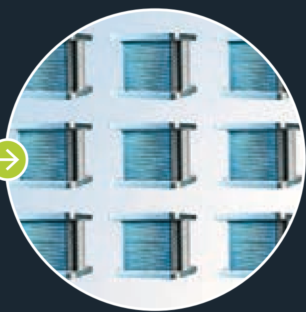
Our SteelCell is one of the most cost-effective and robust fuel cell technologies developed, converting fuel directly into electrical power very efficiently and reliably. By using conventional fuels like mains natural gas from the existing infrastructure, the SteelCell can change the way homes and businesses generate their power – reducing energy costs, lowering CO_2 emissions and improving energy security.

STEELCELL INTELLECTUAL PROPERTY

We protect our unique technology, system architecture and manufacturing know-how through a growing IP portfolio of 47 patent families. In simple terms, the SteelCell is a perforated sheet of steel with special screen-printed ceramic layers that convert fuel directly into electrical power. Unlike other fuel cells, we use the oxide Ceria – a naturally occurring substance as abundant as copper – in the anode and electrolyte.

Single Fuel Cell

Fuel Cell Stack



Multiple Fuel Cell Stacks

THE CERES STEELCELL IS...

...cheaper to manufacture

SteelCell is made from commodity materials such as steel and ceramics, using the same standard manufacturing processes and equipment as the solar industry. With these easily scalable processes and inherently low-cost raw materials, SteelCell can be mass-produced at low-cost and high-volume – and, with our new high-speed print line, cycle time is ten times faster than before. With cost not a limiting factor, widespread adoption is achievable.

...more efficient

Fuel cells can save up to a third of a typical home's energy consumption and CO_2 emissions, with almost no SOx and NOx emissions. Current efficiency of 35-40% from traditional centralised power generation can be improved to around 50% without the transmission and distribution losses that occur through the grid. Efficiency can be improved further to > 90% if a Combined Heat and Power (CHP) system is used for heating water. Distributed power generation based on Solid Oxide Fuel Cell (SOFC) technology can also help meet increased energy demands more cost effectively and quickly than expensive investment in replacing the traditional power infrastructure.[1] To make the most efficient use of their heavy LNG imports, Japan and South Korea are leading the way in fuel cell commercialisation, as is the US with its shale gas reserves.

...more reliable

SteelCell is more stable and durable in the face of real-world operating conditions than other Solid Oxide Fuel Cell (SOFC) designs and unlike some fuel cells is not inhibited by the lack of a hydrogen infrastructure. One of the key drivers of the shift towards distributed power generation is the need for reliable power and this evolution is being enabled by maturing technology and abundant gas reserves. By balancing overall energy output, fuel cells can also help integrate growing, but intermittent, renewables into the energy mix to secure flexible low-carbon supply.

For more information view our video:
www.cerespower.com/technology/why-the-steel-cell-is-unique

[1] Pacific Northwest National Laboratory, US Department of Energy.

The global opportunity

The challenge globally is to meet the growing demand for reliable energy, in the face of the recognised need to decarbonise it and reduce its cost. We are already seeing a shift to distributed power generation – where users generate their own energy to lower their costs, secure their supply and reduce their environmental impact.

COMMERCIAL

THE OPPORTUNITY

Commercial buildings consume huge amounts of energy, mostly in electricity and natural gas. In the US, the commercial sector alone consumes more than 35% of the country's generated electricity.[1] Many cities around the world are now defining their own policies to reduce emissions, and subsidising uptake in clean energy technologies. Momentum is growing, with almost 10% of Fortune 500 companies already using fuel cells.

OUR RESPONSE

SteelCell has achieved its target of over 50% efficiency, with our first proof of concept multi-kW system demonstrating more than 55% net efficiency. This enables SteelCell to be applied to higher power commercial and light industrial scale applications, and in the year we signed a first Evaluation Agreement for a multi-kW application with a new global OEM.

TRANSPORT

THE OPPORTUNITY

Transport accounts for 23% of global energy-related greenhouse gas emissions.[2] In response, there are calls for at least 20% of road vehicles to be electrically powered by 2030, to limit global temperature increases.[3] Numerous governments are planning to ban all new petrol and diesel vehicles in the coming years, with cities like Paris aiming to ban diesels as early as 2020 and zero-emissions electric cars already accounting for 29% of new cars sold in Norway.[4]

OUR RESPONSE

We are working with Nissan to develop a compact, on-board SOFC stack, which will extend the range of electric vehicles and allow a shorter refuelling time. This could accelerate the take up of electric vehicles, and so increase progress towards global low-carbon energy targets. The SOFC stack is based on our unique SteelCell technology, which will work initially with bio-ethanol.

THE CHALLENGE

200%

Global electricity demand is predicted to double by 2050[8]

80%

The amount Europe needs to reduce CO_2 emissions by 2050 to achieve its low carbon economy objectives[9]

16%

Renewables predicted share of the global power market by 2035[10]

1 Rocky Mountain Institute Commercial Energy+ Initiative.
2 International Energy Authority (IEA) – Energy Technology Perspectives, June 2016.
3 IEA / Paris Declaration on Electro-Mobility and Climate Change.
4 The Fuel Cell and Hydrogen Review 2016, 4th Energy Wave.
5 Dimension Data White Paper, 2014, The Relationship between Data Centre Strategy and Energy Efficiency.
6 Department for Energy and Climate Change: UK Housing Energy Fact File, 2013.

Our SteelCell technology looks to address this global challenge, to be the building block of the next generation of clean energy products, enabling multiple applications across different markets.

DATA CENTRES

THE OPPORTUNITY

Data centres consume around 2% of the world's electrical power.[5] Ensuring always-on power is essential and expensive, and leading US companies such as Google and Apple are already deploying fuel cells. Using the existing gas infrastructure, fuel cells can eliminate the need for diesel generators and batteries as back-up, as well as capital-intensive electrical power distribution.

OUR RESPONSE

In a US Department of Energy programme, with our partner Cummins Inc, we are developing a new 5kW SOFC modular system targeting high electrical efficiency (60%), for multiple distributed power applications up to 100kW. We are creating this initially for the data centre market, where it will enable data centre operators to cut overall costs by more than 20%, and reduce their carbon footprint by up to 49%.

RESIDENTIAL

THE OPPORTUNITY

Homes account for over a quarter of energy use in the UK, and heating uses the largest proportion of this. Without changing emissions from homes, the government will not meet its target to cut emissions 80% by 2050.[6] In Germany, with its extensive uptake of renewables, the government is supporting and subsidising fuel cell uptake to balance power outputs - with subsidies covering 40% of costs.[7] In Japan, the government is targeting 5.3 million homes to have fuel cells installed by 2030, with 150,000 units already installed.

OUR RESPONSE

We are demonstrating our SteelGen 1kW fuel cell home power system in conjunction with British Gas as part of the ene.field programme, the largest trial of its kind in Europe. The system can run with existing heating and will generate around 80% of a typical UK home's power needs and all of its hot water, reducing typical energy consumption and CO_2 emissions by up to one third. The trials support the UK government's need to show solutions for decarbonising heating systems.

THE OPPORTUNITY

$19.7bn → $92.7bn

Projected growth in annual revenue from the global residential distributed energy resources market from 2016 to 2025[11]

$40bn

Expected global revenue from stationary fuel cells by 2022[12]

[7] Delta Energy and Environment.
[8] International Energy Agency, Hydrogen and Fuel Cell Roadmap, 2015.
[9] European Commission, Roadmap for Moving to a Low Carbon Economy in 2050, 2011.
[10] BP Energy Outlook 2016.
[11] Residential Distributed Energy Resources, Global Capacity and Revenue Forecasts, 2016-2025, Navigant Research, March 2016.
[12] Stationary Fuel Cells: Global Market Analysis and Forecasts, 2014, Navigant Research.

Our year in review

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

Q2

V3 SteelCell released 50% net electrical efficiency

Expansion of team into North America and South Korea

55% net electrical efficiency demonstrated on multi-kW system

Joint Development Agreement with Honda

HONDA

Q3

New high speed print line increases processing speed 10-fold

First Evaluation Agreement for multi-kW application with new global OEM

Test infrastructure improved to match multi-kW needs

£20 million fundraise secures financial strength

Q4

POST YEAR END

Collaboration with Nissan to develop SOFC stack for electric vehicles

NISSAN

Awarded US DoE grant with Cummins to develop modular multi-kW system for data centres

Power Generation

Field-trialling with British Gas – funded by ene.field

British Gas

V4 SteelCell released

KEY

- Financial progress
- Commercial progress
- Operations
- Technology milestones

See our Strategy on pages 12 to 13

Chairman's statement

New technology is changing the way we heat and power our homes, businesses and transportation. Alongside this, changing lifestyles and circumstances are adding to the pressure on our energy system. For example, our increasing reliance on data and cloud computing now accounts for around 2% of the world's electrical power generation, a figure set to rise significantly. Poor air quality in cities is leading to a desire to reduce carbon and harmful emissions and adopt cleaner, electric vehicles. Our desire to comply with the COP21 Paris Agreement and meet targets on climate change is creating a need to decarbonise our heat and power networks, and generate power more efficiently. All of which places yet more demand on our ageing power grid.

The existing system of centralised energy generation is no longer appropriate, and this represents a huge opportunity for a business such as ours.

Last year we set out our Company strategy to broaden the applications for the SteelCell. I am pleased to say that this year we have shown very strong progress against this strategy, and are working with leading power system OEMs[1] on a number of these huge market opportunities. Honda, Nissan and Cummins are market leaders in their respective fields, and we are engaged with them in developing different applications using the SteelCell.

We now aim to move our partners on from the development stage, and negotiate commercial terms for the production and commercialisation of products using the SteelCell technology.

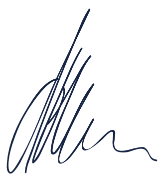
[1] Original Equipment Manufacturers.

I am delighted to say that in October, the Company successfully raised equity funding of £20 million from a combination of new and existing institutional investors. This was essential in providing us with the financial strength to engage with leading global companies. It also provided further funding for maintaining the leadership position of our SteelCell technology, and investing further in its higher power development capability.

The Board and Executive team has remained unchanged throughout the year, as we now have a strong and balanced team with a range of complementary skills. As a board, we aim to establish a governance structure which provides effective control and oversight of the business as it grows, to enhance shareholder value. This year, we have taken further steps to comply as appropriate with the latest guidelines for small and mid-cap companies – there are further details in the corporate governance section of this report.

I'd like to thank the Board and employees for their dedication and hard work over the past year, in achieving our strategy and getting the Company to such a strong position.

We are looking forward to another year of significant commercial progress with existing and new partners as we continue to establish Ceres Power as a leading player in the rapidly growing clean energy sector.



Alan Aubrey
Chairman
7 November 2016

"in October the Company successfully raised equity funding of £20 million... We are looking forward to another year of significant commercial progress...as we continue to establish Ceres Power as a leading player in the clean energy sector."

Read more about our Strategy on pages 12 to 13

How we create value

Our target markets, in many different geographies, are significant in size. Our business model is scalable through the common building block of the SteelCell technology. The SteelCell is highly differentiated, showing market leadership in durability and cost. The licence and royalty model is flexible and potentially highly profitable. Giving access to our significant IP portfolio allows our partners to accelerate their own product programs.

OUR ENABLERS

A large, protected IP portfolio

Highly experienced and knowledgeable colleagues

Established relationships with partners and research institutes

Strong financial backing

Unique manufacturing capability

WHAT WE DO

Research and develop

We work continuously to improve the performance of our SteelCell technology, regularly releasing new iterations.

We have a 1kW SteelCell platform and are developing a modular 5kW stack platform.

Joint product development

We will work with partners to embed the SteelCell in their products, collaborating closely on system design. We have developed a prototype product, 'the SteelGen', to accelerate plans to target the residential market.

OUR SOURCE OF SUSTAINABLE COMPETITIVE ADVANTAGE

Our Intellectual Property

Our technology advantage is protected by 47 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.

OUR VALUE PROPOSITION

SteelCell brings cost savings
Significant improvements in energy efficiency mean end-users can reduce their energy bills by up to 30%.

Security
Power generated in the home or business can be more reliable than that generated in power stations.

Cleaner
Greater efficiency leads to less CO_2 and no SOx or NOx emissions.

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

END-USERS

SteelCell is a flexible core for a range of mass market products in the stationary power and transportation markets.

With our low cost subsidy-free fuel cell technology we are well positioned to be a part of the shift towards the cleaner, cheaper and more reliable distributed power generation that is transforming the energy sector.

OUR REVENUE STREAMS

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

Initial fee for access to IP, secure technology and supply
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.

Licence and royalties
When customers go into commercial product development, an upfront licence fee may cover the initial transfer of rights for a particular application and region, with ongoing royalties on product sales.

PARTNERS

We are one of the largest and most experienced independent fuel cell companies.

Our global OEM partners can use our technology as the foundation for their clean energy products, benefiting from our engineering expertise and the opportunity to have the SteelCell supplied in volume through regional manufacturing partners.

Our talent

We have over 400 man-years of fuel cell and systems knowledge in the Company. Our experience and operational skills enable us to engage with our customers to put our technology into their products.

Our strategic objective
is to see our SteelCell technology embedded into a variety of different power products with the world's leading companies.

To achieve this we will:

1 DEVELOP

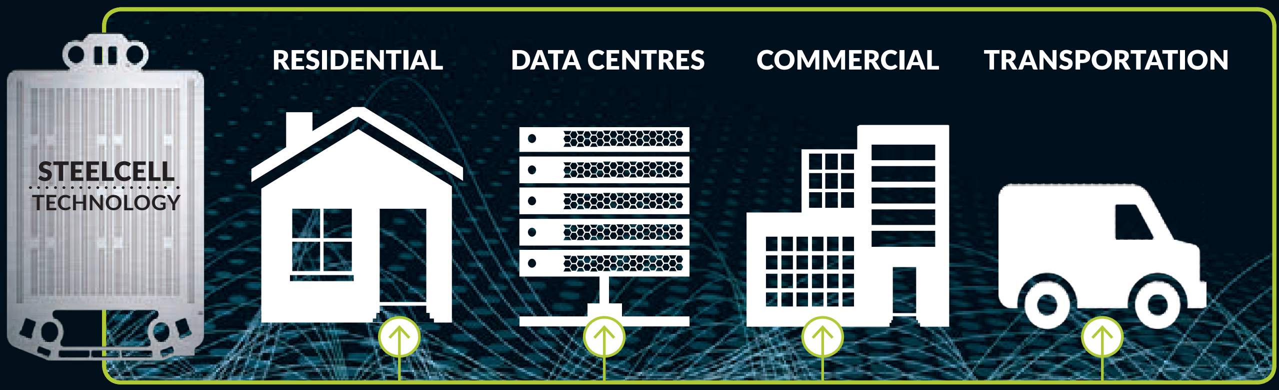
We will continue to invest in and improve our SteelCell technology to strengthen its reputation in a wide variety of markets and industries.

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 EXPAND

We intend to enter into new geographical markets and broaden the available applications of our technology.



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.

TARGET OUR PRIMARY MARKETS
We are focusing on our primary markets of Asia, North America and Europe.

PARTNER WITH LEADING OEMS
We aim to secure five Original Equipment Manufacturers (OEMs) by the end of 2017.

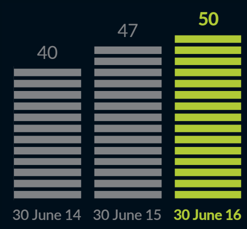
FIND NEW MARKET APPLICATIONS
We will expand the range of different markets in which we can apply our SteelCell technology.

SCALE-UP MANUFACTURING
We will use partners across the globe to scale-up the manufacture of our SteelCells.

MEASURING OUR PROGRESS THROUGH:

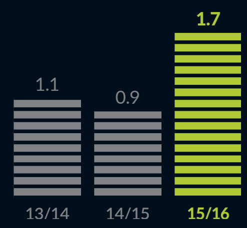
Net electrical efficiency
% LHV at 1kW scale

1



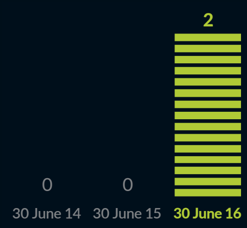
Underlying revenue and other income (£m)
Underlying revenue is the total revenue less the release of deferred revenue relating to historic agreements

1 2 3



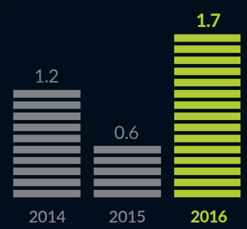
Named partners at Joint Development Agreement
Honda and Nissan signed up during 15/16 and Cummins post year end

2 3



Order book (£m)
Order book as at the date of signing the accounts

2



Chief Executive's statement

The Company's substantial technical progress in recent years has formed a solid foundation for the significant commercial headway we have made this year. We have been able to show real progress in our strategy of developing new applications for the SteelCell technology, aimed at high-growth markets such as transportation and the commercial and light industrial sectors, in addition to our residential offering.

Our vision of a fuel cell in every home and business can only truly become a reality if we work with world-leading companies with the engineering capability and market access to bring these products to market. This year we have been able to engage with some of these companies, which is a testament to the quality and professionalism of the team at Ceres Power. Last year I stated that our target was to have five OEMs working on development programmes with the SteelCell technology within two years. We are on track to meet this, with three significant relationships secured this year, putting us on the path to commercialisation.

In January we announced a relationship with Honda R&D for joint development of a stack which could be used in a variety of Honda's power system products. Honda produces over six million power products a year and is a world leader in small generators and engine technologies – developing one of the world's first micro-CHP products, the Honda ECOWILL. Our two-year programme with Honda comes after several years of testing and evaluating the SteelCell technology in Japan, and I believe it is one of the strongest endorsements to date of the quality of the technology and our team.

In June we announced our first multi-kW customer programme for developing a higher power stack, with Nissan, one of the world's leading electric vehicle (EV) manufacturers. Nissan has a target of 2020 for launching an electric vehicle with a fuel cell range-extender that can run on biofuels. We are working with Nissan UK to develop a 5-kW stack for such a range extender. This could enable the same range and refuelling time as a conventional combustion engine vehicle, but with significantly lower carbon and emissions. We were approached by Nissan due to the SteelCell technology's robustness for coping with the multiple cycling and rapid start-ups required for automotive applications. This could open a huge new market for the SteelCell, as pressure on diesel emissions is leading to more regulation globally, and as the cost of EV ownership continues to fall to the point where EV sales are predicted to reach 25% of all vehicles sold by 2025.

In September 2016 we finalised a contract with Cummins – backed by the US Department of Energy (DoE), and working with Pacific Northwest National Laboratory, a US DoE laboratory and the University of Connecticut – to develop a multi-kW power system for use in data centres and other commercial and light industrial applications. This is our first significant entry into the US market and our first development of a multi-kW system, which will build on synergies from the Nissan stack programme. The market for power for data centres and other commercial applications is growing rapidly. Data centres already account for around 2% of global electricity consumption. Cummins is one of the leaders in supplying back-up and temporary power systems to this market, and is an ideal partner for us.

"We have been able to show real progress in our strategy of developing new applications for the SteelCell technology, aimed at high-growth markets."

Read more about Our year in review on pages 6 to 7

We have had significant commercial success in markets where the benefits of fuel cells are well understood, such as Asia and now the US. Therefore it was really pleasing to have the opportunity to join the Europe-wide field testing programme of residential micro-CHP units, with the ene.field programme in partnership with British Gas. We have had a unit on test at British Gas over the past six months, and joining the ene.field programme is a great opportunity for us to show the maturity of the technology, and the benefits for the UK market, to some of the leading OEMs. This will be the first significant trial of residential fuel cells in the UK in recent years, and is a key step in the development of robust products we can deploy commercially with our OEM partners.

Since Tony Cochrane joined us as CCO, we've moved up a gear commercially, adding strength regionally to our business development teams. In addition to the programmes highlighted, over the year we have run test programmes at stack and system level in Japan, South Korea and Europe. We continue to have a healthy pipeline of new opportunities to secure at least a further two OEM development programmes to meet our original target of five by the end of 2017. Furthermore, by the end of 2018 our intention is to take at least two of these OEM partners through to programmes where the SteelCell is selected as the technology to take through to full commercial product launch.

CASE STUDY

STEELCELL TECHNOLOGY FOR ELECTRIC VEHICLES
BY TONY COCHRANE, CCO

We are leading a consortium with Nissan and M-Solv, to develop a compact, on-board solid oxide fuel cell ("SOFC") stack for range extension of light commercial electric vehicles (LCEV), broadening the applications for our SteelCell technology into the automotive sector.

Part of a funding programme from Innovate UK and The Office for Low Emission Vehicles, the collaborative project will enable all-electric LCEVs to operate with a longer range and shorter refuelling time, without the restrictions of electrical recharge from the grid.

This could significantly accelerate the UK's move towards greater use of electric vehicles, opening up application of our technology to the 1.4 million annual EU sales of light commercial vehicles[1] and making considerable progress towards the UK's 2030-50 low carbon energy targets.

The key drivers for EV application are: cost, ability to thermally cycle frequently and fast start-up time.

Ceres Power's metal-support SOFC technology can provide significant advantages across all these attributes when compared to leading competitor anode-supported SOFC products, while also being able to work with a variety of fuel types (including biofuels).

[1] ICCT EU Market Statistics 2014.

Technology and Operations

Our significant commercial progress this year was made possible by the commitment of the Technology and Operations teams, under the leadership of Mark Selby, CTO, and James Falla, COO.

We achieved a key milestone with the recent release to customers of our latest version of the SteelCell technology, version 4. This has reduced manufacturing costs by removing processing steps and through improved use of materials, and also by making high-speed production possible.

Version 4 also brings in more performance enhancements from R&D and Engineering, which further improve robustness and lifetime.

In January, we announced the successful installation of our high-speed print line, which has increased print cycle processing speed by a factor of ten, as detailed on page 17. The success was made possible through backing from an Innovate UK grant.

At a system level, our engineering teams have achieved a significant milestone with the release of the latest system architecture of the SteelGen. This is being tested for home use by British Gas, in the Europe-wide ene.field programme. Field testing will bring us real world operating experience of the technology and help us understand and demonstrate the savings anticipated in homes. Although we don't intend to make and sell the complete power system units, this is

a key step in securing OEM partners, by helping them understand the maturity and suitability of the technology for deployment in homes.

Additionally, at a multi-kW level we have built for the first time a 5kW stack module and continue to test it in-house. This feeds into the work we will do for Nissan, Cummins and other multi-kW partners.

In the coming year, our R&D investment and efforts will focus on further improving lifetime and reliability, working closely with our customers to develop methodologies to predict technology lifetime. This will increase confidence in the robustness and readiness of the technology to be deployed, thus reducing testing and development times for commercial launch programmes.

CASE STUDY

TECHNOLOGY
BY MARK SELBY, CTO

Power density improvements
In the last year we have focused on increasing power density of our SteelCell. This offers three distinct benefits and our partners can use any number of these should they wish.

Reduced size and cost
- In the fuel cell world, cost and size go hand in hand. The more cell area needed for a given power, the more material is used and processed leading to higher cell costs.
- As we increase power density we can reduce the amount of cells in a stack to reduce size and cost.
- This opens up applications where size and weight is critical – for instance automotive applications.

Very high efficiency
- By improving power density, cells can run at higher efficiency than before, at the same power.
- This enables our fuel cells to be tailored to different applications such as data centres to create more value.

Longer life
- Like nearly all products, fuel cells degrade slowly over time and as they degrade are able to do less work.
- By increasing the power density of the cells, for a given cost, we effectively increase their starting power.
- This means they can operate for longer, improving the payback for customers.

Financial
As described earlier, our strategy for entering commercial partnerships is becoming a reality and, for the financial year ended 30 June 2016, this translated into revenue and other income of £1.7 million (2015: £0.9 million). Of this, £1.1 million was customer revenue (2015: £0.3 million) and £0.6 million was other income, primarily from government grants (2015: £0.5 million). £0.6 million of revenue was due to the release of deferred revenue as we demonstrated our prototype residential system at British Gas during the second half of the year. We have invested in people and capabilities to support our strategy of developing high power systems. This year's equity free cash outflow[1] of £11.3 million will be the peak, as we anticipate seeing an increasing contribution from commercial programmes offsetting our operating costs.

We expect to continue to grow top line revenue and other operating income as we bring through more pipeline opportunities. Thanks to recently signed commercial agreements, today our customer and government grant order book is already over £2 million.

As we increase our number of customers, and they progress from evaluation to product development and then to commercial launch, we anticipate each progression will increase the revenue contribution, reducing our underlying cash burn year on year towards break even.

The successful fundraising approved by shareholders on 14 October 2016 for the placing of 228.6 million shares has contributed £19.4 million to the Group's cash and short-term investments, which at 30 June 2016 was £6.9 million. This stands us in good stead for the next few years, during which we plan to further our commercial opportunities.

People

Due to the quality of our OEM partners, it is important we attract and retain talented people to work with them. We have hired some key individuals this year, and continue to attract exceptional people. We have added to the commercial, engineering and programme delivery sides of the business to support our growing number of customer programmes.

I'd personally like to thank everyone at Ceres Power for their dedication and hard work over the past year, and I look forward to an exciting year ahead.

Outlook

This is an exciting stage in the Company's growth. We are targeting five global engineering companies as customers in joint development agreements by the end of 2017 and aiming to be in two launch programmes with OEM partners by the end of 2018. We have made good progress towards these objectives and I am looking forward to being able to announce further commercial progress in the year ahead.

Phil Caldwell
Chief Executive Officer
7 November 2016

CASE STUDY

MANUFACTURING SCALE-UP
BY JAMES FALLA, COO

Ceres Power has continued manufacturing scale-up preparations in the past year. Over a period of years our Horsham manufacturing site has developed, matured and documented SteelCell manufacturing processes for low volume production. Each of these critical operations are being scaled up to increase processing speed and demonstrate that Ceres Power's processes are consistent with low cost, high volume manufacturing.

In 2015 we invested in a high speed printing line, the first of its kind, that decreases ceramic on steel print cycle time from 30 seconds to just 3 seconds per cell – this enables up to 8 million cells p.a. to be processed on one machine.

In addition to a 10 fold improvement in cycle time this project incorporates other key principles that we apply to all of our scale-up projects.

- Our engineers develop and fully understand processes first at low volume before embarking on scale-up activities.
- We source industry standard machine platforms rather than designing bespoke equipment. This minimises capital costs at higher volumes.
- High volume equipment solutions must integrate automated Quality Control and material handling within the core cycle time.
- Ceres Power maintains a fully integrated online traceability system and new high volume equipment must link into this philosophy.

Finally, we were only able to make such a successful step change to print cycle time by having in-house ink chemistry process specialists and development capability. This enabled us to enhance our ink formulations to facilitate the new high speed machine concepts.

Although the SteelCell is inherently low cost, this is one of several scale-up projects that enables the important step change in cost reduction that fuel cells need to bring about widespread adoption.

[1] Equity free cash flow is the net change in cash and cash equivalents in the year (-£6.2 million) less cash generated from financing activities (£0.1 million) less the movement in short-term investments (£5.0 million).

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 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 Executive Directors are responsible for 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 public field trials could affect customer sentiment. The risk has reduced due to the progress of the internal and customer validations of the technology in the year.	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: obsolescence, emerging alternative technologies, the development of markets, changing regulations and trends against fossil fuels.	Our strategy addresses different geographical markets and we are broadening the applications available, mitigating failure in a single market or product. We monitor competitor activity and market developments continuously.	↓
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, 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, prevent 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 expand 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 growth management, short-term manufacturing or development issues or its supply chain. There is a risk that we cannot remain in our facilities in Horsham beyond the end of the current lease.	We plan for growth to meet demand and continually monitor our manufacturing processes and resources to deliver programmes and work with suppliers to ensure quality and timely delivery. As well as looking at alternative locations, we are working to extend the tenure in our current site.	→
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.	→
OPERATIONAL	7 Supplier dependence	There is a risk that our partners may be unable or unwilling to co-develop or supply key components.	We continue to work closely with our suppliers and partners.	→
FINANCIAL	8 Access to capital	It is possible the Group may need additional equity funding to fully commercialise its technology. The risk has fallen as the Company raised £20 million in a placing in October 2016.	The Group is targeting meeting its financing needs from a mix of customer revenue, grant funding, tax credits and equity funding, which may be sought from institutional, retail or strategic sources.	↓

Corporate social responsibility

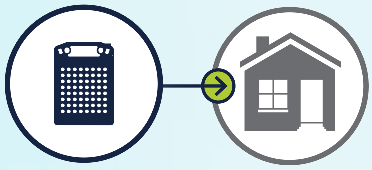
At the heart of Ceres Power is our desire to transform the way homes and businesses around the world produce their power. We are passionate about bringing low cost, low carbon power to the mass market and empowering people to take greater control of their energy. Our fuel cell technology can cut costs and emissions, boost efficiency and create a more reliable and secure source of power.

SAVING ENERGY

Combined Heat and Power (CHP) systems, which are more efficient than the grid, save 27% of a home's typical energy consumption.[1]

Deploying 5 million smart power units in the UK would equate to 14 major new gas power generation units and save an estimated £2.4 billion on the total energy system each year – the equivalent annual cost to power England's entire public sector.[2]

27%

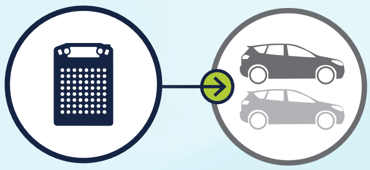


CUTTING CARBON

When tested, domestic fuel cell CHP units cut carbon by 30%, with savings from every two homes equal to taking one car off the road.[3]

Fuel cells in 5 million homes also save the same amount of CO_2 every year as ten carbon capture and storage plants.[4]

30%



CUTTING POLLUTION

Fuel cells reduce SOx and NOx emissions to near zero, significantly improving city air quality.[5]

99%

Stakeholders

PARTNERS AND SUPPLIERS

We work with some of the world's leading power systems companies, embedding our SteelCell technology in the next generation of clean energy products.

PEOPLE

At the heart of our business is a dedicated, innovative team committed to our vision of an affordable fuel cell for the mass market.

SOCIETY

Cleaner, cheaper, and more reliable energy is important for all communities around the world. Our SteelCell aims to empower people to take greater control of their energy. It also creates more local employment opportunities.

How we engage

Anti-bribery and corruption

We don't tolerate bribery and corruption, and are committed to acting with integrity in all our business dealings and relationships. We strive to always comply with the UK Bribery Act 2010, and have adopted our own Group-wide anti-bribery policy, which is regularly reviewed and updated.

Ethical standards

We aim to always act ethically, and ensure our business partners adopt the same stringent standards.

Employee diversity, development and retention

We aim to recruit the best talent and be an equal opportunities employer, keeping our staff free from workplace discrimination and harassment. We also invest in their training and development, to equip our business with the skills and expertise to succeed. We prioritise our staff's needs and ambitions, having invested well over the national average per person on work-related training in 2015/16.

Health and safety

We are committed to achieving and maintaining the highest health and safety standards. We work positively and proactively to create an open culture for the Health and Safety Executive, and to engage all employees to help maintain our excellent safety record. To support this, we invest in specialist roles and systems.

Ceres Power is a member of the British Safety Council. We also commission regular reviews of our health and safety arrangements, calling on independent external practice experts to keep us informed of industry developments and insights – so we can continue to improve.

Environmental awareness

We comply with all relevant environmental laws, and strive to implement best environmental practice and stewardship in everything we do. Conscious of our carbon footprint, we support cycling and car sharing, and promote recycling across the business.

Community awareness

It is important to us to be valued by the community. So we consult locally on the potential impact of our operations – and keep the community informed about the employment opportunities that we bring to their area.

Cutting costs

Our SteelCell is targeting making energy cleaner and cheaper, reducing household energy bills by up to 50% each year[3].

[1] FCH-JU Fuel Cell Commercialisation Study, Roland Berger, 2014.
[2] Mott McDonald. SIAM, 2004.
[3] Hydrogen London, Mayor of London, January 2014.
[4] Fuel Cells the Smart Power Revolution, Ecuity, August 2014.
[5] FCH-JU Fuel Cell Commercialisation Study, Roland Berger, 2014.

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 2016. As a Board of Directors we aim to establish a governance structure that provides effective control and oversight of the business. In the Corporate Governance Report on pages 24 to 26, we aim to give a clear explanation of how the Board leads the Group and discharges its governance responsibilities.

We are committed to high standards of corporate governance to enhance and protect shareholder value. This year we have improved our adoption of good corporate governance by, as far as we consider appropriate, complying with the requirements of the Corporate Governance Guidelines for Small and Mid-Size Quoted Companies of the Quoted Companies Alliance ("Guide"). This includes the addition of a Remuneration Report on pages 27 to 31. As the Company is listed on AIM, it is not required to adopt the provisions of the 2014 UK Corporate Governance Code (the "Code") and is subject to the UK City Code on Takeovers and Mergers.

The report below shows how the Company has applied the principles of the Code and also outlines the governance initiatives we have undertaken during the year.

Leadership and effectiveness

We have a strong and balanced team with a range of complementary skills and as such the Board has remained unchanged throughout the year. Details of members of the Board and what they contribute to the business are laid out on pages 32 to 33. We have conducted an external Board effectiveness review to consider the current balance of skills, experience, knowledge and independence to assess whether it is appropriate for the business, and I am pleased to report that I consider the Board to operate effectively.

We regard the membership of each Board Committee to be effective and with the skills required for each of their functions. Notwithstanding this we intend to internally evaluate each committee for effectiveness in the coming year. The membership, function and key activities of each committee is set out on page 26.

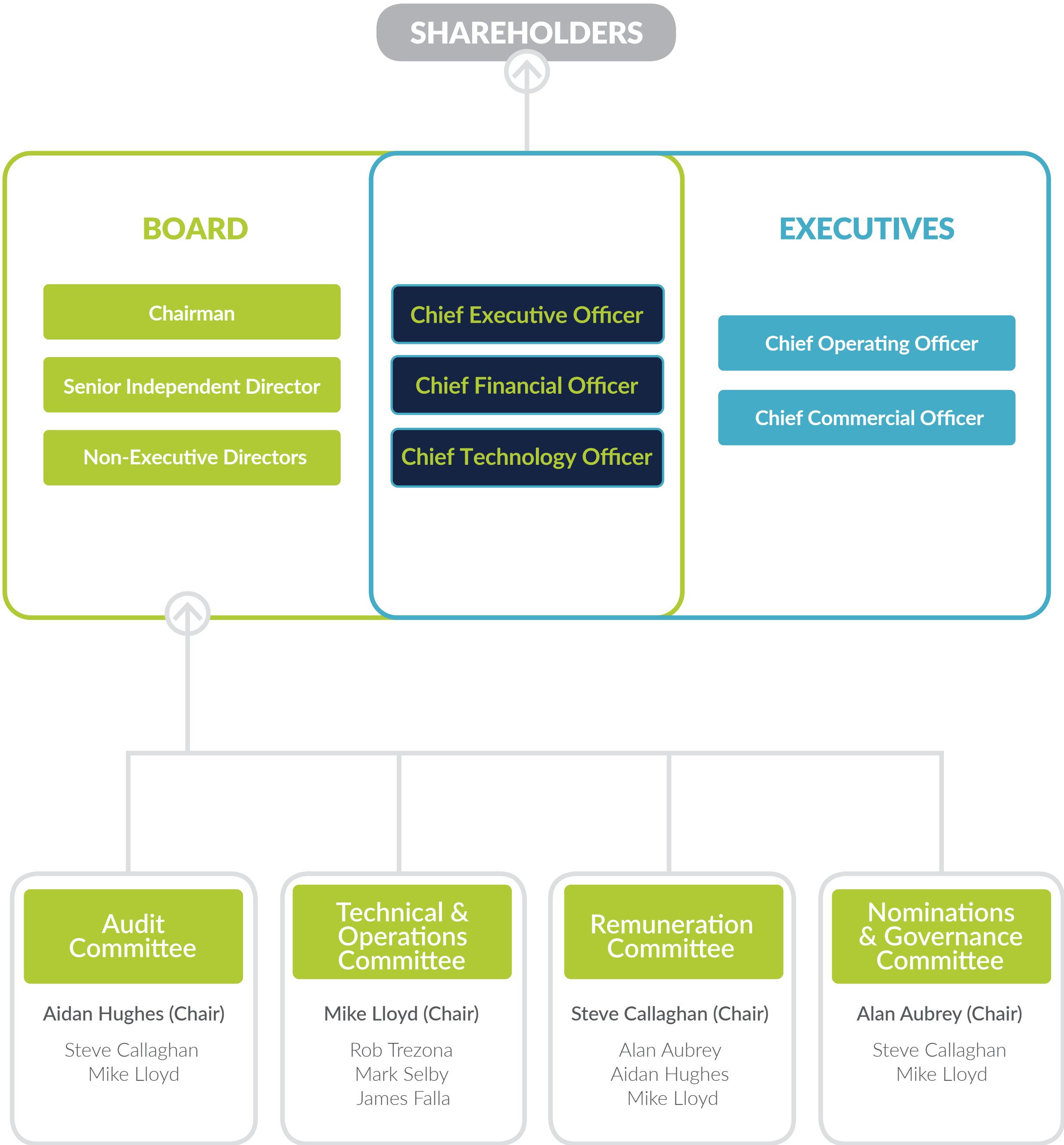
Shareholder communications

The Board recognises that good communication between the Company and its shareholders is essential. The Company maintains an active dialogue with institutional shareholders through regular briefing meetings by the Executive Directors, as well as the CEO and the other Executive Directors presenting at a number of investor conferences during the year. Feedback from investor meetings and the views of major shareholders are communicated to us through briefings by the Company's brokers and advisors. Press releases are issued throughout the year via the Regulatory News Service (RNS) and the Company maintains a website (www.cerespower.com) on which a wide range of information on the Company's activities including press releases, presentations, its Annual Report and the principles of corporate governance adopted by the Company are available to view.

The AGM will be held at Viking House, Foundry Lane, Horsham, RH13 5PX on 8 December 2016 at 11am, and I encourage shareholders to attend. It will provide investors with the opportunity to meet our Board members and ask questions about the Group's activities.

Alan Aubrey
Chairman

Governance framework



Read more about our Board of Directors on pages 32 to 33

Board of Directors

The Board comprises the Non-Executive Chairman, the Senior Independent Director, the Chief Executive Officer, Chief Financial Officer, the Chief Technology Officer and three Non-Executive Directors. The Board considers that the Senior Independent Director and the Non-Executive Directors are all independent in character and judgement and meet the criteria for independence set out in the Code. It is the opinion of the Board that the Chairman, Alan Aubrey, who is also CEO of IP Group plc, a major shareholder, is not considered to be independent, although it considers Dr Rob Trezona, one of the Non-Executive Directors, to be independent even though he also represents IP Group plc.

The Non-Executive Directors are regarded by the Board to be independent of management and are free to exercise independence of judgement. They 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 30. They receive no other remuneration from the Company other than the Directors' fees and reimbursement of expenses.

The Board of Directors meets regularly throughout the year with ad hoc meetings also held when necessary.

The Board's role is to provide leadership to the Company and set strategic aims within a framework of effective controls to enable risk to be managed. The Board maintains a formal schedule of matters specifically reserved for its decision, which is updated regularly. This includes ensuring the resources are in place to meet shareholder obligations and it also includes the approval of raising of new equity, acquisitions and disposals, major expenditure and annual financial budgets. On the recommendation of the Audit Committee it approves the appointments of auditors and their remuneration and the treasury policy, and it agrees the Executive Directors' remuneration framework and new share-based incentive plans on the recommendation of the Remuneration Committee.

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.

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

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

During the year the Board has:

- improved its corporate governance to be more aligned with the QCA guide
- put in place the structure for a long-term incentive plan to further align Directors, and key employees, incentives with long-term shareholder value with the guidance of the Remuneration Committee

Since the year end the Board:

- has reviewed and changed the process by which the Company manages risks to better align it with the changing business
- has undertaken a Board Effectiveness Review
- is introducing greater focus on the review of customer and internal programmes, including ongoing achievement against delivery and financial milestones

Board attendance

The table below shows the attendance of each Director at the Board meetings and committee meetings throughout the year.

The Nomination and Governance Committee did not meet in the year.

	Board	Technical & Operations Committee	Audit Committee	Remuneration Committee
Meetings held in the year	**11**	**11**	**3**	**5**
Executive Directors				
Phil Caldwell	11	n/a	3	n/a
Richard Preston	11	n/a	3	n/a
Mark Selby	10	11	n/a	n/a
James Falla	11	11	n/a	n/a
Non-Executive Directors				
Alan Aubrey	11	n/a	n/a	4
Steve Callaghan	9	n/a	3	4
Mike Lloyd	9	10	3	4
Rob Trezona	9	10	n/a	n/a
Aidan Hughes	11	n/a	3	5

Conflict of interest

The Group has in place procedures for the disclosure and review of any conflicts or potential conflicts of interest that the Directors may have and for the authorisation of such conflicts by the Board. During the year there were no such conflicts of interest.

Internal controls

The Directors acknowledge their responsibility for establishing and maintaining the Group's systems of internal control. 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 working capital cash flow projections monthly, and the Board compares, reviews and manages these to Board-approved detailed budgets and cash flow projections. The Board reviews, identifies, evaluates and manages the significant risks that face the Group. 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.

Board committees

The Directors have established an Audit Committee, a Remuneration Committee, a Technical and Operations Committee and a Nominations Committee with formally delegated rules and responsibilities. Each of these committees meets on a regular basis as appropriate.

The terms of reference of the Board committees are available on the Company's website.

Audit Committee

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

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

The Audit Committee has established terms of reference and its main responsibilities are:

- to monitor and be satisfied with the integrity of the financial statements and other formal announcements relating to the Group's financial performance, ensuring their compliance with applicable accounting standards, regulations and rules;
- to monitor and review the effectiveness of the Group's internal control and risk management policies and systems (noting the Technical and Operations Committee's responsibility relating to technical and operational risks, below);
- to consider the going concern status of the Group;
- to review and 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 consider the Group's whistle-blowing procedures to ensure that employees are able to raise concerns, in confidence, about possible wrong doing in financial reporting and other matters.

The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties, and obtain any outside legal or other independent professional advice it requires at the Company's expense.

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.

The Committee assists the Board to access and understand information regarding delivery of the technical programmes and advises the Board on issues and risks relating to the execution of the Group's technology and operational programmes.

Remuneration Committee

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

The Committee governs all aspects of the Executive Directors' and Chairman's remuneration and reward arrangements and advises on Group employee benefit structure. More details of the remuneration policy are included in the Remuneration Committee Report on page 27.

It is recognised that it is not considered best practice for the Chairman to sit on the Remuneration Committee. The Board, however, takes the view that his participation should continue as the Committee gains the benefit of his external expertise and experience in areas in which the Company considers important.

Nomination and Governance Committee

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

The Committee considers the composition of the Board and is responsible for reviewing the composition and structure of the Board and for identifying and recommending candidates for Executive and Non-Executive Director positions and membership of the Audit, Remuneration and Technical and Operations committees.

It should be noted that the Chairman, whilst the Chair of the Nominations Committee, does not chair the Nominations Committee in any dealings regarding the appointment of his successor.

Remuneration committee report

The Remuneration Committee determines the remuneration of the Executive Directors in accordance with the remuneration policy set by the Board on its recommendation. The Committee consists solely of Non-Executive Directors of the Company (as shown on page 23) and it establishes the detailed terms of service of the Executive Directors including salary, incentives, benefits and the terms on which their service may be terminated.

During the year the Committee has used independent remuneration consultants Mercer for specific advice, where deemed necessary.

Remuneration policy

The Committee's policy is to provide a suitable remuneration package to attract, motivate and retain high quality Executive Directors to ensure the Group is managed successfully for the benefit of shareholders. This includes providing and ensuring long-term incentive schemes are aligned with shareholders' interests.

The policy is to pay base salary with a performance-related bonus each year. In order to further align overall remuneration of the Executive team with shareholder value, in March 2016 the Remuneration Committee introduced a Long Term Incentive Plan ("LTIP") that is being rolled out to certain members of the Executive team – this is in addition to share options which have been previously granted and already align to share price performance.

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 2016/17 have been set at £199,500 for the CEO, £133,100 for the CFO and £127,250 for the CTO, being inflationary increases of 1.8% from £196,000, £130,750 and £125,000 respectively.

Performance related bonus

The Company operates an annual performance related bonus scheme for Executive Directors and members of the Executive team. The bonus scheme is discretionary upon achievement against both corporate and individual performance targets. 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 80% of the maximum award for the CEO, 51% for the CFO and 53% for the CTO (2015: the CEO and CFO were not awarded bonuses and the CTO received a bonus of £15,000).

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)

During the year the Remuneration Committee set up an LTIP and during the year and after the year end has 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 is 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 and clawback conditions apply.

Share options

All members of the Executive team and the majority of employees have been awarded share options at market price. These options generally have vesting periods 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. These fees are set in line with prevailing market conditions at a level to attract individuals with the right experience and ability. The fees of the Chairman are determined by the Board on the recommendation of the Remuneration Committee. The Chairman and the Non-Executive Directors are not involved in any decision about their own remuneration.

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

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

Remuneration committee report continued

Total remuneration (audited)

The remuneration of each of the Directors for the year ended 30 June 2016 is set out in the table below.

	Salary/fee £	Pension[1] £	Bonus £	**Total 2015/16 £**	Total 2014/15 £
Executive					
Phil Caldwell	196,000	15,680	78,000	**289,680**	230,000
Richard Preston	130,750	10,460	20,000	**161,210**	143,603
Mark Selby[2]	125,000	10,000	20,000	**155,000**	98,050
Non-Executive					
Alan Aubrey	35,000	–	–	**35,000**	34,333
Steve Callaghan	30,000	–	–	**30,000**	29,725
Aidan Hughes[3]	30,000	–	–	**30,000**	11,731
Mike Lloyd	30,000	–	–	**30,000**	29,500
Robert Trezona	30,000	–	–	**30,000**	29,500

[1] Pension contribution is based on 8% of gross salary and employer's National Insurance saved on employee pension contributions.

[2] Mark Selby was appointed to the Board on 30 October 2014.

[3] Aidan Hughes was appointed to the Board of Directors on 9 February 2015.

Details of Directors' interests in share options (audited)

	At 1 July 2015 number	Granted number	Exercised	Lapsed/ Surrendered number	**At 30 June 2016 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[4]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2016 – November 2023
Options[4]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2017 – November 2023
Options[4]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2018 – November 2023
Options[4]	2,000,000	–	–	–	**2,000,000**	£0.085	November 2019 – November 2023
Sharesave options (approved)	143,312	–	–	–	**143,312**	£0.060	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
	16,143,312	208,333	–	–	**16,351,645**		

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

	At 1 July 2015 number	Granted number	Exercised	Lapsed/ Surrendered number	**At 30 June 2016 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 – September 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2017 – September 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2018 – September 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	April 2019 – September 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2017 – August 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2018 – August 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2019 – August 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 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
	4,765,441	208,333	–	–	**4,973,774**		
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
	3,625,441	208,333	–	–	**3,833,774**		

Remuneration committee report continued

	At 1 July 2015 number	Granted number	Exercised	Lapsed/ Surrendered number	**At 30 June 2016 number**	Exercise price	Exercise period
Steve 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.

After the year end the Executive Directors were awarded the following LTIP nominal value share options: Phil Caldwell – 6,507,000, Richard Preston – 1,302,000 and Mark Selby – 1,245,000.

In addition, during the 2016 and 2014 year ends, 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 some unexercised 2004 Employees' share scheme options providing the relevant employees with additional exercise rights. The modification did not change the vesting period or exercise price. The total fair value charge of the options remains unchanged and the gross benefit received cannot exceed the gain realisable under the original share options and it cannot be received at an earlier time. 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.

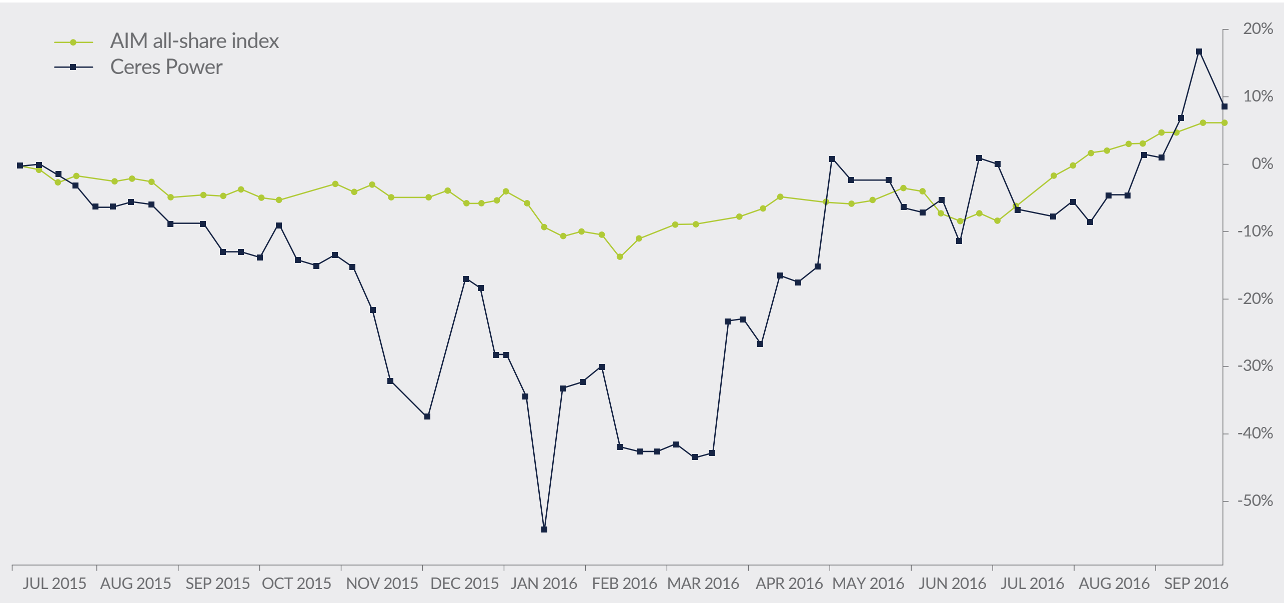
Directors' interests in shares

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

Steve Callaghan: 4,062,792 shares; Mike Lloyd: 1,068,802 shares; Phil Caldwell: 117,646 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.

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 2016. 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 7 November 2016 and was signed on its behalf by:

Steve Callaghan
Remuneration Chairman

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 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 plc, where he manages one of Europe's largest cleantech venture portfolios. Previously, he was Head of Research and Development at the Carbon Trust, where he led the Research Accelerator venture initiative. He has also worked as a strategy consultant for McKinsey and Company, focusing on energy and materials. He began his career as a fuel cell scientist, initially at Johnson Matthey, then at Ceres Power, where he led the original materials and process teams. 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

Directors' report

for the year ended 30 June 2016

The Directors present their report and the audited financial statements for the year ended 30 June 2016.

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, are set out in detail in the Chairman's Statement and the Chief Executive's Statement on pages 8 and 14 to 17.

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 37.

The Directors do not recommend the payment of a dividend (2015: £nil).

Research and development

During the year, the Group incurred expenditure of £10,588,000 (2015: £9,146,000) 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 donations during the year (2015: £nil). Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2015: £nil).

Post balance sheet events

On 14 October 2016 the Company completed a placing which raised £19.4 million net of expenses through the issue of 228,603,083 Ordinary £0.01 shares.

Principal risks and uncertainties

In addition to financial risk management which is detailed in note 14 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 1,006,730,924 ordinary shares of £0.01 each of the Company on 31 October 2016:

Investor	Number of £0.01 ordinary shares	Percentage
IP Group plc	257,538,294	25.6%
Richard Griffiths	181,003,117	18.0%
Henderson Global Investors	123,353,120	12.3%
Lansdowne Partners	98,941,264	9.8%

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 37 days (2015: 34 days). Trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 20 days (2015: 19 days).

Corporate governance

The Directors recognise the importance of good corporate governance. The principles of how the UK Corporate Governance Code 2012 has 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

After having made appropriate enquiries and in light of the placing which raised £19.4 million net of expenses in October 2016, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy for the foreseeable future. Accordingly, the Directors 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
7 November 2016

Independent auditor's report

to the members of Ceres Power Holdings plc

We have audited the financial statements of Ceres Power Holdings plc for the year ended 30 June 2016 set out on pages 37 to 65. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

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 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept 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.

James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road
Crawley, West Sussex
RH11 9PT
7 November 2016

Consolidated statement of profit and loss and other comprehensive income

for the year ended 30 June 2016

	Note	2016 £'000	2015 £'000
Revenue	2	**1,113**	324
Cost of sales		**(336)**	(191)
Gross profit		**777**	133
Other operating income	3	**555**	621
Operating costs	3	**(14,026)**	(12,476)
Operating loss		**(12,694)**	(11,722)
Finance income	4	**77**	110
Loss before taxation	3	**(12,617)**	(11,612)
Taxation credit	7	**2,157**	1,571
Loss for the financial year and total comprehensive loss		**(10,460)**	(10,041)
Loss per £0.01 ordinary share expressed in pence per share:			
– basic and diluted	8	**(1.35)p**	(1.33)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 41 to 59 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 30 June 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**2,309**	2,080
Total non-current assets		**2,309**	2,080
Current assets			
Trade and other receivables	11	**1,109**	982
Derivative financial instruments	14	**28**	–
Current tax receivable		**1,997**	1,519
Short-term investments	12	**1,000**	6,000
Cash and cash equivalents	12	**5,947**	12,184
Total current assets		**10,081**	20,685
Liabilities			
Current liabilities			
Trade and other payables	13	**(2,121)**	(1,708)
Derivative financial instruments	14	**(7)**	–
Provisions for other liabilities and charges	15	**(78)**	(305)
Total current liabilities		**(2,206)**	(2,013)
Net current assets		**7,875**	18,672
Non-current liabilities			
Accruals and deferred income	13	**(31)**	(1,121)
Provisions for other liabilities and charges	15	**(866)**	(950)
Total non-current liabilities		**(897)**	(2,071)
Net assets		**9,287**	18,681
Equity attributable to the owners of the Parent			
Share capital	16	**7,779**	7,725
Share premium account		**90,120**	90,120
Capital redemption reserve		**3,449**	3,449
Other reserve		**7,463**	7,463
Accumulated losses		**(99,524)**	(90,076)
Total equity		**9,287**	18,681

The notes on pages 41 to 59 are an integral part of these consolidated financial statements.

The financial statements on pages 37 to 59 were approved by the Board of Directors on 7 November 2016 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 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash used in operations	18	**(11,773)**	(9,182)
Taxation received		**1,679**	1,218
Net cash used in operating activities		**(10,094)**	(7,964)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,302)**	(1,243)
Movement in short-term investments		**5,000**	(6,000)
Finance income received		**77**	110
Net cash generated from/(used in) investing activities		**3,775**	(7,133)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**54**	20,035
Net expenses from issuance of ordinary shares		**–**	(466)
Net cash generated from financing activities		**54**	19,569
Net (decrease)/increase in cash and cash equivalents		**(6,265)**	4,472
Exchange gains on cash and cash equivalents		**28**	13
		(6,237)	4,485
Cash and cash equivalents at beginning of year		**12,184**	7,699
Cash and cash equivalents at end of year	12	**5,947**	12,184

The notes on pages 41 to 59 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2016

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Accumulated losses £'000	Total £'000
At 1 July 2014		5,369	72,907	3,449	7,463	(81,115)	8,073
Comprehensive income							
Loss for the financial year		–	–	–	–	(10,041)	(10,041)
Total comprehensive loss		–	–	–	–	(10,041)	(10,041)
Transactions with owners							
Issue of shares, net of costs	16	2,356	17,213	–	–	–	19,569
Share-based payments charge	17	–	–	–	–	1,080	1,080
Total transactions with owners		2,356	17,213	–	–	1,080	20,649
At 30 June 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	16	54	–	–	–	–	54
Share-based payments charge	17	–	–	–	–	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**

The notes on pages 41 to 59 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2016

1. Summary of significant accounting policies

The Company is incorporated and domiciled in the United Kingdom and is registered on the London Stock Exchange 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 60 to 65.

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.

The financial statements of Ceres Power Ltd have been consolidated under merger accounting rules. The financial statements of Ceres Intellectual Property Company Ltd and Ceres Power Intermediate Holdings Ltd have been consolidated under acquisition accounting rules.

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

Going concern

After having made appropriate enquiries and in light of the placing which raised £19.4 million net of expenses in October 2016, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy for the foreseeable future. Accordingly, the Directors 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: providing for onerous leases and dilapidations; choosing the appropriate method with which to recognise grant income and evaluation and development related revenue (revenue is recognised over the evaluation and development phase of each contract based on the costs incurred ('percentage of completion'); and recognising R&D tax credits.

When arriving at these estimates and underlying assumptions the Directors considered factors such as advice from professional advisors and past experience of liaising with tax authorities.

The financial impact of changes to these assumptions is as follows: if the onerous leases were partially sublet, or the revenue contracts were 10% less complete, or if 10% less tax credit was received, then the impact would be immaterial.

1. Summary of significant accounting policies continued

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 14).

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 five 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' represent 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 three months, 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 original maturity greater than three months and less than or equal to twelve months.

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.

1. Summary of significant accounting policies continued

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 functional and 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.

Revenue recognition

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 and development contracts which are recognised as revenue when earned, as calculated on a percentage of completion basis, based on costs incurred to date versus total estimated costs over the period that the related work is performed. The revenue recognition is subject to certainty of receipt of cash, or when any specific conditions in agreements have been met. If a loss is expected in respect of a contract, the entire loss is recognised immediately in the income statement. All direct costs relating to these evaluation and development contracts are recorded as cost of sales.

Government grants

Grants are recognised on a case-by-case basis. Revenue grants are recognised in the 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 fully disclosed in note 9 to the financial statements) 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.

1. Summary of significant accounting policies continued

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.

Non-recurring operating costs

Costs are recognised as non-recurring when they relate to a major restructuring of the Group's activities. These typically include employee termination payments, provisions for onerous leases and disposals of property, plant and equipment.

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.

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 14.

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 balance sheet 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. 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 15.

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 to be confirmed);
- IFRS 15 Revenue from Contract with Customers (effective date to be confirmed). The adoption of this standard may impact on the timing of revenue being recognised in future periods;
- IFRS 16 Leases. The adoption of this standard will impact the recognition of lease contracts enacted in future periods;

1. Summary of significant accounting policies continued

Adopted IFRS not yet applied continued

- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed); and
- Disclosure Initiative – Amendments to IAS 1 (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 Executive Officer, the Chief Financial Officer, the Chief Technology Officer, the Chief Commercial Officer and the Chief Operating Officer assess 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 £1,113,000, £586,000 was derived from Europe and £527,000 from Asia (2015: Group revenue was £324,000, of which £59,000 was derived from Europe and £265,000 was from Asia). All of the Group's non-current assets are located in the United Kingdom. During the year deferred revenue of £586,000 (2015: £nil) was released in respect of contracted work completed for British Gas.

3. Loss before taxation

	2016 £'000	2015 £'000
Operating costs are split as follows:		
Research and development costs	**10,588**	9,146
Administrative expenses	**3,714**	3,330
	14,302	12,476
Reversal of provision relating to onerous lease and property dilapidations (note 15)	**(276)**	–
	14,026	12,476
Loss before taxation is stated after charging/(crediting):		
Staff costs, including share-based payments (note 5)	**6,974**	6,392
Depreciation on property, plant and equipment (net of amortised grant contributions)	**1,178**	926
Operating lease rentals payable – property, plant and machinery	**336**	312
Other operating income – grant income	**(555)**	(621)
Repairs expenditure on property, plant and equipment	**248**	175
Net foreign exchange gains	**(49)**	(13)
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	**26**	26
– other services relating to taxation	**18**	9
– other services	**22**	2
	76	47

4. Finance income

	2016 £'000	2015 £'000
Interest receivable on cash and short-term investments	**77**	110

5. Employees and Directors

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

	2016 Number	2015 Number
By activity:		
Servicing customers	**5**	4
Research and development	**91**	79
Administration	**14**	13
	110	96

	2016 £'000	2015 £'000
Staff costs (for the above persons) comprised:		
Wages and salaries, including compensation for loss of office	**5,060**	4,513
Social security costs	**554**	498
Other pension costs (note 6)	**348**	301
Share-based payments (note 17)	**1,012**	1,080
	6,974	6,392

	2016 £'000	2015 £'000
Directors' emoluments:		
Aggregate emoluments	**725**	576
Company contributions to defined contribution pension schemes	**36**	31
	761	607

	2016 £'000	2015 £'000
Highest paid Director:		
Aggregate emoluments	**274**	215
Company contributions to defined contribution pension schemes	**16**	15
	290	230

Three Directors (2015: 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:

	2016 £'000	2015 £'000
Salaries and other short-term employment benefits	**868**	527
Post-employment benefits	**55**	37
Share-based payments	**339**	237
	1,262	801

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 £348,000 (2015: £301,000). A total of £nil (2015: £45,000) was payable to the funds at the year end.

7. Taxation

	2016 £'000	2015 £'000
UK corporation tax – R&D tax credit	**(1,997)**	(1,519)
Adjustment in respect of prior periods – R&D tax credit	**(162)**	(52)
Withholding tax charge	**2**	–
Taxation credit	**(2,157)**	(1,571)

No corporation tax liability has arisen during the year (2015: £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 20% (2015: 20%). The differences are explained below:

	2016 £'000	2015 £'000
Loss before taxation	**12,617**	11,612
Loss before taxation multiplied by the UK tax rate of 20% (2015: 20%)	**(2,523)**	(2,322)
Effects of:		
Losses carried forward	**748**	894
Enhanced tax deductions for R&D expenditure	**(1,476)**	(1,377)
Expenses not deductible for tax purposes	**190**	205
Accelerated capital allowances and other timing differences	**251**	201
Adjustment in respect of prior periods – R&D tax credit	**(162)**	(52)
Difference between R&D tax credit and small company tax rates	**870**	880
Withholding tax	**2**	–
Share option relief	**(57)**	–
Total taxation credit	**(2,157)**	(1,571)

8. Loss per share

Basic and diluted loss per £0.01 ordinary share of 1.35p for the financial year ended 30 June 2016 (2015: 1.33p) 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 2016 or in the previous year.

The loss for the financial year ended 30 June 2016 was £10,460,000 (2015: £10,041,000) and the weighted average number of £0.01 ordinary shares in issue during the year ended 30 June 2016 was 773,999,046 (2015: 753,164,756).

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 2014	**1,670**	**6,888**	**1,082**	**138**	**145**	**9,923**
Additions	51	1,298	–	–	–	1,349
Disposals	–	(1,756)	(355)	(69)	–	(2,180)
Transfers	–	145	–	–	(145)	–
At 30 June 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**
Accumulated depreciation						
At 1 July 2014	**835**	**6,304**	**989**	**138**	**–**	**8,266**
Charge for the year	335	570	67	–	–	972
Amortisation of grant contributions	(15)	(31)	–	–	–	(46)
Disposals	–	(1,756)	(355)	(69)	–	(2,180)
At 30 June 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**
Net book value						
At 30 June 2016	**282**	**1,846**	**76**	**–**	**105**	**2,309**
At 30 June 2015	566	1,488	26	–	–	2,080
At 30 June 2014	835	584	93	–	145	1,657

10. Subsidiary undertakings

Details of the Company's subsidiaries at 30 June 2016 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	£0.01 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%

The principal activity of Ceres Power Ltd is the development and commercialisation 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.

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

11. Trade and other receivables

	2016 £'000	2015 £'000
Current:		
Trade receivables	**53**	80
Other receivables	**444**	583
Prepayments	**365**	262
Accrued income	**247**	57
	1,109	982

There is no material difference between the fair value of trade and other receivables and their carrying values and they are not overdue at 30 June 2016. There have been no provisions for impairment of receivables during the year (2015: £nil). The carrying amounts of the Group's trade and other receivables are all denominated in pounds sterling.

12. Cash and cash equivalents and short-term investments

	2016 £'000	2015 £'000
Cash at bank and in hand	**805**	1,135
Money market funds	**5,142**	11,049
Cash and cash equivalents	**5,947**	12,184
Short-term bank deposits greater than three months	**1,000**	6,000
	6,947	18,184

The Group holds surplus funds in accordance with the treasury policy, as set out in note 14.

	Interest rate type	2016 £'000	2015 £'000
Interest rate risk profile of the Group's financial assets:			
Cash at bank and in hand	Floating	**805**	1,135
Money market funds	Floating	**5,142**	11,049
Short-term bank deposits greater than three months	Fixed	**1,000**	6,000
		6,947	18,184

The fixed rate short-term bank deposit in pounds sterling has terms of 32 days and earns interest of 0.70% (2015: between 0.52% and 0.96%). 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.

13. Trade and other payables

	2016 £'000	2015 £'000
Current:		
Trade payables	**721**	526
Taxation and social security	**175**	161
Other payables	**17**	74
Accruals	**700**	943
Deferred income	**508**	4
	2,121	1,708
Non-current:		
Accruals	**31**	96
Deferred income	**–**	1,025
	31	1,121

The non-current deferred income balance in the prior year of £1,025,000 is in respect of a long-term customer development contract. During the 2016 year £586,000 was recognised as income in the Consolidated Statement of Profit and Loss and Other Comprehensive Income in respect of development milestones completed. The remaining balance of deferred income has been classified as current as it is expected to be recognised as income in the coming year as the development milestones are completed.

14. Financial instruments

The Group only uses derivative financial instruments to hedge foreign currency exposures arising 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 2016 (2015: £nil).

14. Financial instruments continued

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 2016 £000	Fair value 2016 £000	Level 2 2016 £000	Carrying amount 2015 £000	Fair value 2015 £000	Level 2 2015 £000
Financial assets designated as fair value through profit or loss						
Forward exchange contracts	28	28	28	–	–	–
Financial liabilities designated as fair value through profit or loss						
Forward exchange contracts	(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 one customer (2015: three), of which £53,000 (2015: £80,000) relates to the Asian 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.

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 £0.1 million in the year ended 30 June 2016 (2015: £0.2 million).

14. Financial instruments continued

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 2016				30 June 2015				
	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	2 to 5 years £000
Non-derivative financial liabilities									
Trade and other payables and accruals	**(1,644)**	**(1,644)**	**(1,613)**	**(31)**	(1,800)	(1,800)	(1,704)	(76)	(20)
Derivative financial liabilities									
Forward exchange contracts:									
(Outflow)	**(7)**	**(618)**	**(618)**	**–**	–	–	–	–	–
Inflow	**–**	**602**	**602**	**–**	–	–	–	–	–

Foreign currency exposures

Most of the Group's transactions are carried out in 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 unchanged in the reporting periods under review.

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 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)**

14. Financial instruments continued

30 June 2015	US dollar £'000	Euro £'000	Japanese yen £'000	Canadian dollar £'000	Other £'000
Exposures to foreign currency risk:					
Cash and cash equivalents	356	122	85	–	30
Trade payables	(29)	(37)	–	–	(23)
Balance sheet exposure	327	85	85	–	7
Net contracted income and expenditure	(280)	(122)	(48)	–	(28)
Net exposure	47	(37)	37	–	(21)

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)	
	2016 £'000	2015 £'000
US dollar	**(34)**	(30)
Euro	**(19)**	(8)
Japanese yen	**21**	(8)
Canadian dollar	**(22)**	–
Other	**1**	(1)

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

The functional currency of the Company is pounds sterling.

15. Provisions for other liabilities and charges

Property dilapidation and onerous lease provisions charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income are set out below:

Provisions for the year ended 30 June 2016

	Property dilapidations £'000	Onerous leases £'000	Total £'000
At 1 July 2015	756	499	1,255
Movements in the Consolidated Statement of Profit and Loss and Other Comprehensive Income:			
Increase in provision	81	–	81
Provision utilised	(2)	(114)	(116)
Reversal of provision no longer required	(26)	(250)	(276)
At 30 June 2016	**809**	**135**	**944**
Current	–	78	78
Non-current	809	57	866
At 30 June 2016	**809**	**135**	**944**

The dilapidation provision recognised matches the present value of costs to be incurred, which is materially the same as the expected costs to be incurred, in making good the various leasehold properties at the end of their respective leases, details of which are in note 19. The onerous lease provision recognised provides for the full cost of the remaining life of the leases on properties that the Company expects to have no further use of.

15. Provisions for other liabilities and charges continued

Deferred taxation

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

	2016 £'000	2015 £'000
Tax effect of temporary differences because of:		
Difference between capital allowances and depreciation	**(1,954)**	(1,727)
Deductions relating to share options	**(343)**	(362)
Losses carried forward	**(10,976)**	(10,204)
	(13,273)	(12,293)

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.

16. Share capital

	2016		2015	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
At 1 July	**772,537,841**	**7,725**	536,831,973	5,369
Allotted under share option schemes	**5,320,000**	**54**	–	–
Allotted on cash placing	**–**	**–**	235,705,868	2,356
Ordinary shares of £0.01 each at 30 June	**777,857,841**	**7,779**	772,537,841	7,725

During the year, 5,320,000 ordinary £0.01 shares were issued for cash consideration of £54,000 (2015: £nil) on the exercise of employee share options (see note 17). During the prior year, 235,705,868 ordinary £0.01 shares were issued for cash consideration of £20,035,000.

17. Share options

The total charge recognised in the year ended 30 June 2016 relating to employee share-based payments was £1,012,000 (2015: £1,080,000).

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.

	2016 £'000	2015 £'000
a) 2004 Employees' share option scheme	**922**	1,027
b) 2014 Sharesave scheme	**39**	39
b) 2015 Sharesave scheme	**24**	14
b) 2016 Sharesave scheme	**14**	–
c) Long Term Incentive Plan (LTIP)	**13**	–
d) Executive Directors' one-off award	**–**	–
	1,012	1,080

a) Ceres Power Holdings Ltd 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.

17. Share options continued

Under this scheme, Directors and employees hold options to subscribe for £0.01 ordinary shares in Ceres Power Holdings plc at prices ranging from £0.01 to the closing mid-market price on the day preceding the most recent share option grant. All options are equity settled. The vesting period for all options is generally between three and six years. If the options remain unexercised after a period of 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:

	2016		2015	
	Number ('000)	**Weighted average exercise price**	Number ('000)	Weighted average exercise price
Outstanding at 1 July	**78,289**	**£0.09**	62,887	£0.09
Granted	**5,635**	**£0.08**	19,950	£0.09
Exercised	**(5,320)**	**£0.01**	–	–
Lapsed	**(2,170)**	**£0.83**	(4,548)	£0.15
Outstanding at 30 June	**76,434**	**£0.07**	78,289	£0.09
Exercisable	**22,484**	**£0.07**	3,119	£0.88

The weighted average share price on the exercise date of options was £0.06.

The weighted average fair value of options granted in the year was £0.04 (2015: £0.05).

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

	2016		2015	
Expiry date – 30 June	**Weighted average exercise price**	**Number ('000)**	Weighted average exercise price	Number ('000)
2016	**–**	**–**	£2.35	750
2017	**£2.22**	**365**	£2.22	365
2018	**–**	**–**	–	–
2019	**£0.68**	**4**	£0.68	4
2023	**£0.03**	**30,850**	£0.02	36,035
2024	**£0.08**	**21,625**	£0.08	21,785
2025	**£0.09**	**19,350**	£0.09	19,350
2026	**£0.08**	**4,240**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 7.35 years (2015: 8.13 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 modification has not changed the vesting period or exercise price. The total fair value charge of the options remains unchanged and the gross benefit received cannot exceed the gain realisable under the original share options and it cannot be received at an earlier time.

b) Ceres Power Holdings Sharesave scheme

During the year, a sixth 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.

17. Share options continued

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

	2016		2015	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	4,239	£0.06	3,131	£0.06
Granted	6,157	£0.04	2,222	£0.05
Lapsed/cancelled	(313)	£0.06	(1,114)	£0.07
Outstanding at 30 June	10,083	£0.05	4,239	£0.06
Exercisable	–	–	–	–

The weighted average fair value of options granted in the year was £0.03 (2015: £0.05).

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

	2016		2015	
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	£0.06	2,017
2019	£0.05	2,023	£0.05	2,222
2020	£0.04	6,157		

The options outstanding at the end of the year have a weighted average contractual life of 2.66 years (2015: 2.61 years).

c) LTIP

During the 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 2 years for Executives. Malus and clawback conditions apply.

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

	2016		2015	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	–	–	–	–
Granted	4,629	£0.01	–	–
Outstanding at 30 June	4,629	£0.01	–	–
Exercisable	–	–	–	–

The weighted average fair value of options granted in the year was £0.03 (2015: £nil).

17. Share options continued

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

	2016		2015	
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**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 9.67 years (2015: nil).

d) Executive Directors' one-off award

All 'one-off' options remain outstanding and unexercisable at 30 June 2016. No options were granted or exercised in the current or previous year. 94,000 options lapsed with a weighted average price of £2.00 in the current year (2015: nil).

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

	2016		2015	
Expiry date – 30 June	**Weighted average exercise price**	**Number ('000)**	Weighted average exercise price	Number ('000)
2018	**£2.00**	**1,594**	£2.00	1,688
2019	**£2.00**	**213**	£2.00	213

The options outstanding at the end of the year have a weighted average contractual life of 2.57 years (2015: 3.57 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:

	2004 Scheme 2016	**Sharesave scheme 2016**	2004 Scheme 2015	Sharesave scheme 2015
Grant date	**August 2015 – 2 March 2016**	**22 March 2016**	23 July 2014 – 2 June 2015	19 Dec 14
Share price at date of grant (£)	**0.055 – 0.090**	**0.054**	0.069 – 0.104	0.073
Exercise price (£)	**0.055 – 0.090**	**0.043**	0.069 – 0.102	0.054
Expected volatility (%)	**55%**	**59%**	56%	56%
Expected option life (years)	**Up to 6 years**	**3.5 years**	Up to 6 years	3.5 years
Average risk-free interest rate (%)	**1.00%**	**1.00%**	1.40%	1.0%
Expected dividend yield	**Nil**	**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:

	LTIP 2016
Grant date	**1 March 2016**
Share price at date of grant (£)	**0.055**
Exercise price (£)	**0.010**
Expected volatility (%)	**55%**
Expected option life (years)	**Up to 7 years**
Average risk-free interest rate (%)	**1.00%**
Expected dividend yield	**0%**

18. Cash used in operations

	2016 £'000	2015 £'000
Loss before taxation	**(12,617)**	(11,612)
Adjustments for:		
Other finance income	**(77)**	(110)
Depreciation of property, plant and equipment (net of amortised grant contributions)	**1,178**	926
Net foreign exchange gains	**(49)**	(13)
Share-based payments	**1,012**	1,080
Operating cash flows before movements in working capital	**(10,553)**	(9,729)
(Increase)/decrease in trade and other receivables	**(134)**	308
(Decrease)/increase in trade and other payables	**(775)**	150
(Decrease)/increase in provisions	**(311)**	89
(Increase)/decrease in working capital	**(1,220)**	547
Cash used in operations	**(11,773)**	(9,182)

19. 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:

	2016 Land and buildings £'000	2016 Other £'000	2015 Land and buildings £'000	2015 Other £'000
No later than one year	**365**	**6**	478	11
Later than one year and no later than five years	**207**	**10**	682	2
	572	**16**	1,160	13

At the year end the property leases have an average minimum term of 1.6 years (2015: 2.3 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The office equipment leases have an average term of 2.7 years (2015: 0.5 years).

The Group is working with the landlord to extend the lease to its facilities in Viking House, Horsham and is looking to finalise this shortly after this annual report is published.

20. Contingent liabilities

£705,000 (2015: £705,000) of grants received, 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 in the foreseeable future.

21. Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £255,000 as at 30 June 2016 (2015: £507,000), in respect of the acquisition of property, plant and equipment.

22. Related party transactions

The Group's related parties are its Directors, Richard Griffiths, who held 24.09% of the issued share capital at 30 June 2016 (2015: 23.28%), and IP Group plc, through IP2IPO Limited, which held 23.37% of the issued share capital at 30 June 2016 (2015: 23.24%).

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 28. Transactions with IP Group plc during the year amounted to £52,000 (2015: £92,000) comprising primarily company secretarial services of £19,000 (2015: £2,000), Non-Executive Director fees of £30,000 (2015: £30,000) and disbursements of £3,000 (2015: £nil). In the prior year there were also costs for recruitment services for £10,000 in relation to the recruitment of Aidan Hughes, Non-Executive Director, and fees in respect of the funds raised of £50,000. There was no outstanding balance due as at 30 June 2016 (2015: £9,000). The outstanding balance with IP Group plc in the prior year was due 30 days after the invoice date to be settled for cash. There were no other related party transactions in the year or the previous year.

23. Post balance sheet events

During October 2016 the Company completed a placing which raised £20 million gross through the issue of 228,603,083 ordinary shares.

Company balance sheet

as at 30 June 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Investments	3	**46,641**	45,586
Current assets			
Debtors: amounts falling due within one year	4	**12,432**	13,166
Cash at bank and in hand		**76**	82
		12,508	13,248
Creditors: amounts falling due within one year	5	**(10,711)**	(10,787)
Net current assets		**1,797**	2,461
Net assets		**48,438**	48,047
Capital and reserves			
Called up share capital	7	**7,779**	7,725
Share premium account		**90,120**	90,120
Capital redemption reserve		**3,449**	3,449
Profit and loss account		**(52,910)**	(53,247)
Shareholders' funds		**48,438**	48,047

The notes on pages 62 to 65 are an integral part of these Company financial statements.

The financial statements on pages 60 to 65 were approved by the Board of Directors on 7 November 2016 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 2016

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2014		5,369	72,907	3,449	(41,367)	40,358
Comprehensive income						
Loss for the financial year		–	–	–	(12,960)	(12,960)
Total comprehensive loss		–	–	–	(12,960)	(12,960)
Transactions with owners						
Issue of shares, net of costs	7	2,356	17,213	–	–	19,569
Share-based payments charge	7	–	–	–	1,080	1,080
Total transactions with owners		2,356	17,213	–	1,080	20,649
At 30 June 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**

The notes on pages 62 to 65 are an integral part of these Company financial statements.

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 the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 8.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to transition date have not been restated.

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 disclosures:

- 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 and in preparing an opening FRS 101 balance sheet at 1 July 2014 for the purposes of the transition to FRS 101 Adopted IFRSs.

Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

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.

1. Accounting policies continued

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and term deposits.

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 an option valuation model, 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 £675,000 (2015: loss of £12,960,000), which is stated after charging £10,000 (2015: £10,000) for remuneration receivable by the Company's auditor for the auditing of the financial statements and charging £nil (2015: £12,442,000) for provision against the recoverability of an amount due from a subsidiary undertaking.

3. Fixed asset investments

Shares in Group undertakings:

	2016 £'000	2015 £'000
Cost		
At 1 July	**58,028**	37,398
Capital contributions arising from share-based payment charge	**1,001**	1,066
Acquisition of shares in Ceres Power Intermediate Holdings Ltd	**54**	19,564
At 30 June	**59,083**	58,028
Provisions		
At 1 July	**(12,442)**	–
Impairment in fair value of investment in Ceres Power Intermediate Holdings Ltd	**–**	(12,442)
At 30 June	**(12,442)**	(12,442)
Net book value		
At 30 June	**46,641**	45,586

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 development and commercialisation 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 believe that the carrying value of investments is supported by their underlying net assets, or the net present value of projected future cash flows.

4. Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Other debtors	**8**	1
Prepayments and accrued income	**42**	21
Amounts owed by Group undertakings	**12,382**	13,144
	12,432	13,166

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 2016, a provision of £59,316,000 (2015: £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 £70,677,000 (2015: £71,758,000) are subordinated to all other creditors of Ceres Power Ltd.

5. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	**23**	15
Taxation and social security	**19**	18
Accruals and deferred income	**89**	84
Amounts owed to Group undertakings	**10,580**	10,670
	10,711	10,787

6. Deferred taxation

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

	2016 £'000	2015 £'000
Tax effect of timing differences because of:		
Deductions relating to share options	**(3)**	(8)
Losses carried forward	**(1,019)**	(891)
	(1,022)	(899)

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

	2016		2015	
	Number	£'000	Number	£'000
Allotted and fully paid				
Ordinary shares of £0.01 each	**777,857,841**	**7,779**	772,537,841	7,725

Details of shares issued in the period are provided in note 16 to the Group financial statements. Details of share options are disclosed in note 17 to the Group financial statements.

8. Explanation of transition to FRS 101 from old UK GAAP

As stated in note 1, Accounting policies, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016, the comparative information presented in these financial statements for the year ended 30 June 2015 and in the preparation of an opening FRS 101 balance sheet at 1 July 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has made no adjustments to the historical figures reported at the balance sheet dates listed above.

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)

Registered office
Viking House
Foundry Lane
Horsham
West Sussex
RH13 5PX

Japan Office
19F Hilton Plaza West Office Tower
2-2-2 Umeda Kita-Ku
Osaka 530-0001
Japan

South Korea Office
Seoul Finance Center, 4F
136 Sejeong-daero
Jung-gu
Seoul
Korea
(100-768)

"Ceres Power" and "Powered by Ceres" are registered trademarks belonging to the Group.

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

Solicitor
DAC Beachcroft LLP
Portwall Place
Portwall Lane
Bristol
BS99 7UD

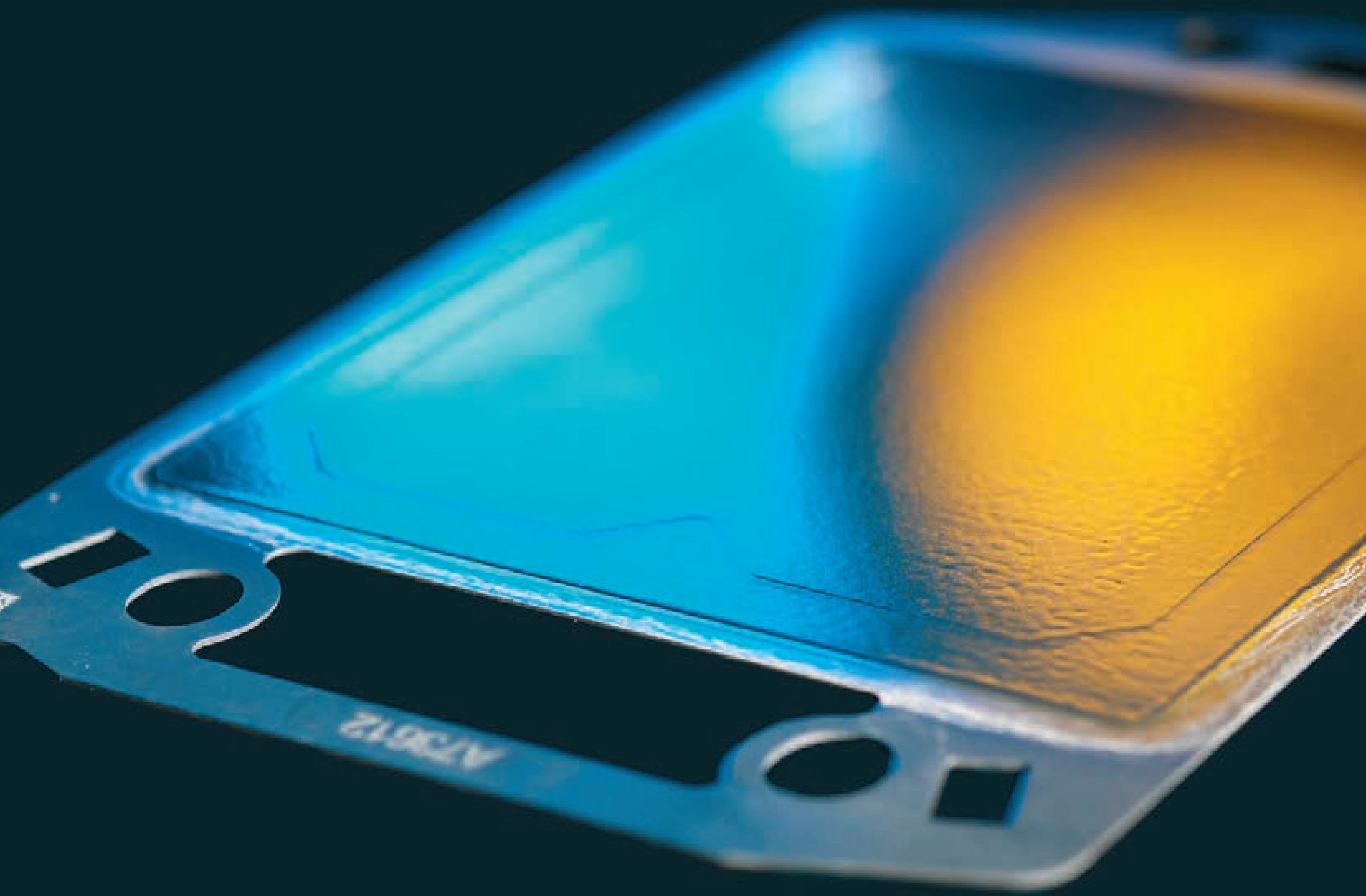
Bankers
National Westminster Bank plc
2nd Floor, Turnpike House
123 High Street
Crawley
West Sussex
RH10 1DQ

Nominated advisor and broker (NOMAD)
Zeus Capital Ltd
41 Conduit Street
London
W1S 2YQ

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Notes

Notes



Photography acknowledgements
Andrew Brookes: cover (rows 1 & 2, columns 1-4; rows 7 & 8, columns 1-3; row 6 columns 3-6), page 1 (rows 3 & 4), pages 3, 9, 10, 11, 14, 16, 17, 20, 21 and back inside cover

Adam Gasson: cover (rows 4 & 5, columns 3-6), pages 6, 7, 12 (top), 15, 17 (portrait) and back cover

Matt Leete: portraits, pages 8, 15, 16, 22, 32 and 33

Steve Morgan: cover (row 3, columns 1-3; rows 7 & 8, columns 4–6; rows 5 & 6, columns 7-8), page 1 (row 2), page 12 (middle)

Created by
Jones and Palmer
www.jonesandpalmer.co.uk

Ceres Power Holdings plc
Viking House
Foundry Lane
Horsham
West Sussex
RH13 5PX

www.cerespower.com