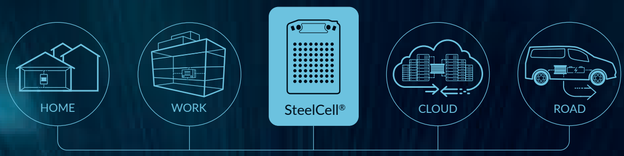
Ceres Power®

Power for a Changing World

Annual Report 2018



Welcome to our 2018 Annual Report

Ceres Power Holdings plc is a fuel cell technology and engineering company. **We are working with world-class companies to embed our SteelCell® technology** in mass-market energy products for the commercial, data centre, automotive and residential markets.

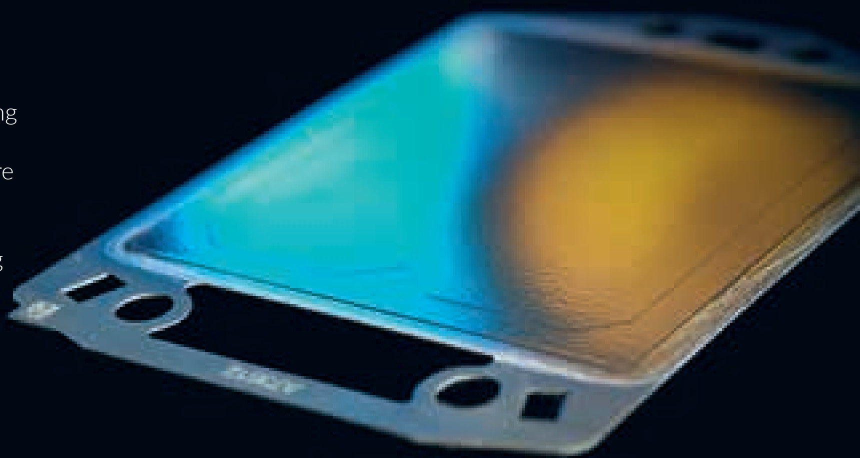
It is our vision to provide cheaper, cleaner power for a changing world.

In brief

As the transition to combustion-free technologies accelerates in order to tackle air pollution and climate change, flexible, resilient Solid Oxide Fuel Cells (SOFC) like SteelCell® enable the decarbonisation of the energy system and the deployment of electric vehicles and renewables.

About Solid Oxide Fuel Cells

Fuel cells are the most efficient technology for converting fuel to power. Fuel-flexible Solid Oxide Fuel Cells that operate on natural gas and biogas today, as well as future fuels like hydrogen, are amongst the most sought after power generation technologies in the world and Ceres Power's SteelCell® is endorsed by multiple world-leading engineering companies.



About SteelCell®

In simple terms, SteelCell® is a perforated sheet of steel with special screen-printed ceramic layers that electrochemically convert a variety of fuels directly into power. Ceres Power's core technology platform is protected by 50 patent families and is attracting the attention of manufacturers around the world.

Read our business model on pages 10 and 11

Read more online at www.cerespower.com

STEELCELL® 3D VISUALISER

To view the SteelCell®, the 1kW or the 5kW stack download the SteelCell® 3D App from the App Store or Google Play.

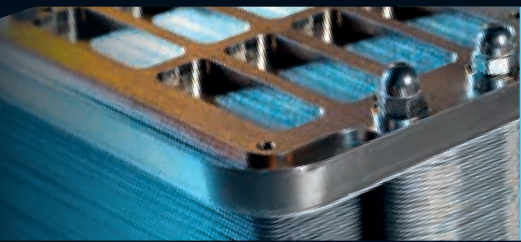
NAVIGATING THE REPORT

For further information within this document and relevant page numbers

Additional information online

A Strong Proposition

ENABLING A COMBUSTION-FREE FUTURE

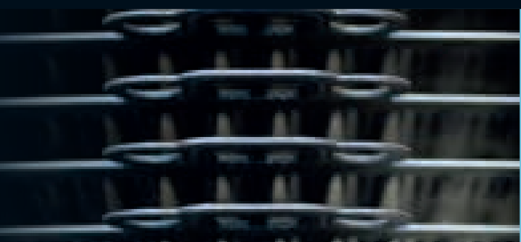


A WORLD-LEADING TECHNOLOGY PLATFORM

MULTIPLE APPLICATIONS, MULTIPLE GEOGRAPHIES

WORLD-CLASS PARTNERS

HIGH QUALITY TEAM WITH STRONG TRACK RECORD



SOLID FINANCIAL POSITION

CONTENTS

Chairman’s Statement

2018 has been a landmark year in Ceres Power’s history as the significant investment and dedication of our people has resulted in excellent commercial progress and strategic partnerships with some of the world’s leading companies. This has been achieved through our partnering and licensing business model, facilitated by a unique world-class British technology and excellent leadership team. Our recent strategic partnerships with Bosch in Germany and Weichai Power in China, in addition to further progress in Japan and the US, show we have the right strategy to enable our partners to access our technology and establish Ceres Power as a global leader in the fuel cell industry.

We continue to benefit from the disruption in the energy and transportation markets as society addresses the significant challenges of decarbonisation and improving air quality, while also balancing the intermittency of renewable energy and electrification of our transportation system.

Many of the world’s leading power system and engine companies are now looking for alternatives to conventional combustion and are developing products using cleaner, flexible technologies such as batteries and fuel cells. The SteelCell® is rapidly setting a new standard in the industry due to its robustness, fuel flexibility and potential to be mass manufactured in a cost-effective way and the recent contracts with leading global players such as Bosch and Weichai Power underline the SteelCell’s growing importance.

The Company has successfully raised £49 million since the end of the financial year through a combination of a placing in July with Weichai Power and institutional financial investors and the additional recent equity investment with Bosch. We have the potential to raise a further £28 million in new equity upon successful completion of the second stage of the Weichai investment. I’m pleased to say that with this level of funding, combined with the strong order book now in place, the Company will be well funded to deliver its business plan through to commercialisation in the coming years.

As the Company grows we continue to strengthen the Board and the governance structure to ensure we have the right effective control and oversight for the next stage of growth. We intend to strengthen the main plc Board and focus on strategic issues with a clear distinction from the Executive Board. Mark Selby, our CTO, has moved across from the plc Board to the Executive Board and I would like to thank him for his contribution. This year Mike Lloyd also completed his service with the Board and retired and I would like to extend our thanks for his significant contribution to Ceres Power through this period. We welcome Caroline Hargrove to the Board who brings direct experience of fast growing technology companies from her time at McLaren Applied Technologies.

The Governance Report sets out in detail how the Board embeds Ceres’ culture and values in everything we do. For more on Corporate Governance read pages 26 to 40.

KEY DRIVERS

- Advancements in the SteelCell® technology have opened up opportunities in fast-growing sectors that are accelerating their deployment of low-carbon technologies, such as data centres, large corporates and transportation
- The rapid reduction in cost of renewables, in particular solar and wind, as well as batteries, is accelerating deployment of these technologies far faster than analysts anticipated
- The rise of data centres and electric vehicles will continue to increase demand for electricity, while increased renewable generation destabilises the centralised power generation model
- The Paris Agreement – the push for clean air led by Governments and leading global corporates – is maintaining the momentum towards cleaner, distributed power generation

I would like to offer my thanks to the Board and employees for their efforts in what has been a very successful year. I look forward to further progress with our new partners as Ceres Power reinforces its reputation as a world leader in the fast-growing clean energy and electric vehicle sector with the potential to establish the SteelCell® as the new standard for the industry.

ALAN AUBREY
CHAIRMAN
8 October 2018

Highlights

COMMERCIAL HIGHLIGHTS

Continued commercial progress: new partners and repeat business driving revenue growth

- Bosch and Weichai Power were added as the fifth and sixth joint development partners
- Significant increase in order book to £30 million (at the date of this report)
- Field trials to start with confidential partner later this year
- Significant new UK Government funding secured through the Advanced Propulsion Centre to further develop fuel cell technology for Nissan electric vehicle application
- £7 million investment in new manufacturing facility announced, creating 60 jobs in Redhill, Surrey (UK)

TECHNICAL HIGHLIGHTS

Maintaining our technology leadership position

- Improvement in net electric efficiency to 60% achieved in a customer system development programme
- Completed design and build stage of 10kW module power system under the US Department of Energy programme with Cummins and progression into testing phase
- 5kW stack design and performance verified for further development in electric vehicle range extender applications
- Trial of integrated fuel cell power system and battery storage to demonstrate feasibility of natural gas supplying all home and electric vehicle energy needs as part of a low carbon energy system

FINANCIAL HIGHLIGHTS

Strong commercial progress has driven improved top-line financial performance

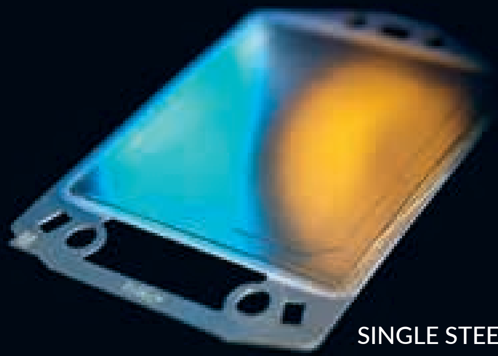
- Revenue and other income up 71% to £7.0 million
- Post financial year end: £49m of new equity issued to existing and new investors including Bosch and Weichai Power
- Investment of 16% in resource to deliver customer programmes and scale-up resulting in a small increase in operating loss (4%) to £11.9 million
- Investment in capital equipment of £1.5 million as the Company begins to increase manufacturing capacity to meet customer demands in line with strategy

Read more about our performance on pages 14 to 19

At a Glance
OUR UNIQUE TECHNOLOGY

The SteelCell® is a perforated sheet of steel with special screen-printed ceramic layers that convert fuel directly into electrical power at the point of use, enabling the switch to distributed energy generation for business, homes and vehicles.

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



SINGLE STEELCELL®

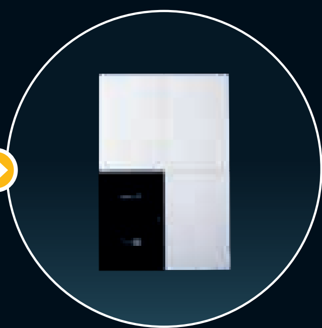
KEY DIFFERENTIATORS OF STEELCELL®

- SteelCell® is a leading alternative to conventional combustion engines and power generation
- Fuel-flexible, it can operate on natural gas now and could switch seamlessly to other sustainable fuels
- SteelCell® is highly efficient, highly robust and is cost-effective to mass manufacture
- Offers low carbon emissions, no particulates, NOx or SOx
- SteelCell® offers cheaper and cleaner energy, as well as the ability to operate in multiple markets
- Protected by over 50 patent families

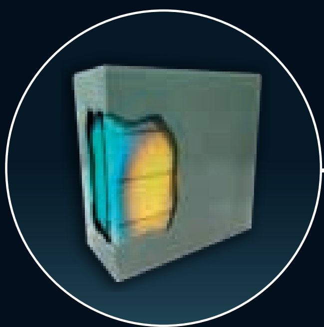
Demand for Higher Power

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

1kW

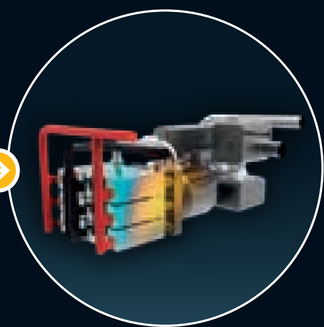


STEELGEN



5kW

10kW



30kW

Read more about our business model on pages 10 and 11

Applications for the SteelCell®

RESIDENTIAL

Generates ~80% of home power + sufficient power to charge Electric Vehicle

~30% Lower Energy Costs

~30% Lower Carbon

Zero SOx and NOx

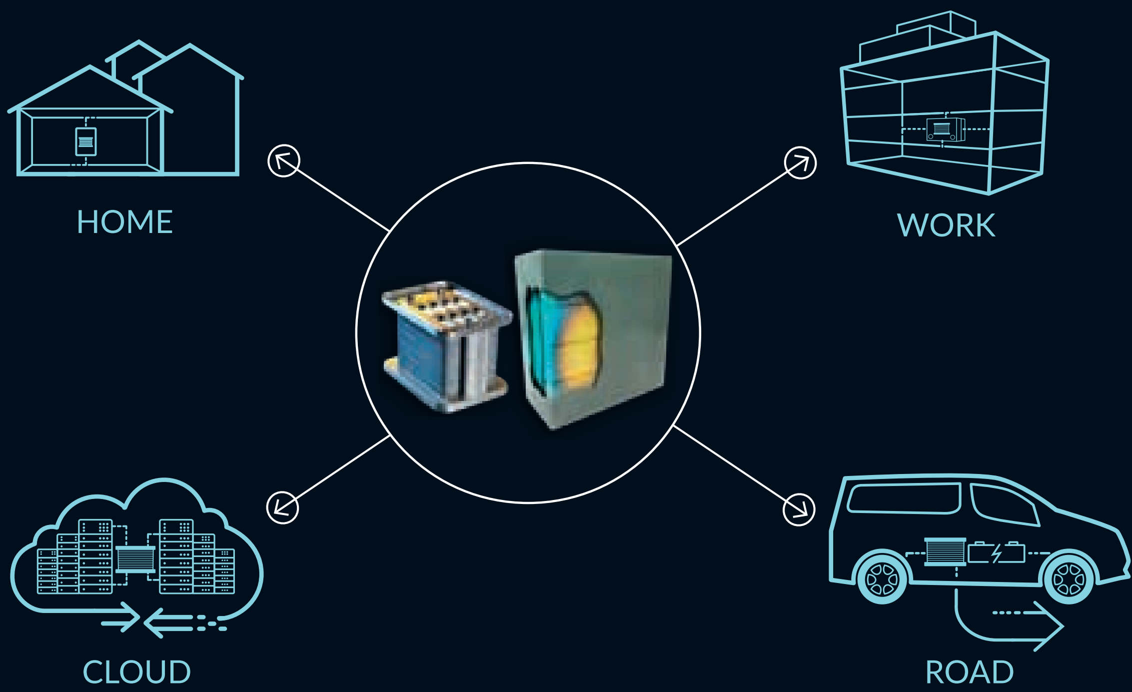
COMMERCIAL

5kW to 100kW+ for offices, convenience stores and small power stations for urban supply

~30% Lower Energy Costs

~30% Lower Carbon

Zero SOx and NOx



DATA CENTRES

Fuel Cells to provide primary power from the natural gas grid

Replaces diesel generators, lowering emissions

Saves 20% of the capital expenditure cost of the data centre

RANGE EXTENSION AND POTENTIAL CHARGING FOR EVS

On-board fuel cells can use various fuels to increase range and decrease refuelling time

The increasing importance of low-emission commercial vehicles will give fuel cells a significant role to play in the shift to electric vehicles

Strategic Partnerships

We continue to deliver against our strategy of working to embed our technology in the power products of world-class OEMs, with two new strategic partnerships announced.

WEICHAI POWER

Weichai Power is a partially Chinese state-owned enterprise which is listed on the Main Board of both the Hong Kong and Shenzhen Stock Exchanges with a market cap of over USD$10 billion. With over 74,000 employees and sales of more than 150 billion yuan in 2017, Weichai is one of the most competitive automobile and equipment manufacturing companies in China, producing more than 600,000 engines, 830,000 transmissions, 150,000 heavy duty trucks and 200,000 forklift trucks in 2017. Over 43% of its revenue comes from overseas markets.

Weichai has a strong track record of making strategic investments in businesses around the world including KION Group AG (MDAX-listed) in Germany, Ferretti in Italy, Société Internationale des Moteurs Baudouin in France and Power Solutions International Inc. in the US.

The Framework agreement for a long-term strategic relationship between Ceres Power and Weichai will provide access to the Chinese market, the world's fastest growing market for fuel cells. Current plans are for the joint development of an SOFC range extender system and stationary power system to address the electric powered bus and stationary distributed power markets. In addition to staged revenues, the agreement included a £19 million equity investment by Weichai Power completed in July 2018 with a further investment to take their overall holding to 20% upon the successful signing of further commercial agreements expected later in 2018.

BOSCH

The Bosch Group is a leading global supplier of technology and services. It employs roughly 402,000 associates worldwide and generated sales of 78.1 billion euros in 2017. Its operations are divided into four business sectors: Mobility Solutions, Industrial Technology, Consumer Goods, and Energy and Building Technology. Furthermore it is a leading Internet of Things ("IoT") company, with the objective to 'deliver innovations for a connected life' and offers innovative solutions for smart homes, smart cities, connected mobility and connected manufacturing.

Bosch's global manufacturing, engineering and sales network covers nearly every country in the world. The basis for the company is its innovative strength.

The strategic collaboration builds on Ceres' unique SteelCell® technology and combines the companies' respective expertise in fuel cells, manufacturing and product development. The collaboration will further develop the technology, establish low-volume production at Bosch and enable the future scale-up and mass manufacture of the SteelCell® for use in multiple applications including small power stations to be used in cities, factories, data centres and charge points for electric vehicles. The collaboration, licence and joint development agreement will result in revenue for Ceres of around £20m to 2020, subject to performance criteria. In addition, Bosch has made a £9 million equity investment in Ceres.

The Global Opportunity

MACRO DRIVERS OF THE GLOBAL OPPORTUNITY

AIR QUALITY

- Direct correlation between Air Pollution and tens of thousands of premature deaths globally
- Predominant causes of Air Pollution include combustion technologies
- Power generation using coal being phased out in the UK, but remains major issue worldwide

CLIMATE CHANGE

- 16 of the 17 hottest years ever recorded have taken place since year 2000[1]
- Global challenge to significantly decarbonise the energy and transport systems
- Need to balance decarbonisation with enabling the addition of electric vehicles and renewable energy

COMBUSTION ENGINES

- The emissions scandal has drawn attention to pollutants produced by combustion engines
- High pollutants like SOx and NOx are particularly damaging
- Regulations to ban diesel and petrol engines are entering into force around the world

PRINCIPAL MARKETS FOR THE STEELCELL®

COMMERCIAL

Trends

Studies from the state highlight that a mixed energy transition can achieve 80%+ CO_2 reductions by 2050 at around €600 billion cheaper than a fully electrified scenario. Natural gas, possibly supplemented by low carbon gas, will continue to provide reliable, flexible energy supplies for the foreseeable future.

Ceres' Response

Ceres Power is working with a major OEM in this sector to develop power systems for commercial end-users. With its high efficiency and ability to save energy and virtually eliminate emissions, with the ability to run on natural gas and low carbon fuels including hydrogen, the customer demand for the SteelCell® in commercial applications is on the rise.

TRANSPORT

Trends

The electrification of transportation is accelerating and the significant role of commercial, public and large-scale vehicles is increasing in importance as a result of strict targets set by national, regional and local Governments. In the UK, the recently published 'Road to Zero' strategy highlights that with more than 4 million vans in the UK, light commercial vehicles are a key part of the UK economy that contribute 33% of road transport nitrogen oxides (UK Government, Industrial Strategy, The Road to Zero). Because of their demanding duty cycle, battery-powered vans will require range extension technology. Meanwhile in China, air pollution concerns have already seen around 400,000 electric buses deployed to date (Bloomberg).

Ceres' Response

Ceres Power continues to work with Nissan on SteelCell® enabled range extender technology with a focus on the fast-growing battery-powered Light Commercial Vehicle sector. Additionally, Ceres Power is part of a strategic partnership with Weichai Power, to work on range extension technology for buses and other applications across China.

THE OPPORTUNITIES

- Fuel Cell market size projected to be worth **$25 billion** by 2025[4]
- Solid Oxide Fuel Cells anticipated to be fastest growing segment with **39%** compound annual growth rate in the USA[4]
- Annual revenue for the Residential Distributed Energy Resources Market is expected to exceed **$93 billion** in 2025[5]

ELECTRIFICATION

- The electrification of energy and transport is accelerating
- Electrochemical, combustion-free solutions like batteries and fuel cells are well positioned
- This shift necessitates grid reinforcement to ensure a resilient charging infrastructure

CENTRALISED POWER

- Centralised power generation is highly inefficient, losing ~60% of energy in transit[2]
- Power stations are typically significant emitters of carbon, NOx and SOx
- Disruption of central generators' business models

DISTRIBUTED POWER

- Producing power at the point of use through fuel cells is significantly more efficient
- This results in 30% lower cost, lower carbon and zero NOx, SOx and particulates[3]
- These reductions can be recognised in commercial, residential and transport applications

DATA CENTRES

Trends

Information and communications technology is forecast to create up to 3.5% of global emissions by 2020 (The Guardian) surpassing aviation and shipping – and up to 14% by 2040, around the same proportion as the US. By 2025, it is estimated that Data Centres will produce 1.9 gigatonnes of the world's carbon emissions. Large, public-facing companies like Google, Facebook, Apple, Intel and Amazon have committed to use cleaner energy. Microsoft recently opened a test Data Centre powered by natural gas fuel cells, SOFC is a technology that is particularly of interest to this sector as it is more reliable than the grid and can be transitioned to other fuels, such as hydrogen, in the future.

Ceres' Response

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

RESIDENTIAL

Trends

Over 100 million gas boilers are installed in European homes with 8 million sold annually. Residential fuel cell Micro CHP can cut the energy bills in these homes by around 30% and can also reduce annual CO_2 emissions by around 1.5 tonnes per year per house (Delta Energy & Environment). In Japan more than 250,000 residential fuel cells have been installed, en route to a target of 5 million by 2030 (Delta Energy & Environment). Over the last calendar year the European market for residential fuel cells has doubled.

Ceres' Response

Having successfully completed residential field trials in England last year, our fuel cells continue to deliver highly efficient performance in the homes where they are installed. Additionally, we are working on trials of our technology alongside home batteries and electric vehicles, to appraise their performance as part of the future energy system. Ceres Power also continues to work to develop SteelCell® enabled residential power systems.

1 Reuters

2 ECOFYS International comparison of fossil power efficiency and CO_2 intensity

3 ene.field FCH JU – Fuel Cell Distributed Generation Commercialisation

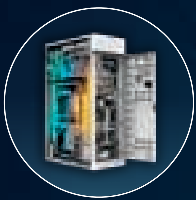
4 Grand View Research, Fuel Cell Market Size Worth $24.81 Billion By 2025 Report

5 Navigant Research, Residential Distributed Energy Resources, Global Capacity and Revenue Forecasts 2016 –2025

Our Business Model

CURRENT SYSTEMS

1kW SYSTEM



10kW SYSTEM

30kW SYSTEM

CELL AND STACK

CELL

1kW STACK

5kW STACK

SYSTEM PARTNER ACTIVITIES

TECHNOLOGY EVALUATION AND JOINT DEVELOPMENT PROGRAMMES

TECHNOLOGY TRANSFER AND LICENSE

COMMERCIALISATION OF PARTNER SYSTEMS

MANUFACTURING PARTNER ACTIVITIES

LOW VOLUME — *CERES-HORSHAM*

1-10MW VOLUME

HIGH VOLUME

REVENUE STREAMS

Initially we work with our partners to showcase the SteelCell® technology potential. This acts as the catalyst for joint development programmes where we work with our partners to embed the SteelCell® in their products through system design collaboration.

Engineering Services

We license the core technology and system design to partners and share our technology to enable them to develop it further to productionisation.

Licence Fees

Our partners commercially roll out their systems having successfully developed them using our SteelCell® technology and system know-how.

Royalties

SteelCell® and Stack supply

CERES–NEW MANUFACTURING SITE

JOINT VENTURE/MANUFACTURING PARTNER

Manufacturing Licence Fees and Royalties

Strategy and Key Performance Indicators

Our strategic objective

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

To achieve this we:

STRATEGIC OBJECTIVE		DESCRIPTION
	1 ***DEVELOP***	We continue to invest in and improve our SteelCell® technology to maintain our leadership position in a wide variety of markets and industries.
	2 ***COMMERCIALISE***	We facilitate the launch of partner products with our embedded SteelCell® technology and will scale production of the SteelCell® to meet demand, initially through the new manufacturing site, and then through high volume joint venture or manufacturing partner sites.
	3 ***GROW***	We continue to grow the business through commercial and strategic partnerships, allowing us to capitalise on new and existing markets and applications.

Read about our key performance indicators on page 13

Read about sustainability on pages 22 and 23

We measure our progress through:

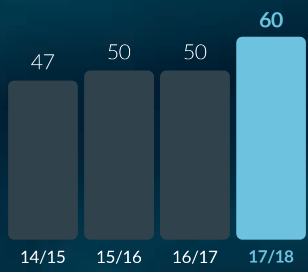
NET ELECTRICAL EFFICIENCY

Description

% LHV achieved to date.

Link to strategy

Efficiency achieved is significantly greater than grid and offers a real alternative.



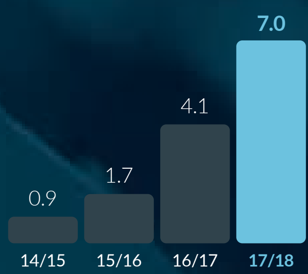
REVENUE & OTHER INCOME (£ million)

Description

We continue to meet our plan to increase revenues year on year.

Link to strategy

We anticipate continued high quality revenue growth going forwards.



PARTNERS AT JOINT DEVELOPMENT AGREEMENT

Description

Weichai and Bosch join Cummins, Honda, Nissan and an unnamed company as confirmed partners.

Link to strategy

Ceres Power has licensing agreements with two of these partners.

ORDER BOOK (£ million)

Description

Order book at the date of signing the accounts.

Link to strategy

Gives the Company confidence that it can continue to grow and approach commercialisation.

Chief Executive's Review of Performance

Overview of performance

This year as been transformational for Ceres. We recently signed two very strong strategic partnerships with Weichai Power and Bosch and secured a strong order book and cash position that allows us to deliver against our business plan and establish Ceres as a leading player in the global fuel cell industry. This was only made possible by the dedication and hard work of everyone at Ceres Power who continue to deliver year on year against our business plan of partnering with the world's best companies while continuing to develop the core SteelCell® technology. In the year ahead we will face some challenges as we have to manage the competing priorities of servicing customers, maintaining our leading R&D and increasing capacity. Managing this scale-up is never easy but is a key stage in any business's growth. Over the past 12 months we have begun to put in place a strong foundation in order to scale the business to meet our growing commercial demand. A key reason for the additional capital raising this year was to enable this growth and we have secured an additional manufacturing facility in the UK. This will meet near-term customer demand and act as a reference plant for partners to license manufacturing. The year ahead will provide fresh opportunities and challenges as we look to deliver to the high standards demanded by our partners and scale-up the business with additional manufacturing capacity.

Commercial Progress

This has been an excellent year commercially as we signed two new partnerships with Bosch and Weichai Power and made good progress with existing partners. Revenue and Other income grew 71% year on year from £4.1 million to £7 million and contracted order book also grew significantly from £3.2 million to £30 million (at the time of signing the accounts). We expect this trend of strong revenue growth to continue into next year as partners progress through Joint Development projects to licensing the technology with significant upfront payments for technology transfer. We now have several partners on this path as summarised below.

Bosch

In August 2018 we signed a strategic partnership with Bosch who we had been working with as our fifth unnamed European Partner. There is an obvious synergy with Bosch's capability as a world-leading technology and manufacturing business and the processes to make the SteelCell®. The collaboration will further develop the technology, establish low-volume production at Bosch, and help enable the future scale-up and mass manufacture of the SteelCell® for use in multiple applications including Bosch's target market: small power stations to be used in cities, factories, data centres and charge points for electric vehicles.

The Collaboration Licence and Joint Development Agreements provide significant staged revenue through Technology Transfer and licensing of 5kW stacks worth approximately £20 million over the next two years subject to performance criteria and could result in significant longer-term royalties on 5kW SteelCell® stacks. In addition, Bosch has made a £9 million strategic equity investment in Ceres.

Not only does the partnership further validate Ceres' licensing business model but also Bosch has the potential to become a significant manufacturing partner for Ceres in the future.

Weichai Power

China is rapidly becoming the fastest growing market for fuel cells, driven by regulation and incentives from the Chinese government to improve air quality. As a Board we had identified that the Chinese market would be a key part of Ceres' future growth but securing the right partner was essential. Therefore, in May we were delighted to sign a deal with Weichai Power, one of the leading automobile and equipment manufacturing companies in China which produces over 600,000 engines per year.

The initial plans are for Ceres and Weichai Power to jointly develop and launch an SOFC fuel cell range extender system for China's fast growing electric powered bus market. Weichai Power has a wide network of customers in China and sells *c*.30,000 buses per year.

The agreement potentially provides significant staged revenues to Ceres Power through technology transfer, engineering services, licence and royalty payments and a longer-term share in the profits of a proposed manufacturing Joint Venture. As part of this agreement Weichai Power has invested £20 million for a 10% equity stake in Ceres Power and has the potential to invest a further £28 million to reach a 20% shareholding upon completion of further Commercial Agreements later this year.

Other Partners

In August this year we announced a new partnership with Nissan and The Welding Institute backed by the UK Government's Advanced Propulsion Centre (APC) to further develop the 5kW stack for electric vehicle applications. This builds on a successful two-year relationship with Nissan on the UK Innovate EVRE (Electric Vehicle Range Extender) programme. Under this new APC programme Ceres should receive £7 million over the next three years to adapt our current 5kW stack for vehicle use which will culminate in demonstrating the stack in a Nissan-designed system suitable for a variety of fuels (including biofuels).

The UK Government's 'Road to Zero' strategy, which requires a significant reduction in CO_2 emissions, is accelerating the shift to battery Electric Vehicles (EVs). Introducing fuel cell technology alongside batteries further enables increased drive range and has the potential to help accelerate the uptake of battery EVs.

In addition to these new major contracts, we continue to progress with our existing relationships. Our first 'go-to-market' partnership with a confidential OEM for a multi-kW product targeting applications in the business sector is progressing well, and is due to start field trials this year as the next step towards product launch.

CHINESE MARKET

BY TONY COCHRANE, CCO

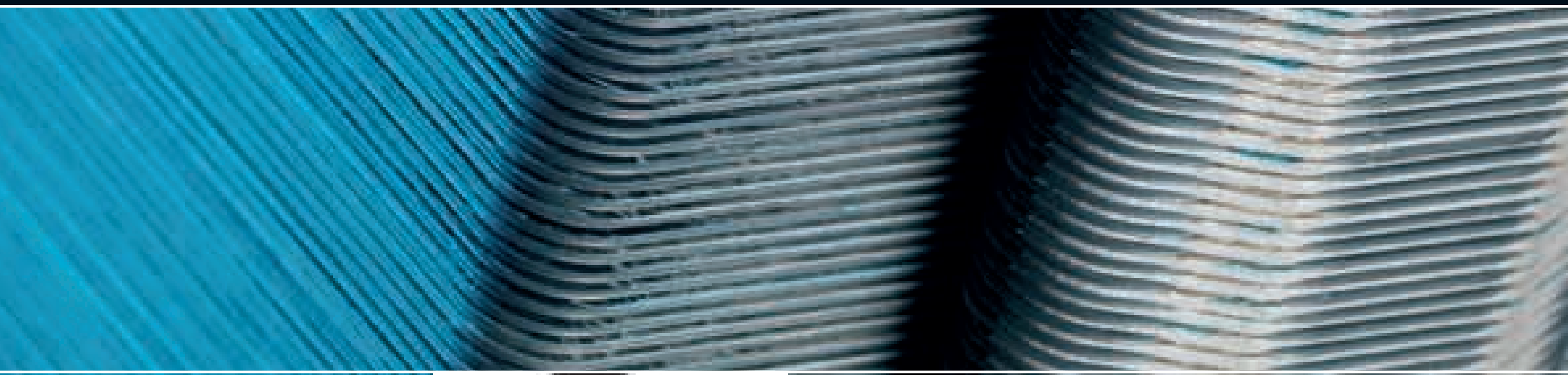
IN FOCUS

While China has been synonymous with coal-fired power stations over the years, chronic air pollution in Chinese cities is taking effect. Add to that China's desire to be competitive on the global stage and the last decade has seen a new, ambitious energy strategy emerge. China has been deploying an amount of renewables that is many orders of magnitude higher than its competitors and this has significantly lowered the cost of solar panels, wind turbines and lithium-ion batteries in particular.

- As of 2017, China had more than a third of the world's wind power capacity – consequently, China had four of the top ten wind turbine makers
- China also had a quarter of the world's solar power capacity – consequently, China had six of the top ten solar panel makers
- China also has more battery-only electric vehicles than the rest of the world combined – all of the above has led to China having six of the top ten battery makers too
- China has a host of automakers positioning for success – this extends beyond cars, for example China already has around 400,000 electric buses

The next wave of investment involves the further electrification of transport, from small electric cars to large electric vehicles. Flexible fuel cell technologies that can act as range extender technology, such as Solid Oxide Fuel Cells, are set to significantly benefit from the rapid cost down that the sheer size and scale of China's investment brings in their domestic market, adjacent Asian markets and around the world.

Chief Executive's Review of Performance



5kW STACK DEVELOPMENT

BY MARK SELBY, CTO

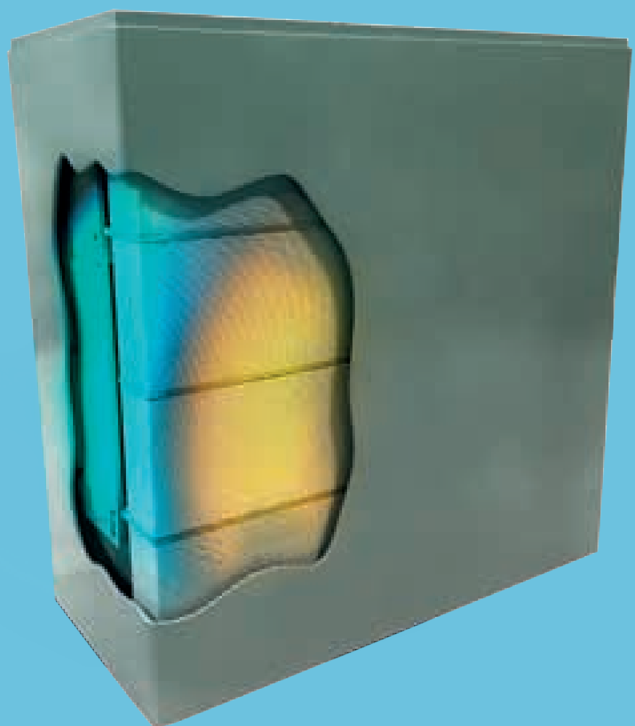
IN FOCUS

Over the last few years, it has become increasingly clear that the requirements for larger power applications – high efficiency, low stack and system cost and fuel flexibility – are well met by the SteelCell® technology. Over the last two years we have been working both independently and with customers to build our technology into a larger stack package, targeting this rapidly growing market.

This new stack platform has been undergoing extensive evaluation at our test facility in Horsham and is now at a level of maturity for use in customer programmes. This progress has seen Ceres attract and convert an enviable list of world-class engineering business to develop products for both power generation and mobility applications. The new stack also retains the proven SteelCell® attributes of simple manufacturing, assembly and robustness of PEM technology with fuel flexibility and high primary energy efficiency of high temperature SOFC.

Ceres Power makes extensive use of computer-aided engineering (CAE) to accelerate its engineering process and to optimise key attributes of our products – efficiency, durability, weight and, ultimately, total cost of ownership. We use these tools to create model representations of stacks in systems which behave as if they were real prototypes and this has further accelerated the development of technology offering.

Over the next period, we will continue to develop this platform with UK Government support of around £7 million in APC09 and alongside partners like Bosch, Weichai and Nissan. The automotive application will lead to a doubling of the range for light commercial electric vehicles like buses and urban delivery vehicles and the elimination of particulates and significant reductions in CO_2 and NOx emissions for mobility or stationary power generation.



As part of a US Department of Energy programme, Cummins and Ceres Power have made significant progress developing an innovative, modular 10kW Solid Oxide Fuel Cell system and the first of a kind prototype system is due to start commissioning in the UK shortly. This will target high electrical efficiency of 60% and be inherently scalable to meet multiple distributed power applications. One target application will be the fast-growing data centre market which currently accounts for 2% of global electricity consumption. Cummins is a global leader in supplying backup and temporary power systems to this market and the largest independent manufacturer of diesel engines.

In addition, over the past year we have signed several Technology Evaluation Agreements with prospective OEMs in Asia with the potential to add new partnerships this year.

Technology Update

We have made significant technical progress with our V5 technology which is being released to customers. The results from the in-house testing and validation show lower degradation rates and higher efficiencies than the V4 technology. We have achieved 60% net electrical efficiency in a customer system development achieving a significant milestone for the Company. These achievements mean the technology is amongst the best performing SOFCs in the industry, with the robustness and cost advantages of the SteelCell®. The new 5kW stack development is well under way with first of a kind results with Nissan showing promising performance through the EVRE programme. This is a key new platform supporting our work with Nissan, Cummins and more recently Weichai Power and Bosch to provide multi kW modules that can address higher power high volume markets such as the data centre and automotive applications.

To accelerate the development and scale-up of the 5kW stack, we are working on processes and design for manufacture with Bosch for the industrialisation of the technology. The first generation 5kW stack will deliver higher volumetric power density and lower costs through economies of scale compared with our existing 1kW stack platform. This will then be further refined in a second generation stack which will look at further improvements in power density and cost.

The technology team has also played an important role in technology transfer of our systems capability and work is under way with Weichai Power to scale our system capability to a 30kW range extender for Electric bus and other applications in China.

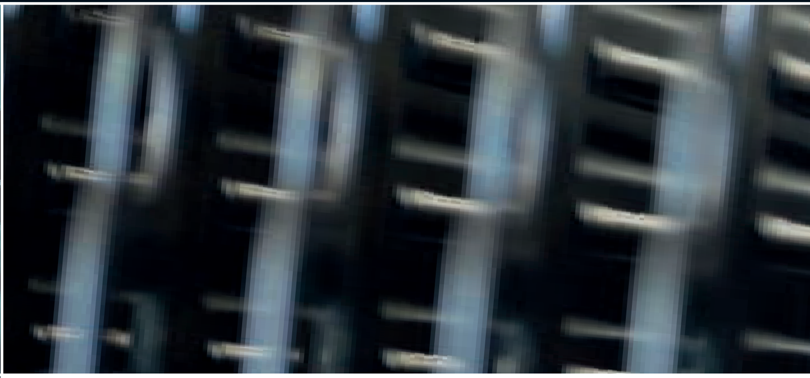
The team is also supporting our unnamed partner following technology transfer of our 1kW system design for a multi kW application which is undergoing testing at the customer's site. The team continues to provide valuable support to Joint Developments with customers globally as well as new technology assessments across the world.

Operations Update

Due to a significant increase in customer demand for the SteelCell® technology, particularly for higher power applications, we are investing in additional manufacturing capacity initially at Horsham and at a new site in Redhill. At the new facility we are investing £7 million over two years which will create 60 new manufacturing and engineering jobs in the UK.

This investment in near-term additional capacity in the UK is consistent with our long-term strategy and our two strategic partners, Weichai Power and Bosch, have considerable manufacturing capability. With Weichai Power we are planning to establish a Joint Venture in China to manufacture fuel cells and systems to address the huge market potential there. In Bosch we have a very capable partner to jointly collaborate on the development and industrialisation of our 5kW stack and one which could also manufacture our SteelCell® in volume in the future.

Chief Executive's Review of Performance



IN FOCUS

MANUFACTURING EXPANSION IN THE UK

BY JAMES FALLA, COO

Demand for SteelCell® has increased significantly as customers expand their commercial programmes. Consequently, Ceres Power has secured a new manufacturing facility in Redhill, located between our Horsham Headquarters and London. The first phase will complete by the end of 2019 supplying up to 2MW of annual SteelCell® capacity with further expansion potential up to 10MW. This will achieve three key objectives:

- Satisfy demand for SteelCell® in the coming years as we prepare for further volume increases.
- The Redhill facility will become the centre of excellence for advanced process development. The factory will act as the 'reference plant' for deploying SteelCell® manufacturing into future commercial volume facilities while developing next generation processes to lower capital and production costs per part.
- The Horsham facility will focus on R&D to support the development of next generations of cell technology and new products.

Having agreed the lease in early October 2018, factory fit-out and equipment installation will begin and should be completed by the middle of 2019. Following a period of commissioning and product validation, we expect to start series production by the end of 2019.

Financial progress

The year has been dominated by commercial success which allowed us to raise new equity through a placing in July 2018. This new equity, along with that from our strategic partners Weichai Power and Bosch, brings financial stability and enables the Group to expand its manufacturing and operational capability to seek to fulfil its ambitions.

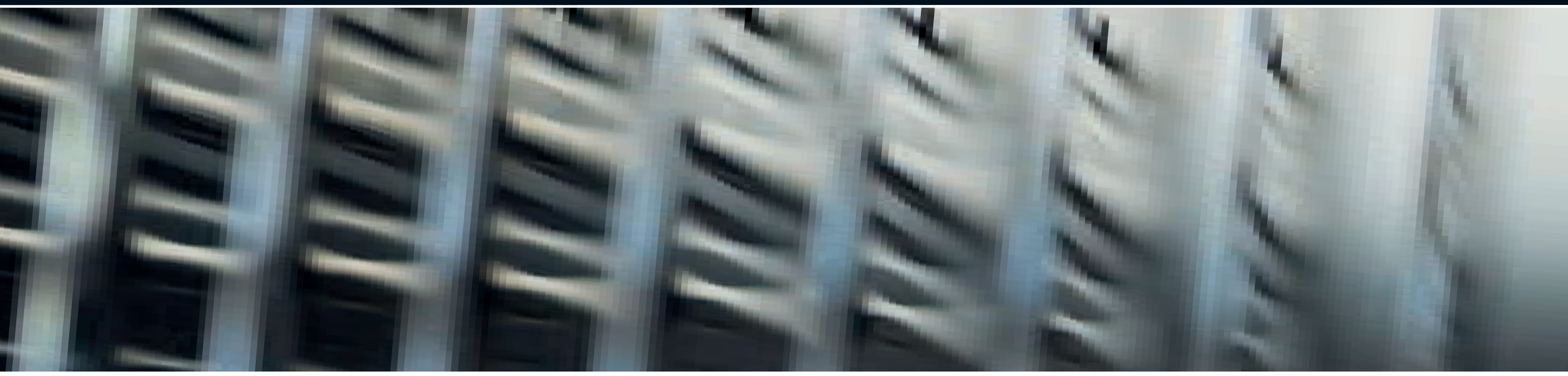
During the year commercial progress has fed through to revenue and other operating income, which grew 71% from £4.1 million to £7.0 million. This was split £6.3 million revenue from customers and £0.7 million from grants and other income. As we invested in the business to enable growth and higher power applications this led to a slightly increasing EBITDA[1] loss £10.8 million (2016/17: £10.3 million). Equity free cash outflow[2] was (£10.9 million), an increase from prior year (£9.4 million) due principally to an increase in receivables and other working capital as the Company has grown. This progress has also increased our order book considerably, which is currently £30 million covering the next three years, up from £3.2 million this time last year.

The placing in July 2018 raised £39 million, with £20 million from new and existing financial investors and £19.3 million from Weichai Power as a strategic investment. Since the year end Bosch has made a strategic investment of £9 million and Weichai Power has the potential to increase its stake in the Company from 10% to 20% through investing a further £28 million pon agreeing terms of the future Joint Venture in China. We expect this total new equity of £77 million to give us the runway to commercially launch with partners.

People

Reflecting the commercial success and the longer-term contracts we have won this year, we will continue to invest in high-quality people, particularly those supporting our customer programmes and our new manufacturing facility and the maturing processes required in Operations.

I recognise that the right people are vital to the business and I am delighted by the talent we have been able to attract to work with us.



Outlook

Ceres Power has reached a new phase of its business – having secured six partners, two of which with the capability to scale up manufacturing of the SteelCell®. We are already seeing several of these relationships move towards significant licence deals and partnerships leading to field trials with the intent to launch commercial products. I expect the year ahead to be both exciting and demanding as we prioritise our work to enable us to achieve our key business priorities.

Our focus remains on getting SteelCell® products to market under licence with leading OEMs and proving out the technology in trials. We are targeting field trials for a multi-kW application with our unnamed commercial partner, the first 30kW system being run on a bus in China with Weichai Power in 2019, and the 10kW power module systems to start evaluation in 2019 with Cummins and the DoE. These initial trials will no doubt provide new challenges for us as we service OEMs in different markets.

A near-term priority is to conclude the negotiations for the joint venture and licensing agreement with Weichai Power which would enable us to work towards a manufacturing joint venture in China and which triggers a further equity stake in the Company to increase Weichai Power's holding in the Company to 20%.

The strategic collaboration with Bosch is equally a key priority as we begin technology transfer of the SteelCell® technology to enable the Joint Development of the 5kW stack and manufacturing scale-up in the UK and also at Bosch.

With these core customer and other programmes we will target further revenue growth this year maintaining the strong trend of recent years and expect our strong order book position of £30 million to result in revenue and other income growing at least 70% year on year.

With the Company now in a strong financial position, the Board intends to continue to scale and develop the business to be able to deliver these new opportunities through this key period of growth to commercial launches. Our key internal action is the preparation of our new UK manufacturing facility, to meet near-term customer demand and also to act as a reference plant for our manufacturing partners.

This has been both a demanding and very rewarding year for Ceres Power and I would like to thank everyone at the Company for their hard work and dedication this year in delivering some key milestones and partnerships across the globe. This takes us forward to the next phase in growing what could become one of the UK's leading technology companies.

PHIL CALDWELL
CHIEF EXECUTIVE OFFICER
8 October 2018

1. EBITDA (earnings before interest, depreciation and amortisation) is calculated as the operating loss (£11.9 million) less depreciation (£1.1 million). Management use EBITDA as an alternative performance measure to operating loss as they believe that it is a more relevant and comparable measure of the operating activities of the Group.

2. Equity free cash flow (EFCF) is the net change in cash and cash equivalents in the year (£3.2 million) less net cash generated from financing activities (£0.1 million) less the movement in short-term investments (£14.0 million). Management use EFCF as an alternative performance measure to the net change in cash and cash equivalents as they believe that it is a more relevant and comparable measure of the overall cash flows of the Group as it excludes any funding activities or changes in investments.

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

Principal Risks and Uncertainties

Our approach to risk

There are a number of risks and uncertainties that could potentially have an impact on the execution of the Group's strategy, as well as on its short-term results. The Executive Directors regularly review the risks facing the Company. 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 21, along with the mitigations the Group uses to manage any possible impact.

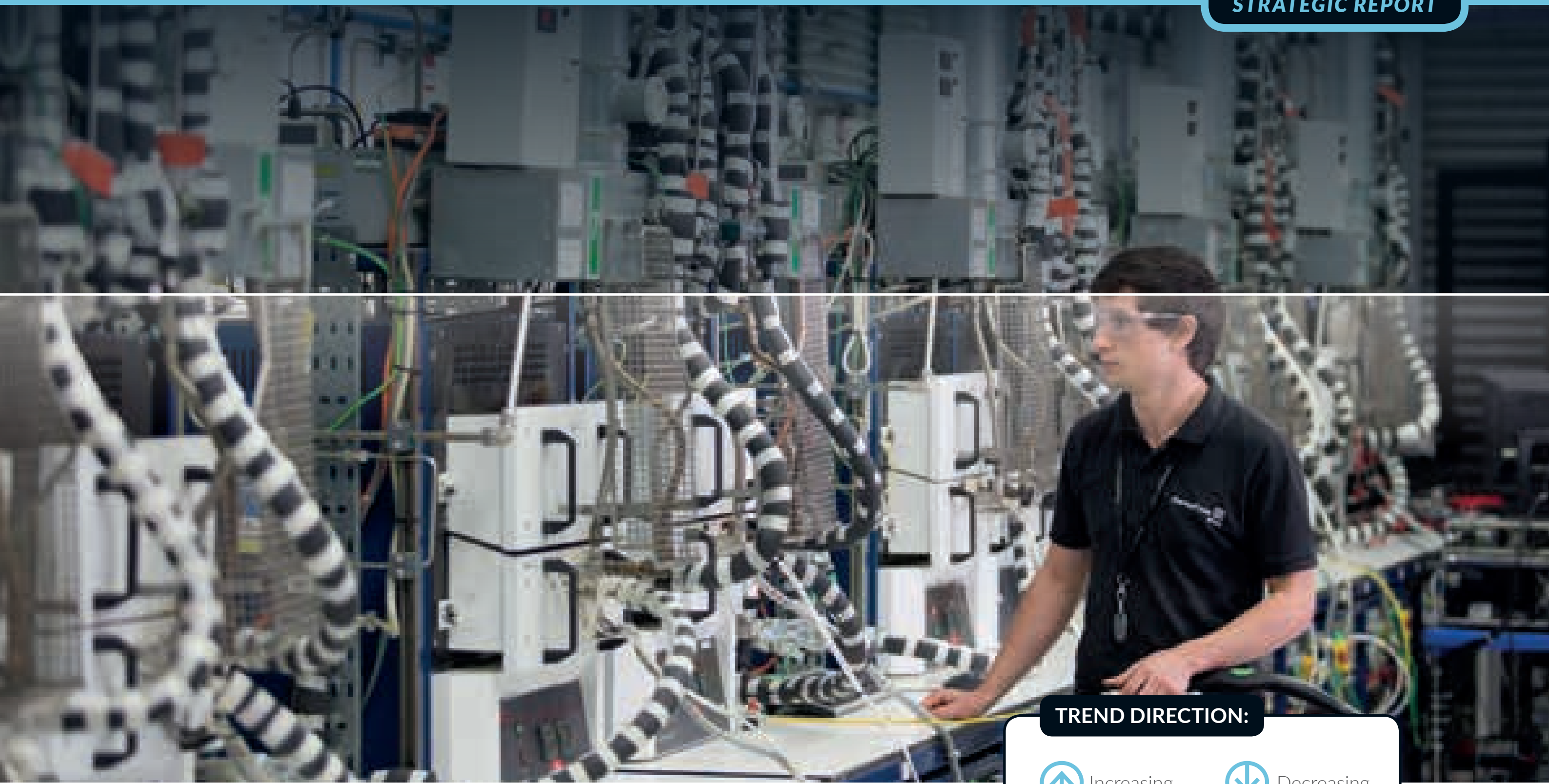
Risk management process

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

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

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

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



TREND DIRECTION:

Increasing | 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. This risk has reduced with the major contracts won this year.	We continue to increase our pipeline of customers and have expanded market applications, mitigating the risk of individual customers who may not wish to move forward.	Decreasing
OPERATIONAL/ SHORT AND MEDIUM-TERM REVENUES	5 Operational	There is a risk that the Company is unable to satisfy customer contracts due to supply chain, growth management, short-term manufacturing or technical issues. This risk has risen in line with increasing customer demand. This is offset by our plans for additional manufacturing capacity.	We continually monitor our manufacturing processes and resources to best deliver programmes and hold spares, where possible. We work with suppliers to ensure quality and timely delivery. We have found a new manufacturing facility to provide capacity and separate development from production activities.	Increasing
OPERATIONAL	6 Supplier dependence	There is a risk that our supply chain partners may be unable or unwilling to co-develop or supply key components. This risk has increased as we scale up manufacturing.	We continue to work closely with our suppliers and partners aiming to put in place strategic partnerships, where appropriate, and reduce the number of key single source suppliers. We also buy stock in advance.	Increasing
FINANCIAL	7 Access to capital	There is a risk that the Company will be unable to attract further equity funding. This risk has reduced as we are now well capitalised.	Increasingly, the Group is targeting its future funding from customer revenue as well as grant funding and tax credits.	Decreasing

Sustainability

The energy transition to a more combustion-free society which delivers clean air and tackles climate change is arguably the cornerstone in the construction of a more sustainable world. We are working with world-leading OEMs to embed our unique technology in products that will displace the combustion engine across an array of markets. To succeed, our approach and our people need to be as adaptable, driven and ingenious as our business.

ENSURING WE RECRUIT AND RETAIN THE BEST PEOPLE

Ceres Power is a rewarding place to work. The business believes in investing in people; it offers competitive employment packages, comprehensive training programmes and has recently introduced an annual graduate intake with a scheme that has been accredited by the Institute of Mechanical Engineers. We strive to invest in the working environment and we keep employees up to date through regular internal communications.

Our People

At the heart of Ceres Power's technology sucess are its employees which have recently expanded to a team of more than 160. The importance of recruitment and retention means that employee engagement is critical to the continuing development of our technology, our deepening partnerships with world-class companies and our sustainable competitive advantage. We have a diverse, multinational workplace with >20% of our employees coming from outside of the UK, working from our site in the South of England.

Our Partners and Suppliers

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

Enabling society through our technology

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

IN FOCUS

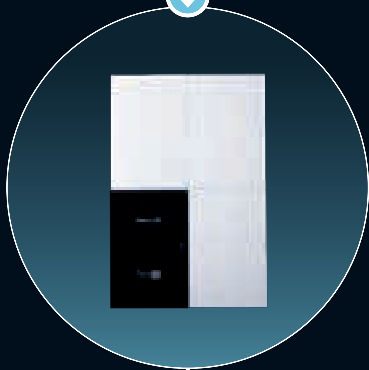
ENABLING SOCIETY
CASE STUDY

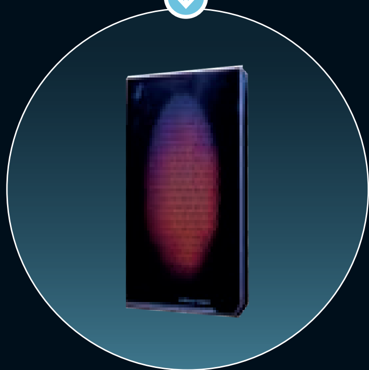
A connected system: fuel cell, battery and EV

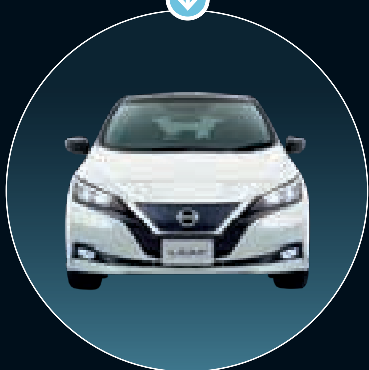
In the future, Ceres Power SteelCells® could be operated in combination with batteries and electric vehicles to be a more harmonic and effective way to generate electricity to power Electric Vehicles (EVs) and reduce air pollution. This configuration would not only facilitate the replacement of combustion engines in vehicles, reducing SOx and NOx and CO_2, but also alleviates the pressure on the existing centralised power grid while generating power in a much more efficient way.

This configuration could be used in offices and homes, as well as other locations, and Ceres Power is already trialling a fuel cell, home battery and battery electric vehicle in an employee's home as part of a low carbon energy system to evaluate the combined environmental and financial benefits to a property.

Both the fuel cell and the battery can be easily installed in homes and businesses with no significant disruption or complex integration. A 700W fuel cell system provides enough power for a typical home, as well as the power required by a small electric vehicle for its daily use. The battery minimises the amount of grid import and export and could be supplemented by other renewables such as solar.







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.

RICHARD PRESTON CHIEF FINANCIAL OFFICER

Richard was appointed Chief Financial Officer at Ceres Power in 2013, prior to which he had been Financial Controller since 2008, where he also had programme manager roles across the business. Previously he held a number of senior positions 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.

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. 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.

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

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

KEY (R) Member of Remuneration Committee (NG) Member of Nomination and Governance Committee (A) Member of Audit Committee

Board of Directors and Executive team — Executive team — Board of Directors

ALAN AUBREY CHAIRMAN R NG

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.

STEVE CALLAGHAN SENIOR INDEPENDENT DIRECTOR R NG A

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.

CAROLINE HARGROVE NON-EXECUTIVE DIRECTOR

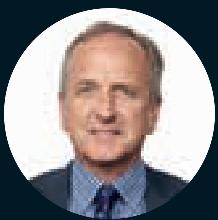
Caroline is a founding member of McLaren Applied Technologies, set up to exploit McLaren technology and expertise to new markets. She has worked in a range of sectors from motorsports to health, elite sports, manufacturing and energy.

She started her career as a lecturer in Engineering in Cambridge, followed by various roles in McLaren F1, mainly focused on the development of simulations and the first F1 simulator. She moved to Applied Technologies where she helped grow the company and is now its CTO.

Caroline is also a Fellow of the Royal Academy of Engineering and a Visiting Professor at Oxford and holds a PhD in Applied Mechanics from the University of Cambridge.

Brings to the Board:
Wide-ranging experience in the development and productisation of innovative technology solutions.

AIDAN HUGHES NON-EXECUTIVE DIRECTOR R NG A



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.

ROBERT TREZONA NON-EXECUTIVE DIRECTOR

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

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

Chairman's corporate governance report

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Dear Shareholder,

On the Board's behalf I am pleased to introduce the Ceres Power Corporate Governance Report for the year ended 30 June 2018.

We are committed to applying the updated 2018 Quoted Companies Alliance Corporate Governance Code (the 2018 QCA Code) and its ten principles. The Board recognises these are essential to support the long-term sustainable growth of the business, that it is accountable to the Company's shareholders and that effective governance is critical to business integrity and maintaining investors' trust.

As the Company is listed on AIM, it is not required to follow, and does not comply with, the UK Corporate Governance Code, although it is subject to the UK City Code on Takeovers and Mergers and is committed to applying the spirit of good corporate governance as envisaged by the Financial Reporting Council ("FRC") and compliance with the 2006 Companies Act.

In the following Corporate Governance Report on pages 26 to 31, we aim to explain how the Board discharges its governance responsibilities.

Board effectiveness

As a Board we need to regularly review our collective effectiveness and performance as well as that of the committees and individual Directors. We have worked on implementing suggestions arising from our external Board evaluation process carried out by Mrs Pat Chapman-Pincher (Board Effectiveness Consultant) in November 2016 and, since the year end, have engaged our lawyers to advise on practical changes to Board meeting structure (details of which are on page 28 and on our website) to increase the efficiency of Board meetings. The Board and its committees have all reviewed their effectiveness internally and continue to function well.

Since the year end we have made key changes in the following areas:

1. Looking at how we work as a Board of Directors with a move to a more formal main plc Board holding quarterly meetings with a focus on strategy and risk, and an operational Executive Board reporting into the Main Board;
2. Introducing a formal process to better manage potential conflicts of interest at the Main Board;
3. Evolving the remit of the Technical and Operations Committee to report into the Executive Board;
4. The recruitment of new Non-Executive Directors to increase relevant experience on the Main Board which increases diversity.

One effect of this new governance strategy is that Dr Mark Selby has moved from the Main Board to the Executive Board with effect from 1 October 2018. I wish to thank him for his work on the Main Board and of course he will remain a core part of the Executive team.

I must also extend my thanks to Dr Mike Lloyd, who retired from the Board on 31 July 2018, for his commitment to the Company during his tenure as a Non-Executive Director.

I further want to welcome Dr Caroline Hargrove to the Board as a Non-Executive Director who brings direct experience of fast-growing technology companies from her time as CTO at McLaren Applied Technologies.

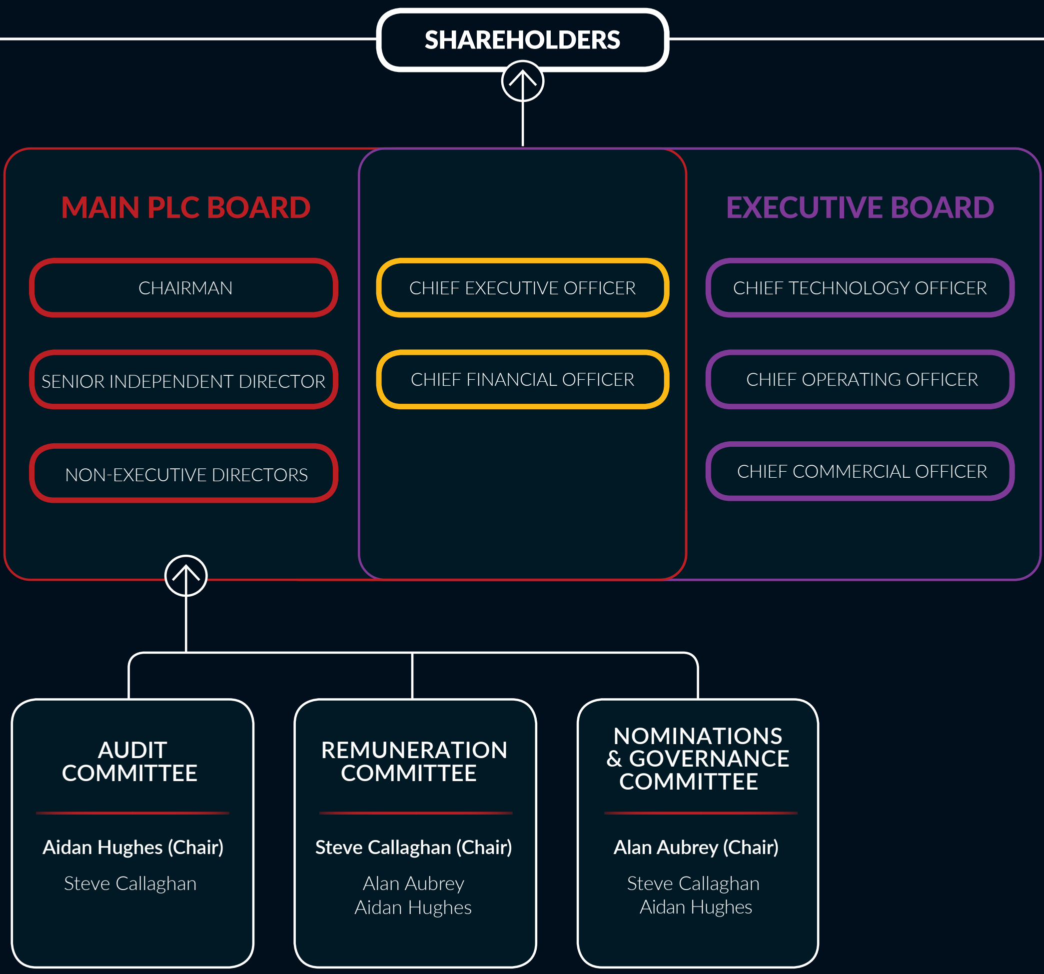
The Board also expects to welcome the opportunity of appointing a Non-Executive Director nominated by Weichai Power, upon completion of further commercial agreements which should trigger its increase to a 20% shareholding in the Company.

Corporate values

The Board embodies and promotes a corporate culture based on sound ethical values and behaviours from the top down which guides the Group's objectives and strategy. Where possible these values are replicated in our relations with suppliers and customers, compliance and internal controls, employee management, engagement and reward systems, and responsibility to the environment and local community.

Health and safety, for example, is an absolute priority for our business with management focused on safe working conditions and accurate reporting of any near misses and accidents along with root cause investigations. Reports are provided to the Board at every meeting to track incidents and remedial actions taken as necessary.

Governance framework



Shareholder communications

The past year has seen the successful fundraising which has both widened the investor base and promoted a greater level of shareholder engagement and communication.

Active relations and communications with our shareholders, understanding their views, needs and expectations and receiving feedback, are vital to our activities as are the shareholders' understanding of the Company's circumstances, plans and constraints.

The Company actively communicates with its shareholders through public announcements and press releases using the London Stock Exchange's Regulatory News Service (RNS), analyst briefings, face-to-face meetings with significant institutional shareholders, presentations at investor conferences and press interviews.

It also maintains its website (www.cerespower.com) which is the primary source of information for the Group and includes an overview of activities and details all recent announcements, information on its activities and significant developments including presentations and its Annual Report allowing shareholders to form a view of the Group.

Investors are encouraged to participate at the Annual General Meeting and any General Meetings. Shareholders are welcome to make contact with the Company and wherever possible their concerns or questions are responded to by a Director in person.

AGM

The AGM will be held at Viking House, Foundry Lane, Horsham, RH13 5PX on 5 December 2018 and I very much look forward to meeting shareholders able to attend. The meeting will give investors an opportunity to meet the Board and ask questions about the Group's activities.

ALAN AUBREY
CHAIRMAN

Corporate governance report

The Board of Directors

At the date of signing these accounts, the Board has two Executive Directors and five Non-Executive Directors including the Chairman. Biographical information for each Director and their contribution to the business is set out on pages 24 and 25.

Roles and responsibilities

The Board is responsible for setting the vision and strategy for the Company to deliver value to its shareholders through implementing its business plan. Under the Chairman's leadership Board members share collective responsibility for corporate governance arrangements.

The Board's powers and obligations are governed by the UK Companies Act 2006.

All Directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings. Newly appointed Directors are made aware of their responsibilities through the Company Secretary. The Company offers formal training of new Directors, if necessary, and provides induction into the Group as relevant.

Conflicts of interest

Under the Company's Articles of Association, the Board has the authority to manage and approve any conflicts or potential conflicts of interest of Directors.

Schedule of matters

The Board's responsibilities are set out in more detail in the Schedule of Matters Reserved for the Board which is available on the Company's website and includes: consideration and development of Group strategy against progress; setting annual operating budgets and approving major expenditure; approval of financial results; changes in Board composition; acquisitions and disposals; significant IP related contracts; capital structure and approval of raising of new equity and share schemes; treasury policy; dividends; material litigation and various statutory and regulatory approvals.

During the year the Board met formally on eight occasions, attended a two-day strategy meeting and undertook several telephone discussions to cover matters which included those shown under the section headed 'Key areas of focus'.

The Chief Executive Officer, Chief Financial Officer and Company Secretary keep the Board advised of important developments and the Board receives papers prior to Board meetings to enable constructive discussion.

Board effectiveness

External board reviews take place every three years, internal reviews take place every year, and in addition, the Directors also monitor the Board's performance on an ongoing basis. The Board agrees that the Chairman continues to provide strong and purposeful leadership. It further agrees that it has the right balance of skills, experience and independence to evolve strategy and that it works effectively as a team.

The Board and Non-Executive Directors make a point of regularly visiting the Horsham site, holding meetings with senior management and tracking progress against KPIs, identifying potential risks and issues with a view to ensuring that the Company remains on track to grow and deliver in its market and maximises shareholder value.

The Committees also carried out their own internal evaluations which confirmed that their compositions, skills and experience are still considered appropriate and effective. The membership and key activities of each committee are set out later in this governance report.

More specifically, acting on the conclusions of the external Board effectiveness review in November 2016, the Board will improve the focus of the main plc Board by moving to quarterly Board meetings. The Executive Board will continue to meet monthly.

The Board has taken further advice to help refine its agendas and board papers to ensure it concentrates on key strategic issues and risks, specifically those relating to the move towards commercialisation and managing conflicts of interest.

During the year the Board received updates on AIM rules, the GDPR and other governance, regulatory and financial matters as published.

Composition of the Board

Throughout the financial year the Board comprised eight Directors including the Non-Executive Chairman, the Senior Independent Director, three other Non-Executive Directors, the Chief Executive Officer, Chief Financial Officer and Chief Technology Officer.

The roles of the Chairman and the Chief Executive Officer

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

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

- Considered Board and Committee Effectiveness in particular to improve Board focus, diversity and succession planning
- Introduced GDPR data protection policies and procedures
- Entered into a strategic commercial agreement with Weichai Power to enter Chinese markets and potentially form a joint venture to manufacture fuel cells in China
- Agreed a local site for the new manufacturing facility
- Reduced the number of Board meetings to quarterly meetings to allow for more strategic planning between meetings and be further aligned with the 2018 QCA Code
- Has successfully raised £49 million through equity issues with financial investors and strategic partners and completed a share consolidation
- Entered into a commercial agreement with Bosch which included the issue of new equity under authorities given at the previous General Meeting
- Is reviewing the Group's IT security systems and procedures

Independence of Non-Executive Directors

The Board considers that Steve Callaghan, Aidan Hughes and Caroline Hargrove, who was appointed after the year end, are independent in accordance with the recommendations of the QCA Code.

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

The Non-Executive Directors do not participate in any of the Company pension or bonus arrangements, and they do not receive any other remuneration from the Company other than Directors' fees and reimbursement of expenses. At the year-end one Non-Executive Director had share options which are disclosed on page 37.

Director appointments and rotation

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. As a Senior Independent Director, Steve Callaghan has offered himself up for re-election annually to ensure that shareholders are comfortable with his being on the Board.

Renewals of terms for a Non-Executive Director take into account ongoing performance, continuing independence and the needs and balance of the Board as a whole. Where it is in the Company's interests to do so, Non-Executive Director appointments can be extended beyond the best practice two three-year terms, with the approval of the Nominations Committee, Board and individual Director concerned.

Caroline Hargrove will stand for election at the 2018 AGM along with Alan Aubrey, Stephen Callaghan and Richard Preston who will stand for re-election. Their biographies and contribution to the business are set out on pages 24 and 25.

The Company reviews annually the level of Directors' and Officers' liability insurance cover required.

Corporate governance report

Board attendance

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

The attendance of members of the Board and Committees at scheduled Board and Committee meetings during the year are shown in the table below. There were further ad hoc meetings as and when required.

Committee	Main plc Board	Audit Committee	Remuneration Committee	Noms and Gov Committee	Technical and Operations Committee
Meetings held in the year	8	2	3	2	7
Executive Directors					
Phil Caldwell	8	n/a	n/a	n/a	n/a
Richard Preston	7	n/a	n/a	n/a	n/a
Mark Selby	8	n/a	n/a	n/a	5
Non-Executive Directors					
Alan Aubrey	8	n/a	3	2	n/a
Steve Callaghan	8	2	3	2	n/a
Mike Lloyd	8	2	3	2	6
Rob Trezona	8	n/a	n/a	n/a	6
Aidan Hughes	8	2	3	2	n/a
Executives					
James Falla	n/a	n/a	n/a	n/a	6

Internal controls and risks

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

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

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

The Annual Report

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

Committees of the Board

The Board delegates certain items of business to its Committees which in the year were the Audit Committee, Remuneration Committee, Nominations and Governance Committee and Technical and Operations Committee. Going forward, the Technical and Operations Committee will report into the Executive Board, with a summary to be provided to the Main plc Board. Each Committee operates under clear terms of reference which were updated in 2017 and are available on the Company's website.

Each Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties and to obtain outside legal or other professional advice on any matter within its terms of reference. Each of these Committees meets on a regular basis throughout the year as appropriate and each is accountable to the Board. Each Committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating effectively and recommends any changes it considers necessary to the Board for approval.

The Chair of the Remuneration Committee has prepared his Committee report, which is on page 32.

Audit Committee

During the year the Audit Committee was composed entirely of Non-Executive Directors, chaired by Aidan Hughes alongside Steve Callaghan and Mike Lloyd. It is considered to have sufficient, recent and relevant financial experience and competence to discharge its responsibilities. Aidan Hughes, who has served as Non-Executive Director and Chairman of the Committee since 2015, has significant senior financial experience, which is further detailed in his biography on page 25 of this Annual Report.

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

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

The Audit Committee's main responsibilities include:

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

During the year, in addition to discharging its responsibilities above, the Audit Committee reviewed the treasury policy, considered the Group's tax structure in light of the developing commercial activities and considered the Executive Board proposal to consolidate the Company's shares. It also reviewed its whistleblowing policy, which remains unchanged.

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

The Committee also assessed the effectiveness of the external auditor, KPMG LLP, and was satisfied that the advice the Company received from KPMG LLP has been objective and independent. Fees paid to KPMG LLP during the year are disclosed in note 3 to the Financial Statements in this Annual Report. The Committee recommends the reappointment of KPMG as auditor of the Company and this will be put to shareholders at the 2018 AGM.

Nominations and Governance Committee

During the year the members of the Committee were Alan Aubrey as Chairman, Steve Callaghan, Aidan Hughes and Mike Lloyd.

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

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

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

Technical and Operations Committee

The members of the Committee during the year were Mike Lloyd as Chairman, Robert Trezona, Mark Selby, and James Falla.

As noted earlier, going forward the Committee will report into the Executive Board on any technical and operational issues and risks and their impact on the Group's roadmap, with a summary to be provided to the Main plc Board.

Remuneration committee report

FOR THE YEAR ENDED 30 JUNE 2018

Dear Shareholder,

The Remuneration Committee (the Committee) ensures remuneration arrangements are aligned to the execution of Group strategy and effective risk management for the medium to long term for the Group's Executive Directors and Group employees. The Committee does so within the agreed terms of reference taking into account the views of shareholders.

Chaired by Stephen Callaghan, during the past year the Committee was exclusively composed of independent Non-Executive Directors, Alan Aubrey, Mike Lloyd and Aidan Hughes, and thus isolated from Executive Directors and senior management. The Chief Executive, Chief Financial Officer and Company Secretary are invited to attend meetings where appropriate. Mike Lloyd has since retired from the Board and the Committee with effect from 31 July 2018. While it is unusual for the Chairman to sit on the Remuneration Committee, the Board has considered that as Alan Aubrey brings relevant experience he should continue to serve as a Committee member. As we evolve the business, however, this may be subject to review. The Committee meets three times annually and in the past year each member was able to attend 100% of the meetings.

An internal Committee effectiveness review was carried out in 2017 and each Committee member concluded that the Committee made sufficient time to properly consider all matters taking advice where necessary. The review proved helpful and confirmed that Committee members understood the Committee's role. It further confirmed that members have adequate time and information to properly discharge their responsibilities, including effective communication with shareholders as regards Long Term Incentive Plan (LTIP) considerations.

The Remuneration Report is split into the following three sections:

- a summary of the work done by the Committee in 2017/18;
- the Remuneration Policy Report (the Policy) which sets out the Group's policy on Directors' remuneration; and finally
- the Annual Report on Remuneration which sets out the remuneration paid to Directors in 2017/18.

Annual Statement summarising the work of the Remuneration Committee

During the year the Committee's key activities included:

- reviewing and agreeing Executive remuneration, including annual pay, individual attainment review and achievement against performance targets for the 2017/18 bonuses and agreeing LTIP awards, as well as considering wider inclusion in the LTIP beyond the Executive team. As part of this activity the Committee also considered recent corporate governance developments in relation to Executive Remuneration;
- considering and agreeing the annual Group-wide salary increase;
- considering dilution effects of LTIP awards and Save As You Earn (SAYE) schemes and best practices regarding the exercise of share options;
- considering and selecting key performance targets and thresholds for 2017/18;
- considering Directors' minimum shareholding; and
- reviewing and agreeing updated Terms of Reference for the Committee

Remuneration Policy Report

The remuneration policy of the Group is to:

- provide a suitable remuneration package to attract, motivate and retain Executive Directors and wider Executive team who will run the Group successfully; and
- ensure that all long-term incentive schemes for the Directors are consistent with the shareholders' interests.

No Director or senior manager is involved in any decisions as to their own remuneration. The Committee is, however, responsible for making recommendations to the Directors on matters relating to the Group's remuneration structure, including pension rights, the policy on compensation for Executive Directors and their terms of employment. In order to achieve that overall aim the Committee has continued to provide a suitable balance of short-term and long-term incentives.

Remuneration Policy for Executive Directors

Remuneration packages are reviewed annually on the basis of market comparisons with positions of similar responsibility and scope in comparable industries.

The current policy for Executive Directors is to pay base salary with an annual performance-related bonus. The Group also awards Performance Share Plan (PSP) shares to the Executive team and others to create a long-term incentive plan (LTIP). These performance shares are linked to Key Performance Indicators and structured to align corporate and individual performance to the long-term success of the Group.

The Remuneration Policy therefore provides a summary of each element of remuneration for the Executive Directors with an explanation of its purpose, link to strategy, its operation, maximum opportunity and the performance measures.

Executive Directors – short-term incentives

Base salary

Base salary is based on a number of factors, including market rates, benchmarking to peers, as well as the individual Director's experience, responsibilities and performance. Individual salaries are subject to annual review. Salaries for the financial year 2018/19 have been set at £220,000 for the CEO and £150,000 for the CFO, being increases of 8.1% and 10.5% from £203,490 and £135,760 respectively.

Performance related bonus

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

Measures and targets for the annual bonus for the Executive Directors and team are set annually by the Committee. The annual bonus plan is awarded against achievement of both corporate and individual performance targets. Typically, the majority of the bonus will be based on a balanced scorecard reflecting delivery against key commercial, technical, operational and financial deliverables. The Committee will therefore vary the specific measures and targets each year where required to ensure that they reflect the key financial and strategic priorities (KPIs) for the Group in a given year.

For the 2017/18 financial year the recommended maximum bonus 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 98% of the maximum award for the CEO, 123% for the CFO and 103% for the CTO (2017: achievement against targets was 80% for the CEO, 51% for the CFO and 53% for the CTO).

Based on benchmarking to market rates the Committee has increased the recommended maximum bonus for the 2018/19 financial year to 100% for the CEO and 40% for the CFO.

Pension and other benefits

All Executive Directors, along with other employees, are able to 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. This is compliant with legal requirements with both the employee and employer making contributions under automatic enrolment provisions. All employees also benefit from life assurance of four times salary.

Executive Directors – long-term incentives

Long Term Incentive Plan (LTIP)

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

In 2016 the Remuneration Committee established a LTIP and invited the Executive team and certain key individuals in the Group to join it. Performance targets are aligned to the Group's strategic plan and are measured over a period of three years. Malus, hold and clawback conditions apply. The Remuneration Committee awarded LTIP options to the Executive Directors, Executive Team and other employees during 2017 and actively considers further LTIP awards on an annual basis.

Share options

Historically members of the Executive team and many of the employees have been awarded share options at market price. These options generally have vesting periods between three and six years and have no performance criteria attached. They are not now the preferred method of share incentivisation.

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

Executive Director service agreements

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

Non-Executive Directors

Fees for Non-Executive Directors are determined by the Board upon the recommendation of the Remuneration Committee on the basis of market comparisons with positions of similar responsibility and scope in companies of a similar size in comparable industries. Non-Executive Directors do not have service contracts, are not eligible for pension scheme membership nor to participate in the Group's LTIP, and they do not participate in any of the Group's bonus schemes or receive any other benefits. They have letters of engagement with the Company and appointment can be terminated on one month's written notice by either side.

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

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

In July 2017, the Board approved a Committee recommendation that Non-Executive Directors and Chairman fees be increased by £10,000 to align with market conditions. There are no additional fees paid to Non-Executive Directors for participation in subcommittees.

Remuneration policy for senior managers and other employees of the Company

The remuneration policy of key senior managers and employees in the Group is similar to that of the Executive Directors. Where appropriate, they participate in the discretionary annual bonus plan as well as the LTIP. A large proportion of employees participate in the annual SAYE scheme giving employees an option to save and purchase shares in the Group at a discount to the market price.

Annual Report on Remuneration

Total remuneration (audited)

The remuneration of each of the Directors for the year ended 30 June 2018 is set out in the table below.

	Salary/fee £	Pension[1] £	Bonus £	**Total 2017/18 £**	Total 2016/17 £
Executive					
Phil Caldwell	203,490	17,129	100,000	**320,619**	305,460
Richard Preston	135,760	12,758	50,000	**198,518**	178,748
Mark Selby	129,800	10,926	40,000	**180,726**	172,430
Non-Executive					
Alan Aubrey	45,000	–	–	**45,000**	35,000
Stephen Callaghan	40,000	–	–	**40,000**	30,000
Aidan Hughes	40,000	–	–	**40,000**	30,000
Mike Lloyd	40,000	–	–	**40,000**	30,000
Robert Trezona	40,000	–	–	**40,000**	30,000

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

Details of Directors' interests in share options (audited)

Please note that on 7 August 2018 Ceres Power Holdings plc completed a 1 for 10 share consolidation, where every 10 existing ordinary shares of 1p each in the Company were consolidated into 1 ordinary share of 10p each. As a result of this all existing share options at the date of consolidation were altered to reflect the new capital structure. The table below does not show the impact of this consolidation as it occurred after the year end.

	At 1 July 2017 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2018 number	Exercise price	Exercise period
Phil Caldwell							
Options (unapproved)	2,000,000	–	–	–	**2,000,000**	£0.085	Sept 2014 – Nov 2023
Options (unapproved)	2,000,000	–	–	–	**2,000,000**	£0.085	Sept 2015 – Nov 2023
Options[2]	2,000,000	–	–	–	**2,000,000**	£0.085	Nov 2016 – Nov 2023
Options[2]	2,000,000	–	–	–	**2,000,000**	£0.085	Nov 2017 – Nov 2023
Options[2]	2,000,000	–	–	–	**2,000,000**	£0.085	Nov 2018 – Nov 2023
Options[2]	2,000,000	–	–	–	**2,000,000**	£0.085	Nov 2019 – Nov 2023
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 – Oct 2019
Sharesave options (approved)	136,363	–	–	–	**136,363**	£0.067	Feb – July 2020
LTIP	6,507,000	–	–	–	**6,507,000**	£0.010	Sept 2019 – Sept 2026
LTIP	–	870,000	–	–	**870,000**	£0.010	Oct 2020 – Oct 2027
	22,851,696	870,000	–	–	**23,721,696**		

2 A portion of these share options are EMI approved.

Remuneration committee report

FOR THE YEAR ENDED 30 JUNE 2018

	At 1 July 2017 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2018 number	Exercise price	Exercise period
Richard Preston							
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2016 – Jan 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2017 – Jan 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2018 – Jan 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2019 – Jan 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	Apr 2016 – Apr 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	Apr 2017 – Apr 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	Apr 2018 – Apr 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.099	Apr 2019 – Apr 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2017 – July 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2018 – July 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2019 – July 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	July 2020 – July 2024
Sharesave options (approved)[3]	165,441	–	–	–	**165,441**	£0.054	Feb – July 2018
Sharesave options (approved)	208,333	–	–	–	**208,333**	£0.043	May – Oct 2019
Sharesave options (approved)	–	84,905	–	–	**84,905**	£0.106	Feb – July 2021
LTIP	1,302,000	–	–	–	**1,302,000**	£0.010	Sept 2019 – Sept 2026
LTIP	–	470,000	–	–	**470,000**	£0.010	Oct 2020 – Oct 2027
	6,275,774	554,905	–	–	**6,830,679**		

[3] The options were exercised after the year end.

	At 1 July 2017 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2018 number	Exercise price	Exercise period
Mark Selby							
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2016 – Jan 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2017 – Jan 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2018 – Jan 2023
Options (approved)	400,000	–	–	–	**400,000**	£0.010	Jan 2019 – Jan 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	Sept 2016 – Sept 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	Sept 2017 – Sept 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	Sept 2018 – Sept 2023
Options (unapproved)	90,000	–	–	–	**90,000**	£0.085	Sept 2019 – Sept 2023
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	Aug 2017 – Aug 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	Aug 2018 – Aug 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	Aug 2019 – Aug 2024
Options (unapproved)	375,000	–	–	–	**375,000**	£0.085	Aug 2020 – Aug 2024
Sharesave options (approved)[4]	165,441	–	–	–	**165,441**	£0.054	Feb – July 2018
Sharesave options (approved)	208,333	–	–	–	**208,333**	£0.043	May – Oct 2019
LTIP	1,245,000	–	–	–	**1,245,000**	£0.010	Sept 2019 – Sept 2026
LTIP	–	470,000	–	–	**470,000**	£0.010	Oct 2020 – Oct 2027
	5,078,774	470,000	–	–	**5,548,774**		
Stephen Callaghan							
Options (unapproved)	1,500,000	–	–	–	**1,500,000**	£0.099	Apr 2016 – Apr 2023
	1,500,000	–	–	–	**1,500,000**		
Mike Lloyd							
Options (unapproved)[5]	750,000	–	(750,000)	–	**–**	£0.010	Dec 2015 – Dec 2022
Options (unapproved)[5]	170,000	–	(170,000)	–	**–**	£0.099	Apr 2016 – Apr 2023
	920,000	–	(920,000)	–	**–**		

4 The options were exercised after the year end.

5 These options were exercised on 29 November 2017 at a market price of £0.125 and the gain on exercise was £90,670. Having exercised these share options, Mike Lloyd retained the 920,000 shares.

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

In addition, during the 2016 and 2014 years, certain key employees and Directors who are option-holders under the 2004 share option scheme were awarded Employee Shareholder Status (ESS) shares in the Company's subsidiary, Ceres Power Intermediate Holdings Ltd. The ESS shares were granted as a modification to the unexercised 2004 Employees' share scheme options providing the relevant employees with additional exercise rights. The issue of the ESS shares has not changed the vesting period or exercise price of the unexercised 2004 Employees' share scheme options granted. The total fair value charge of the options remains unchanged and the gross benefit received cannot exceed the gain realisable under the original share options and it cannot be received at an earlier time. As part of this, in 2014, Phil Caldwell, Richard Preston and Mark Selby were awarded 8,932,516, 1,500,000 and 360,000 ESS shares respectively.

Directors' interests in shares

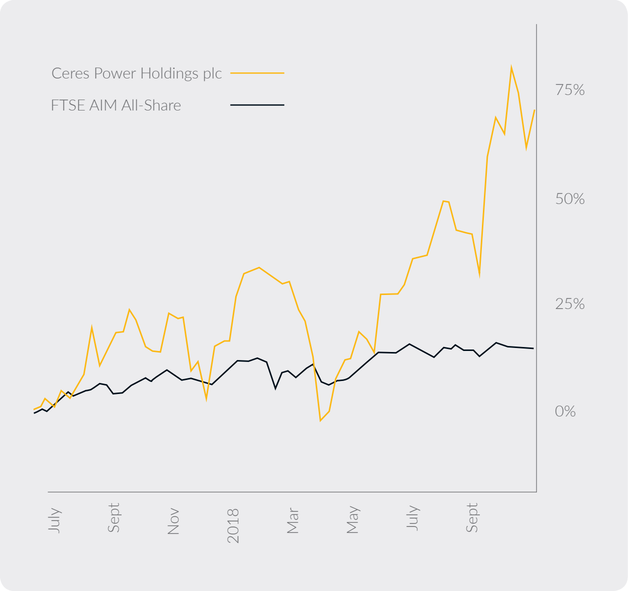
The Directors also had the following interests in shares in the Company as at the date of the signing of this Annual Report:

Phil Caldwell: 26,095 shares; Stephen Callaghan: 406,279 shares; Aidan Hughes: 26,520 shares; Richard Preston: 38,808 shares and Robert Trezona: 12,454 shares. Alan Aubrey held an interest in IP Group plc, the parent company of IP2IPO Ltd, a substantial shareholder of the Company.

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

Performance graph

The following graph shows the Group's performance, measured by total shareholder return ("TSR"), compared with the performance of the FTSE AIM (rebased) for the period from 1 July 2017 to 30 September 2018. 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 8 October 2018 and was signed on its behalf by:

STEPHEN CALLAGHAN
REMUNERATION COMMITTEE CHAIRMAN

Directors' report

FOR THE YEAR ENDED 30 JUNE 2018

The Directors present their Annual Report and the audited financial statements for the year ended 30 June 2018.

Principal activities

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

Review of business and future developments

A review of the Group's business, including events since the year end and an outlook for the future, is set out in detail in the Chairman's Statement and the Chief Executive's Review on pages 2 and 14 to 19.

The Directors continue to monitor developments in respect of the United Kingdom's (UK) prospective withdrawal from the European Union (EU) and the impact this may have on employee working rights, current and future grant funding and customers and suppliers located in the European Union. The Company recognises that foreign currency risk is one of the primary financial management risks in relation to the UK's withdrawal from the EU and this is further detailed in note 17 to the financial statements.

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 45.

The Directors do not recommend the payment of a dividend (2017: £nil).

Research and development

During the year, the Group incurred expenditure of £11,422,000 (2017: £10,516,000) on research and development which was expensed to the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The Chief Executive's Review reports on progress during the year. £47,000 of development costs relating to the design, development and configuration of the Company's manufacturing processes and technology for the new manufacturing site were capitalised as a development intangible in the year (2017: £nil).

Charitable and political contributions

The Group made no charitable or political donations and incurred no political expenditure during the year (2017: £nil).

Principal risks and uncertainties

In addition to financial risk management which is detailed in note 17 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 20 and 21.

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)
- Caroline Hargrove (Non-Executive Director) – appointed 1 October 2018
- Aidan Hughes (Non-Executive Director)
- Mike Lloyd (Non-Executive Director) – retired 31 July 2018
- Richard Preston (Chief Financial Officer)
- Mark Selby (Chief Technology Officer) – left office 1 October 2018
- 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 135,001,693 ordinary shares of £0.10 each of the Company on 8 October 2018:

Investor	Number of £0.10 ordinary shares	Percentage
IP Group plc	30,352,266	22.5%
Richard Griffiths	15,358,033	11.4%
Weichai Power	13,496,367	10.0%
Lansdowne Partners	11,186,126	8.3%
Lombard Odier Asset Management	9,443,152	7.0%
Oceanwood Capital	8,379,591	6.2%
Robert Bosch	5,973,660	4.4%

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 59 days (2017: 35 days). Trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 2 days (2017: 11 days).

Corporate governance

The Directors recognise the importance of good corporate governance. The principles of how the updated 2018 Quoted Companies Alliance Corporate Governance Code (the 2018 QCA Code) and other corporate governance guidelines have been applied are in the Corporate Governance section of this report and on the Company's website (www.cerespower.com).

Financial instruments

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

Statement of Directors' responsibilities

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Going concern

Having reviewed the Group's cash and short-term investments, forecast income and expenditure, performing appropriate sensitivity and scenario analyses, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Directors' statement on disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirmed that so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

By order of the Board

RICHARD PRESTON
CHIEF FINANCIAL OFFICER

8 October 2018

Viking House
Foundry Lane Horsham RH13 5PX

Independent auditor's report

TO THE MEMBERS OF CERES POWER HOLDINGS PLC

1. Our opinion is unmodified

We have audited the financial statements of Ceres Power Holdings plc ("the Company") for the year ended 30 June 2018 which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated statement of financial position, company balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, company statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2018 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Materiality: Group financial statements as a whole		£480,000 (2017: £480,000) 4.0% (2017: 4.2%) of Group loss before tax
Coverage		100% (2017: 100%) of Group loss before tax
Risks of material misstatement vs 2017		
Recurring risks	Risk of error over revenue recognition	**<Revenue>**
	Carrying value of investment in subsidiaries	**<Investment in subsidiaries>**

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

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

	THE RISK	OUR RESPONSE
Group; Revenue (£6.3 million; 2017: £3.1 million) Refer to page 52 (accounting policy) and page 54 (financial disclosures)	**Subjective estimate:** Each commercial revenue contract agreed with a customer is bespoke with differing components and performance obligations over varying time periods. Revenue is allocated to key components of each contract and recognised during the contract life when earned, either on delivery or on a percentage of completion basis based on costs incurred to date versus total estimated costs over the period that the work is performed. The allocation of revenue to components is judgemental. In addition, a revision in estimates associated with costs and/or timing could have a material impact on revenue recognised in the period. These judgements give rise to a risk that revenue is not recognised appropriately.	**Our procedures included:** — **Control design:** Evaluating the design and implementation of controls over the revenue recognition process. — **Test of detail:** We assessed the Group's revenue recognition policy against the requirements of the accounting standards, and considered the application of the policy in light of particular circumstances of individual contracts. — **Test of detail:** For all material commercial revenue contracts we assessed the Group's revenue recognition workings and methodology for the allocation of revenue to components and the timing of recognition with reference to contract requirements. — **Test of detail:** We assessed the percentage of completion by comparing the costs incurred to date to total expected costs. We challenged total estimated costs by comparing actual costs to budget. — **Assessing transparency:** We assessed the Group's disclosures in respect of the degree of estimation involved in arriving at the revenue recognised.
Parent Company; Investment in subsidiaries (£68.4 million; 2017: £67.3 million) Refer to pages 75 and 76 (accounting policy) and page 78 (financial disclosures)	**Low risk, high value:** The carrying amount of the company's investment in its subsidiary, held at cost less impairment, represents 86% (2017: 85%) of the company's total assets. We do not consider the recoverable amount of this investment to be at a high risk of significant misstatement. However, due to its materiality in the context of the company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.	**Our procedures included:** — **Test of detail:** Assessing for any indications of impairment such as market value declines, negative changes in technology, changes in amounts and cost of financing, net assets of the Company higher than market capitalisation, or worse economic performance than expected. — **Test of detail:** Comparing the carrying amount of the investment in subsidiary with the current market value of the Group, being an approximation of its recoverable amount, to identify whether the latter is in excess of its carrying amount.

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

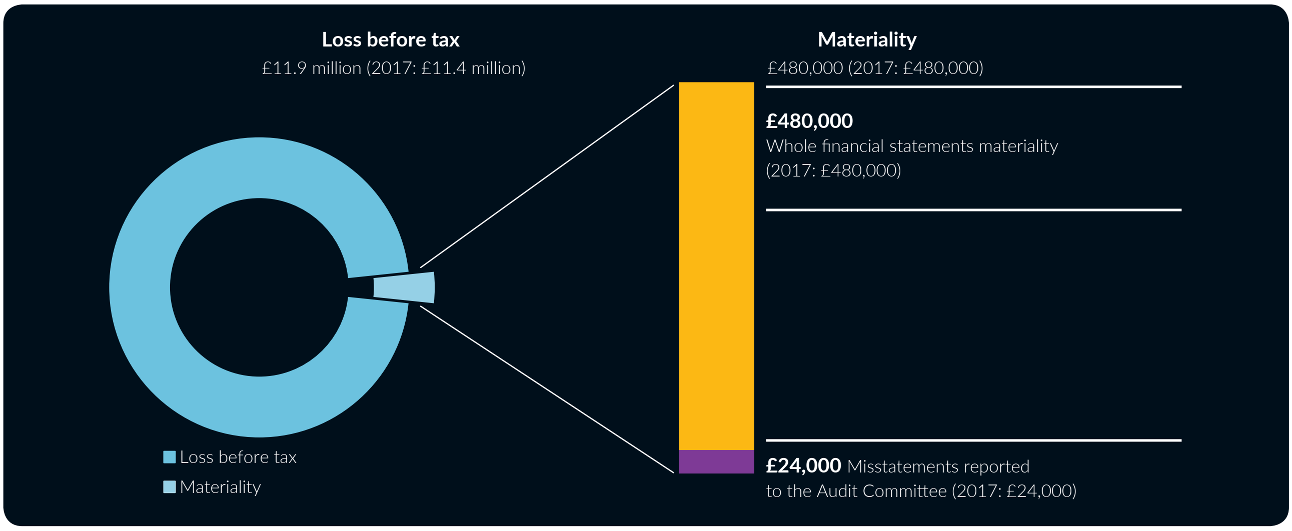
Materiality for the Group financial statements as a whole was set at £480,000 (2017: £480,000), determined with reference to a benchmark of Group loss before tax (of which it represents 4.0% (2017: 4.2%)).

Materiality for the parent Company financial statements as a whole was set at £430,000 (2017: £480,000). This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.54% of the Company's total assets (2017: 0.61%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £24,000 (2017: £24,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four (2017: four) reporting components, we subjected four (2017: four) to full scope audits for Group purposes. The components within the scope of our work accounted for 100% of revenue, loss before tax and total assets. The Group team approved the component materialities, which ranged from £170,000 to £430,000, having regard to the mix of size and risk profile of the Group across the components. The work on all of the components (2017: all of the components), including the audit of the parent Company, was performed by the Group team at the Company's head office in Horsham, West Sussex.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £24,000 (2017: £24,000), in addition to other identified misstatements that warranted reporting on qualitative grounds



4. We have nothing to report on going concern

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

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

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

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

Strategic report and Directors' report

Based solely on our work on the other information:

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

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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 40, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

GEMMA HANCOCK (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR
CHARTERED ACCOUNTANTS
1 Forest Gate
Brighton Road
Crawley, RH11 9PT

8 October 2018

Consolidated statement of profit and loss and other comprehensive income

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 £'000	2017 £'000
Revenue	2	**6,329**	3,119
Cost of sales		**(3,097)**	(1,334)
Gross profit		**3,232**	1,785
Other operating income	3	**680**	957
Operating costs	3	**(15,854)**	(14,264)
Operating loss		**(11,942)**	(11,522)
Finance income	4	**57**	89
Loss before taxation	3	**(11,885)**	(11,433)
Taxation credit	7	**1,961**	2,025
Loss for the financial year and total comprehensive loss		**(9,924)**	(9,408)
Loss per £0.01 ordinary share expressed in pence per share:			
– basic and diluted	8	**(0.98)p**	(1.00)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 49 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

AS AT 30 JUNE 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**2,197**	1,913
Other intangible assets	10	**47**	–
Total non-current assets		**2,244**	1,913
Current assets			
Inventories	12	**1,400**	595
Trade and other receivables	13	**3,151**	1,339
Other assets	14	**1,630**	1,123
Derivative financial instruments	17	**8**	8
Current tax receivable		**1,900**	1,805
Short-term investments	15	**–**	14,000
Cash and cash equivalents	15	**6,395**	3,158
Total current assets		**14,484**	22,028
Liabilities			
Current liabilities			
Trade and other payables and liabilities	16	**(4,290)**	(2,654)
Derivative financial instruments	17	**(5)**	(8)
Total current liabilities		**(4,295)**	(2,662)
Net current assets		**10,189**	19,366
Non-current liabilities			
Provisions	18	**(851)**	(828)
Total non-current liabilities		**(851)**	(828)
Net assets		**11,582**	20,451
Equity attributable to the owners of the parent			
Share capital	19	**10,163**	10,124
Share premium account		**107,445**	107,349
Capital redemption reserve		**3,449**	3,449
Merger reserve		**7,463**	7,463
Accumulated losses		**(116,938)**	(107,934)
Total equity		**11,582**	20,451

The notes on pages 49 to 72 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 72 were approved by the Board of Directors on 8 October 2018 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 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash used in operations	21	**(11,349)**	(10,822)
Taxation received		**1,866**	2,217
Net cash used in operating activities		**(9,483)**	(8,605)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,454)**	(863)
Investment in intangibles		**(47)**	–
Movement in short-term investments		**14,000**	(13,000)
Finance income received		**57**	89
Net cash generated from/(used in) investing activities		**12,556**	(13,774)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**135**	20,209
Expenses from issuance of ordinary shares		**–**	(635)
Net cash generated from financing activities		**135**	19,574
Net increase/(decrease) in cash and cash equivalents		**3,208**	(2,805)
Exchange gains on cash and cash equivalents		**29**	16
		3,237	(2,789)
Cash and cash equivalents at beginning of year		**3,158**	5,947
Cash and cash equivalents at end of year	15	**6,395**	3,158

The notes on pages 49 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
At 1 July 2016		7,779	90,120	3,449	7,463	(99,524)	9,287
Comprehensive income							
Loss for the financial year		–	–	–	–	(9,408)	(9,408)
Total comprehensive loss		–	–	–	–	(9,408)	(9,408)
Transactions with owners							
Issue of shares, net of costs	19	2,345	17,229	–	–	–	19,574
Share-based payments charge	20	–	–	–	–	998	998
Total transactions with owners		2,345	17,229	–	–	998	20,572
At 30 June 2017		10,124	107,349	3,449	7,463	(107,934)	20,451
Comprehensive income							
Loss for the financial year		–	–	–	–	(9,924)	(9,924)
Total comprehensive loss		–	–	–	–	(9,924)	(9,924)
Transactions with owners							
Issue of shares, net of costs	19	39	96	–	–	–	135
Share-based payments charge	20	–	–	–	–	920	920
Total transactions with owners		39	96	–	–	920	1,055
At 30 June 2018		**10,163**	**107,445**	**3,449**	**7,463**	**(116,938)**	**11,582**

The notes on pages 49 to 72 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of significant accounting policies

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

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

Basis of preparation

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

The Company has elected to prepare its entity financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and these are presented on pages 73 to 79.

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

Basis of consolidation

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

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

Going concern

In light of the equity fundraisngs completed after the year end, and having reviewed the Group's forecast income and expenditure, performing appropriate sensitivity and scenario analyses, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Critical accounting estimates and judgements

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

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

Revenue recognition

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

Revenue is allocated to key components of each contract at the outset and recognised during the contract life when earned. The revenue allocated to key components is reassessed throughout the contract life, as and when required, to take account of factors such as changes to the key components of the contract, the underlying assessment of costs to complete the contract, foreign exchange movements and the timing and length of the contract.

1. Summary of significant accounting policies continued

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

Capital risk management

The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure. Total capital, which is the Group's primary source of funding, is calculated as 'Total equity' as shown in the Consolidated Statement of Financial Position. The Group protects its capital by eliminating/hedging treasury risks that could expose the Group to the risk of material loss of capital (refer to note 17).

Property, plant and equipment

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

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

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

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

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

Cash and cash equivalents

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

Short-term investments

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

Inventories

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

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

1. Summary of significant accounting policies continued

Trade and other receivables

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

Trade and other payables

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

Taxation

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

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

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

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

Share-based payments

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

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

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

Foreign currencies

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

1. Summary of significant accounting policies continued

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 and direct costs

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

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

Government grants

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

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

Research and development expenditure

Expenditure on research activities is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense when incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs, if appropriate. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other development expenditure is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense as incurred.

Research and development costs in the year include all related costs of the ongoing enhancement of the Group's core technology, related systems and manufacturing processes and facilities.

1. Summary of significant accounting policies continued

The costs included in the development of the Company's core fuel cell technology and intellectual property are recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense as incurred. These 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.

The costs included in the design, development and configuration of the Company's manufacturing processes and technology for the new manufacturing site are capitalised as internally generated intangible assets. These include but are not limited to, the cost of materials, direct labour and a proportion of overheads and related costs.

Subsequent to recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives and the estimated useful lives are reviewed and adjusted as appropriate, at each balance sheet date. Intangible assets which are not yet available for use are tested for impairment at each balance sheet date.

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 17.

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

Provisions

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

Provisions have been made for future dilapidation costs on the leased property. This provision is the Directors' best estimate as the actual costs and timing of future cash flows are dependent on future events and are updated periodically. The estimate is supported by advice received from professional advisors. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Details of the Group's provisions are set out in note 18.

Reserves

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

1. Summary of significant accounting policies continued

Adopted IFRS not yet applied

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

- IFRS 9 Financial Instruments (effective date 1 January 2018). Management continue to assess its impact and do not expect this to be material.
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018). Management continue to assess its impact and do not expect this to be material.
- IFRS 16 Leases (effective date January 2019). Management have assessed the possible impact of the adoption of this standard and do not believe it to be material.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

2. Revenue and segmental information

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

The Group has adopted IFRS 8, 'Operating Segments'. IFRS 8 defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker ("CODM") to assess performance and determine the allocation of resources. The CODM 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 CODM assesses the performance of the operating segment on financial information which is measured and presented in a manner consistent with that in the financial statements.

Of the Group's revenue of £6,329,000, £610,000 was derived from Europe, £4,314,000 from Asia and £1,405,000 from North America (2017: Group revenue was £3,119,000, of which £715,000 was derived from Europe, £1,674,000 from Asia and £730,000 from North America). All of the Group's non-current assets are located in the United Kingdom. During the prior year deferred revenue of £439,000 was released in respect of contracted work completed for British Gas.

3. Loss before taxation

	2018 £'000	2017 £'000
Operating costs are split as follows:		
Research and development costs	**11,422**	10,516
Administrative expenses	**4,432**	3,907
	15,854	14,423
Reversal of provision relating to onerous lease and property dilapidations	**–**	(159)
	15,854	14,264
Loss before taxation is stated after charging/(crediting):		
Staff costs, including share-based payments (note 5)	**8,967**	8,221
Depreciation on property, plant and equipment (note 9)	**1,170**	1,259
Operating lease rentals payable – property, plant and machinery	**366**	341
Other operating income – grant income	**(680)**	(957)
Repairs expenditure on property, plant and equipment	**325**	259
Net change in fair value of financial instruments at fair value through profit or loss	**(3)**	21
Net foreign exchange gain	**(29)**	(16)
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	**13**	10
Fees payable to the Company's auditor for other services		
– the audit of the Company's subsidiaries	**47**	30
– other services relating to taxation	**3**	16
– other services	**24**	12
	87	68

4. Finance income

	2018 £'000	2017 £'000
Interest receivable on cash and short-term investments	**57**	89

5. Employees and Directors

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

	2018 Number	2017 Number
By activity:		
Commercial	**6**	4
Research and development	**117**	104
Administration	**20**	15
	143	123

5. Employees and Directors continued

	2018 £'000	2017 £'000
Staff costs (for the above persons) comprised:		
Wages and salaries, including compensation for loss of office	**6,854**	6,173
Social security costs	**718**	646
Other pension costs (note 6)	**475**	404
Share-based payments (note 20)	**920**	998
	8,967	8,221

	2018 £'000	2017 £'000
Directors' emoluments:		
Aggregate emoluments	**864**	775
Company contributions to defined contribution pension schemes	**41**	37
Gain on exercise of share options	**91**	4
	996	816

	2018 £'000	2017 £'000
Highest paid Director:		
Aggregate emoluments	**303**	289
Company contributions to defined contribution pension schemes	**17**	16
Gain on exercise of share options	**–**	4
	320	309

Three Directors (2017: three Directors) have retirement benefits accruing under defined contribution pension schemes.

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:

	2018 £'000	2017 £'000
Salaries and other short-term employment benefits	**1,047**	981
Post-employment benefits	**66**	59
Share-based payments	**613**	596
	1,726	1,636

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 £475,000 (2017: £404,000). A total of £78,000 (2017: £57,000) was payable to the funds at the year end.

7. Taxation

	2018 £'000	2017 £'000
UK corporation tax – R&D tax credit	**(1,900)**	(1,805)
Adjustment in respect of prior periods – R&D tax credit	**(61)**	(220)
Taxation credit	**(1,961)**	(2,025)

No corporation tax liability has arisen during the year (2017: £nil) due to the losses incurred.

A tax credit has arisen as a result of the tax losses being surrendered in respect of research and development expenditure in the current and prior years.

The tax result for the year is different from the standard rate of small profits UK corporation tax of 19.00% (2017: 19.75%). The differences are explained below:

	2018 £'000	2017 £'000
Loss before taxation	**(11,885)**	(11,433)
Loss before taxation multiplied by the UK tax rate of 19.00% (2017: 19.75%)	**(2,258)**	(2,258)
Effects of:		
Losses carried forward	**1,121**	784
Enhanced tax deductions for R&D expenditure	**(1,418)**	(1,355)
Expenses not deductible for tax purposes	**52**	208
Accelerated capital allowances and other timing differences	**35**	257
Adjustment in respect of prior periods – R&D tax credit	**(61)**	(220)
Difference between R&D tax credit and small company tax rates	**633**	625
Share option relief	**(65)**	(66)
Total taxation credit	**(1,961)**	(2,025)

Deferred taxation

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

	2018 £'000	2017 £'000
Tax effect of temporary differences because of:		
Difference between capital allowances and depreciation	**(1,641)**	(2,097)
Deductions relating to share options	**(872)**	(618)
Losses carried forward	**(11,245)**	(11,308)
	(13,758)	(14,023)

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. The potential deferred tax assets are calculated using the estimated UK tax rate of 17% (2017: 19%).

8. Loss per share

Basic and diluted loss per £0.01 ordinary share of 0.98p for the financial year ended 30 June 2018 (2017: 1.00p) 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 2018 or in the previous year.

The loss for the financial year ended 30 June 2018 was £9,924,000 (2017: £9,408,000) and the weighted average number of £0.01 ordinary shares in issue during the year ended 30 June 2018 was 1,014,833,814 (2017: 939,762,048).

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 2016	1,815	7,692	818	69	105	10,499
Additions	83	724	56	–	–	863
Transfers	–	105	–	–	(105)	–
At 30 June 2017	1,898	8,521	874	69	–	11,362
Additions	192	793	121	–	348	1,454
Disposals	–	(3)	–	–	–	(3)
At 30 June 2018	**2,090**	**9,311**	**995**	**69**	**348**	**12,813**
Accumulated depreciation						
At 1 July 2016	1,533	5,846	742	69	–	8,190
Charge for the year	349	872	38	–	–	1,259
At 30 June 2017	1,882	6,718	780	69	–	9,449
Charge for the year	146	965	59	–	–	1,170
Disposals	–	(3)	–	–	–	(3)
At 30 June 2018	**2,028**	**7,680**	**839**	**69**	**–**	**10,616**
Net book value						
At 30 June 2018	**62**	**1,631**	**156**	**–**	**348**	**2,197**
At 30 June 2017	16	1,803	94	–	–	1,913
At 30 June 2016	282	1,846	76	–	105	2,309

10. Other intangible assets

	2018 £'000	2017 £'000
Carrying amounts:		
Capitalised development	**47**	–

	2018 £'000	2017 £'000
Cost		
At 1 July	**–**	–
Additions from internal developments in relation to manufacturing site	**47**	–
At 30 June	**47**	–
Provisions		
At 1 July and 30 June	**–**	–
Net book value		
At 30 June	**47**	–

The following useful lives are used in the calculation of amortisation:

Capitalised development 5 years

The capitalised development intangible relates to the design, development and configuration of the Company's manufacturing processes and technology for the new manufacturing site and has not been amortised in the year as it is not yet available for use.

11. Subsidiary undertakings

Details of the Group's subsidiaries at 30 June 2018 are as follows:

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

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

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

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

12. Inventories

	2018 £'000	2017 £'000
Current:		
Raw materials	**775**	198
Work in progress	**625**	397
	1,400	595

13. Trade and other receivables

	2018 £'000	2017 £'000
Current:		
Trade receivables	**1,744**	547
Other receivables	**1,407**	792
	3,151	1,339

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

14. Other assets

	2018 £'000	2017 £'000
Current:		
Prepayments	**823**	321
Accrued income	**807**	802
	1,630	1,123

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

15. Cash and cash equivalents and short-term investments

	2018 £'000	2017 £'000
Cash at bank and in hand	**3,828**	1,354
Money market funds	**2,567**	1,804
Cash and cash equivalents	**6,395**	3,158
Short-term bank deposits greater than one month	**–**	14,000
	6,395	17,158

The Group holds surplus funds in accordance with the treasury policy, as set out in note 17.

	Interest rate type	2018 £'000	2017 £'000
Interest rate risk profile of the Group's financial assets:			
Cash at bank and in hand	Floating	**3,828**	1,354
Money market funds	Floating	**2,567**	1,804
Short-term bank deposits greater than one month	Fixed	**–**	14,000
		6,395	17,158

During the prior financial year the fixed rate short-term bank deposits in pounds sterling had terms of between 32 days and 12 months and earned interest of between 0.45% and 1.00%. 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.

16. Trade and other payables and liabilities

	2018 £'000	2017 £'000
Current:		
Trade payables	**1,650**	679
Taxation and social security	**3**	–
Other payables	**81**	59
Accruals	**1,623**	1,171
Deferred income	**933**	745
	4,290	2,654

17. Financial instruments

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

Fair values of financial assets and financial liabilities

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

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

Other than the forward contracts noted below, none of the Group's assets and liabilities were measured at fair value at 30 June 2018 (2017: £nil).

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

	Carrying amount 2018 £000	Fair value 2018 £000	Level 2 2018 £000	Carrying amount 2017 £000	Fair value 2017 £000	Level 2 2017 £000
Financial assets designated as fair value through profit or loss						
Forward exchange contracts	**8**	**8**	**8**	8	8	8
Financial liabilities designated as fair value through profit or loss						
Forward exchange contracts	**(5)**	**(5)**	**(5)**	(8)	(8)	(8)
Total financial instruments	**3**	**3**	**3**	–	–	–

17. Financial instruments continued

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. During the year the Group's treasury policy restricted 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 nine customers (2017: four), of which £2,000 relates to the Europe geographic region, £589,000 to North America and £1,153,000 to Asia (2017: £369,000 relates to the Europe geographic region and £178,000 to North America). 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 2018 (2017: £0.2 million).

Liquidity risk

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

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

	30 June 2018				30 June 2017			
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000
Non-derivative financial liabilities								
Trade and other payables and accruals	**(3,357)**	**(3,357)**	**(3,357)**	**–**	(1,909)	(1,909)	(1,909)	–
Derivative financial liabilities								
Forward exchange contracts:								
(Outflow)	**(5)**	**(205)**	**(205)**	**–**	(8)	(1,300)	(1,300)	–
Inflow	**–**	**200**	**200**	**–**	–	1,279	1,279	–

17. Financial instruments continued

Foreign currency exposures

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

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 2018	US dollar £'000	Euro £'000	Japanese yen £'000	Canadian dollar £'000	Other £'000
Exposures to foreign currency risk:					
Cash and cash equivalents	106	21	208	53	3
Trade receivables	593	4	–	–	–
Trade payables	(267)	(222)	(22)	–	–
Forward exchange contracts – foreign currency inflow/(outflow)	–	310	(205)	150	–
Balance sheet exposure	432	113	(19)	203	3
Net contracted income and expenditure	(30)	(423)	269	(189)	–
Net exposure	402	(310)	250	14	3

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

17. Financial instruments continued

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)	
	2018 £'000	2017 £'000
US dollar	**(41)**	(31)
Euro	**18**	(21)
Japanese yen	**(18)**	(12)
Canadian dollar	**(5)**	(2)
Other	**–**	–

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.

18. Provisions

The movement in property dilapidations charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income in the year are set out below along with the value of provisions at 30 June 2018:

Provisions for the year ended 30 June 2018

	Property dilapidations £'000
At 1 July 2017	828
Movements in the Consolidated Statement of Profit and Loss and Other Comprehensive Income:	
Increase in provision	23
At 30 June 2018	**851**
Current	–
Non-current	851
At 30 June 2018	**851**

The dilapidation provision recognised at the year end matches the present value of costs to be incurred, which is materially the same as the expected costs to be incurred, in making good the leasehold property at the end of its lease, details of which are in note 22.

19. Share capital

	2018 Number	2018 £'000	2017 Number	2017 £'000
Allotted and fully paid				
At 1 July	**1,012,419,929**	**10,124**	777,857,841	7,779
Allotted on exercise of employee share options	**3,849,264**	**39**	5,959,005	59
Allotted on cash placing	**–**	**–**	228,603,083	2,286
Ordinary shares of £0.01 each at 30 June	**1,016,269,193**	**10,163**	1,012,419,929	10,124

During the year 3,849,264 ordinary £0.01 shares were allotted for cash consideration of £135,000 on the exercise of employee share options (2017: 5,959,005 ordinary £0.01 shares for cash consideration of £206,000) (see note 20). During the prior year the Company completed a placing of 228,603,083 ordinary £0.01 shares for cash consideration of £20,003,000.

Post year end

On 27 July 2018, the Company completed the allotment of 260,952,269 ordinary £0.01 shares for gross cash consideration of £39,352,000. The allotment was in respect of the Weichai Power strategic investment, announced via the Regulatory News Service (RNS) on the 16 May 2018, for 128,326,275 ordinary £0.01 shares, and the placing of 132,625,994 ordinary £0.01 shares to existing and new institutional investors.

On 20 July 2018 at a General Meeting of the Company, the shareholders approved the issue of an option to Weichai Power, subject to the prior subscription being completed, allowing it to subscribe for up to an additional 182,115,100 ordinary £0.01 shares in the Company, but not more than 20% of the issued share capital of the Company, at a price of £0.1645 per share and subject to certain commercial documents being signed and conditions being met. This option has not been exercised at the date of this report.

On 7 August 2018, Ceres Power Holdings plc completed a 1 for 10 share consolidation, where every 10 existing ordinary shares of 1p each in the Company were consolidated into 1 ordinary share of 10p each. All outstanding capital instruments including employee share options and the aforementioned Weichai Power option were amended as a result of this consolidation.

Following the share consolidation, the Company completed the allotment of 5,973,660 ordinary £0.10 shares to Robert Bosch GmbH for cash consideration of £9,008,279 on 25 September 2018 and an additional allotment to Weichai Power of 663,740 ordinary £0.10 shares for cash consideration of £1,000,920 on 5 October 2018.

20. Share options

The total charge recognised in the year ended 30 June 2018 relating to employee share-based payments was £920,000 (2017: £998,000).

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.

	2018 £'000	2017 £'000
a) 2004 Employees' share option scheme	**289**	536
b) Sharesave schemes	**98**	97
c) Long Term Incentive Plan (LTIP)	**533**	365
d) Executive Directors' one-off award	**–**	–
	920	998

20. Share options continued

a) 2004 Employees' share option scheme

The Company has issued share options under this scheme for Directors and employees, under which approved and unapproved share options were granted, prior to the flotation of the Company in November 2004 and in subsequent years. The Company adopted the 'Ceres Power Holdings Ltd 2004 Employees' share option scheme' at the time of flotation.

Under this scheme, Directors and employees hold options to subscribe for £0.01 ordinary shares in Ceres Power Holdings plc at prices ranging from £0.01 to the closing mid-market price on the day preceding the share option grant. All options are equity-settled. The vesting period for all options is generally between three and six years. If the options remain unexercised after a period of ten years from the date of the grant, the options expire. Options are forfeited if the employee chooses to leave the Group before the options vest.

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

	2018		2017	
	Number ('000)	Weighted average exercise price	Number ('000	Weighted average exercise price
Outstanding at 1 July	**70,744**	**£0.06**	76,434	£0.07
Granted	**500**	**£0.14**	–	–
Exercised	**(3,630)**	**£0.03**	(4,185)	£0.02
Lapsed	**(1,285)**	**£0.05**	(1,505)	£0.60
Outstanding at 30 June	**66,329**	**£0.06**	70,744	£0.06
Exercisable	**44,647**	**£0.06**	32,159	£0.05

The weighted average share price on the exercise date of options was £0.12 (2017: £0.09).

The weighted average fair value of options granted in the year was £0.07 (2017: £nil).

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

	2018		2017	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2019	**£0.68**	**4**	£0.68	4
2023	**£0.03**	**23,195**	£0.03	27,295
2024	**£0.08**	**19,885**	£0.08	20,425
2025	**£0.09**	**18,705**	£0.09	18,780
2026	**£0.08**	**4,040**	£0.08	4,240
2028	**£0.14**	**500**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 5.52 years (2017: 6.42 years).

During the 2016 and 2014 years, certain option-holders under the 2004 share option scheme were awarded Employee Shareholder Status (ESS) shares in the Company's subsidiary, Ceres Power Intermediate Holdings Ltd. The ESS shares were granted as a modification to the unexercised 2004 Employees' share scheme options providing the relevant employees with additional exercise rights. The issue of the ESS shares has not changed the vesting period or exercise price of the unexercised 2004 Employees' share scheme options granted. The total fair value charge of these options remains unchanged and the gross benefit received cannot exceed the gain realisable under the original share options and it cannot be received at an earlier time.

20. Share options continued

b) Sharesave scheme

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

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

	2018		2017	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	**10,112**	**£0.05**	10,083	£0.05
Granted	**2,266**	**£0.11**	2,272	£0.07
Exercised	**(99)**	**£0.05**	(1,894)	£0.06
Lapsed/cancelled	**(125)**	**£0.04**	(349)	£0.05
Outstanding at 30 June	**12,154**	**£0.06**	10,112	£0.05
Exercisable	**1,871**	**£0.05**	–	–

The weighted average share price on the exercise date of options was £0.13 (2017: £0.09).

The weighted average fair value of options granted in the year was £0.06 (2017: £0.04).

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

	2018		2017	
Expiry date – 30 June	Actual and weighted average exercise price	Number ('000)	Actual and weighted average exercise price	Number ('000)
2019	**£0.05**	**1,872**	£0.05	1,971
2020	**£0.04**	**5,744**	£0.04	5,869
2021	**£0.07**	**2,272**	£0.07	2,272
2022	**£0.11**	**2,266**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 1.64 years (2017: 2.30 years).

c) LTIP

During 2016 a Long Term Incentive Plan (LTIP) was implemented by the Remuneration Committee. Participation in the LTIP is at the invitation of the Committee and is intended to be used to incentivise the performance and retention of the Company's Executives and certain key employees.

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

20. Share options continued

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

	2018		2017	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	**21,698**	**£0.01**	4,629	£0.01
Granted	**4,630**	**£0.01**	17,069	£0.01
Outstanding at 30 June	**26,328**	**£0.01**	21,698	£0.01
Exercisable	**–**	**–**	–	–

The weighted average fair value of options granted in the year was £0.05 (2017: £0.07).

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

	2018		2017	
Expiry date – 30 June	Actual and weighted average exercise price	Number ('000)	Actual and weighted average exercise price	Number ('000)
2026	**£0.01**	**4,629**	£0.01	4,629
2027	**£0.01**	**17,069**	£0.01	17,069
2028	**£0.01**	**4,630**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 8.37 years (2017: 9.14 years).

d) Executive Directors' one-off award

All 1,806,000 'one-off' options remain outstanding and exercisable at 30 June 2018 (2017: 1,806,000). No options were granted or exercised in the current or prior year. No options lapsed during the year (2017: nil).

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

	2018		2017	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2019	**£2.00**	**1,593**	£2.00	1,593
2020	**£2.00**	**213**	£2.00	213

The options outstanding at the end of the year have a weighted average contractual life of 0.57 years (2017: 1.57 years).

20. Share options continued

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:

Grant date	Sharesave scheme 2018 6 December 2017	2004 Scheme 2018 5 October 2017	Sharesave scheme 2017 6 January 2017
Share price at date of grant (£)	**0.133**	**0.135**	0.083
Exercise price (£)	**0.106**	**0.135**	0.066
Expected volatility (%)	**55%**	**56%**	58%
Expected option life (years)	**3.25 years**	**Up to 5 years**	3.25 years
Average risk-free interest rate (%)	**1.75%**	**1.75%**	1.00%
Expected dividend yield	**Nil**	**Nil**	Nil

The exercise prices of options are stated above. The expected life of the options is based on the best estimate of the average number of years expected from grant to exercise. The expected volatility is based on historical volatility of the Company's shares since the Company restructured in 2012. The risk-free rate of return is management's estimate of the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.

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

Grant date	LTIP 2018 5 October 2017	LTIP 2017 29 September and 6 December 2016
Share price at date of grant (£)	**0.135**	0.087 – 0.104
Exercise price (£)	**0.010**	0.010
Expected volatility (%)	**56%**	58%
Expected option life (years)	**Up to 7 years**	Up to 7 years
Average risk-free interest rate (%)	**1.75%**	2.4%
Expected dividend yield	**Nil**	Nil

21. Cash used in operations

	2018 £'000	2017 £'000
Loss before taxation	**(11,885)**	(11,433)
Adjustments for:		
Other finance income	**(57)**	(89)
Depreciation of property, plant and equipment	**1,170**	1,259
Net foreign exchange gains	**(29)**	(16)
Net change in fair value of financial instruments at fair value through profit or loss	**(3)**	21
Share-based payments	**920**	998
Operating cash flows before movements in working capital	**(9,884)**	(9,260)
Increase in trade and other receivables	**(1,812)**	(842)
Increase in other assets	**(507)**	(511)
Increase in inventories	**(805)**	(595)
Increase in trade and other payables	**1,636**	502
Increase/(decrease) in provisions	**23**	(116)
Change in working capital	**(1,465)**	(1,562)
Cash used in operations	**(11,349)**	(10,822)

22. 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:

	2018 Land and Buildings £'000	2018 Other £'000	2017 Land and Buildings £'000	2017 Other £'000
No later than one year	**429**	**29**	335	31
Later than one year and no later than five years	**1,732**	**9**	1,729	32
Later than five years	**457**	**–**	890	–
	2,618	**38**	2,954	63

At the year end the property has a minimum lease term of 6.1 years (2017: 7.1 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The office equipment leases have an average term of 1.1 years (2017: 2.1 years).

On 5 October 2018 the Group signed a lease to secure a new manufacturing facility in Redhill, UK to supply the increased customer demand from commercial programmes.

23. Contingent liabilities

Grants received of £705,000 (2017: £705,000), or an element thereof, may require repayment if the Group generates revenue (net of expenses and reasonable overheads) from the intellectual property created from the grant. In such case, the Group may be liable to pay back the grant at a rate of 5% of the net revenue generated in any one year. The Directors of the Group believe it is unlikely that any of the grants received will need to be repaid.

24. Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £1,307,000 as at 30 June 2018 (2017: £190,000), in respect of the acquisition of property, plant and equipment.

25. Related party transactions

The Group's related parties are its Directors and IP Group plc, through IP2IPO Ltd, which held 25.34% of the issued share capital at 30 June 2018 (2017: 27.07%).

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 34. Transactions with IP Group plc during the year amounted to £41,485 (2017: £182,000) comprising primarily Non-Executive Director fees of £40,000 (2017: £30,000), disbursements of £1,485 (2017: £nil) and in the year ended 30 June 2017, fees of £152,000 in relation to the placing which was taken in the form of 1,737,143 ordinary £0.01 shares. There was no outstanding balance due as at 30 June 2018 (2017: £nil).

On 29 November 2017 Mike Lloyd, a Director and shareholder in the Company, exercised 920,000 share options at a market price of £0.125 and the gain on exercise was £90,670. Having exercised these share options, Dr Lloyd retained the 920,000 shares.

In the prior year, Phil Caldwell, a Director and shareholder in the Company, exercised 143,312 share options at a market price of £0.0891 and the gain on exercise was £3,769. Having exercised these share options, Mr Caldwell retained the 143,312 shares.

There were no other related party transactions in the year or in the previous year.

26. Post balance sheet events

On 27 July 2018, the Company completed the allotment of 260,952,269 ordinary £0.01 shares for cash consolidation of £39,352,000. The allotment was in respect of the Weichai Power strategic investment, announced via the Regulatory News Service (RNS) on 16 May 2018, for 128,326,275 ordinary £0.01 shares, and the placing of 132,625,994 ordinary £0.01 shares to existing and new institutional investors.

On 20 July 2018 at a General Meeting of the Company, the shareholders approved the issue of an option to Weichai Power, subject to the subscription above being completed, allowing it to subscribe for up to an additional 182,115,100 ordinary £0.01 shares in the Company, but not more than 20% of the issued share capital of the Company, at a price of £0.1645 per share and subject to certain commercial documents being signed and conditions being met. This option has not been exercised at the date of this report.

On 7 August 2018, Ceres Power Holdings plc completed a 1 for 10 share consolidation, where every 10 existing ordinary shares of 1p each in the Company were consolidated into 1 ordinary share of 10p each. All outstanding capital instruments including employee share options and the aforementioned Weichai Power option were amended as a result of this consolidation.

Following the share consolidation, the Company completed the allotment of 5,973,660 ordinary £0.10 shares to Robert Bosch GmbH for cash consideration of £9,008,279 on 25 September 2018 and an additional allotment to Weichai Power of 663,740 ordinary £0.10 shares for cash consideration of £1,000,920 on 5 October 2018.

Company balance sheet

AS AT 30 JUNE 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Investments	3	**68,364**	67,309
Current assets			
Debtors: amounts falling due within one year	4	**11,125**	11,612
Cash at bank and in hand		**289**	130
		11,414	11,742
Creditors: amounts falling due within one year	5	**(11,272)**	(10,642)
Net current assets		**142**	1,100
Net assets		**68,506**	68,409
Capital and reserves			
Called up share capital	7	**10,163**	10,124
Share premium account		**107,445**	107,349
Capital redemption reserve		**3,449**	3,449
Profit and loss account		**(52,551)**	(52,513)
Shareholders' funds		**68,506**	68,409

The notes on pages 75 to 79 are an integral part of these Company financial statements.

The financial statements on pages 73 to 79 were approved by the Board of Directors on 8 October 2018 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 2018

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2016		7,779	90,120	3,449	(52,910)	48,438
Comprehensive income						
Loss for the financial year		–	–	–	(601)	(601)
Total comprehensive loss		–	–	–	(601)	(601)
Transactions with owners						
Issue of shares, net of costs	7	2,345	17,229	–	–	19,574
Share-based payments charge	7	–	–	–	998	998
Total transactions with owners		2,345	17,229	–	998	20,572
At 30 June 2017		10,124	107,349	3,449	(52,513)	68,409
Comprehensive income						
Loss for the financial year		–	–	–	(958)	(958)
Total comprehensive loss		–	–	–	(958)	(958)
Transactions with owners						
Issue of shares, net of costs	7	39	96	–	–	135
Share-based payments charge	7	–	–	–	920	920
Total transactions with owners		39	96	–	920	1,055
At 30 June 2018		**10,163**	**107,445**	**3,449**	**(52,551)**	**68,506**

The notes on pages 75 to 79 are an integral part of these Company financial statements.

Notes to the Company financial statements

FOR THE YEAR ENDED 30 JUNE 2018

1. Accounting policies

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

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

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

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

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

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

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

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

Measurement convention

The financial statements are prepared on the historical cost basis.

Trade and other debtors

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

Trade and other creditors

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

Investments in equity securities

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

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.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Capital redemption reserve

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

Taxation

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

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

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

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

1. Accounting policies continued

Share-based payments

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

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

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

2. Loss for the year

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its profit and loss account. The Company's result for the year was a loss of £958,000 (2017: loss of £601,000), which is stated after charging £13,000 (2017: £10,000) for remuneration receivable by the Company's auditor for the auditing of the financial statements.

3. Fixed asset investments

Investment in Group undertakings:

	2018 £'000	2017 £'000
Cost		
At 1 July	**79,751**	59,083
Capital contributions arising from share-based payment charge	**920**	998
Acquisition of shares in Ceres Power Intermediate Holdings Ltd	**135**	19,670
At 30 June	**80,806**	79,751
Provisions		
At 1 July	**(12,442)**	(12,442)
Impairment in fair value of investment in Ceres Power Intermediate Holdings Ltd	**–**	–
At 30 June	**(12,442)**	(12,442)
Net book value		
At 30 June	**68,364**	67,309

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

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

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

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

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

4. Debtors: amounts falling due within one year

	2018 £'000	2017 £'000
Other debtors	**150**	–
Prepayments and accrued income	**21**	14
Amounts owed by Group undertakings	**10,954**	11,598
	11,125	11,612

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 2018, a provision of £59,316,000 (2017: £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 £68,528,000 (2017: £69,575,000) are subordinated to all other creditors of Ceres Power Ltd.

5. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	**3**	10
Accruals	**488**	86
Amounts owed to Group undertakings	**10,781**	10,546
	11,272	10,642

6. Deferred taxation

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

	2018 £'000	2017 £'000
Tax effect of timing differences because of:		
Deductions relating to share options	**–**	(3)
Losses carried forward	**(1,084)**	(1,082)
	(1,084)	(1,085)

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. The potential deferred tax assets are calculated using the estimated UK tax rate of 17% (2017: 19%).

7. Called-up share capital

	2018 Number	2018 £'000	2017 Number	2017 £'000
Allotted and fully paid				
Ordinary shares of £0.01 each	**1,016,269,193**	**10,163**	1,012,419,929	10,124

On 7 August 2018, Ceres Power Holdings plc completed a 1 for 10 share consolidation, where every 10 existing ordinary shares of 1p each in the Company were consolidated into 1 ordinary share of 10p each. All outstanding capital instruments were amended as a result of this consolidation.

Details of shares issued in and after the period are provided in notes 19 and 26 to the Group financial statements. Details of share options are disclosed in note 20 to the Group financial statements.

Directors and advisors

Directors of Ceres Power Holdings plc

Alan Aubrey (Chairman)
Phil Caldwell (Chief Executive Officer)
Steve Callaghan (Senior Independent Director)
Caroline Hargrove (Non-Executive Director)
Aidan Hughes (Non-Executive Director)
Richard Preston (Chief Financial Officer)
Robert Trezona (Non-Executive Director)

Registered number

5174075

Company secretary

Caroline Buchan

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)

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

10 Old Burlington Street
London
W1S 3AG

Broker

Joh. Berenberg, Gossler & Co. KG

60 Threadneedle Street
London
EC2R 8HP

Registrar

Computershare Investor Services PLC

The Pavilions
Bridgwater Road
Bristol
BS99 6ZY

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Ceres Power Holdings plc

Viking House
Foundry Lane
Horsham
West Sussex
RH13 5PX
www.cerespower.com

Consultation, design and production by:
jonesandpalmer.co.uk

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Horsham
West Sussex
RH13 5PX

www.cerespower.com

@CeresPower