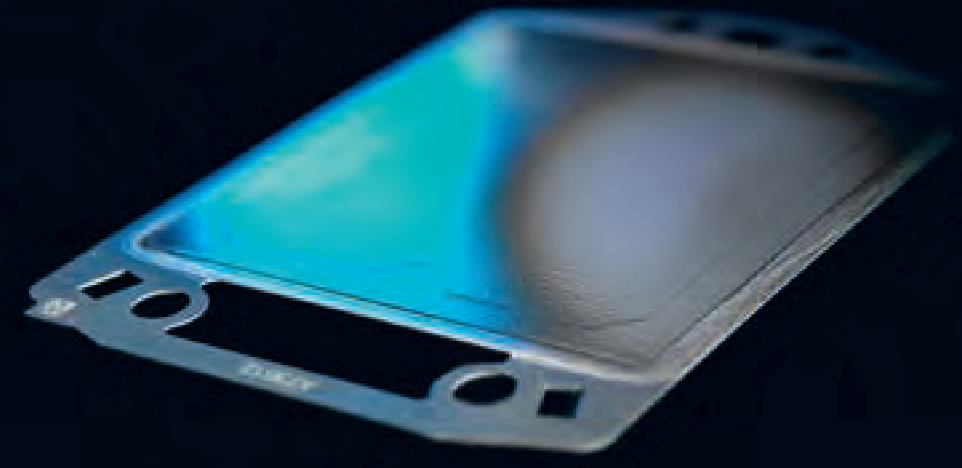
CeresPower®

Power for a
Changing World

2019 ANNUAL REPORT

Welcome to our 2019 Annual Report



Ceres Power Holdings plc is a world-leading technology company with the capability to deliver clean, scalable, combustion-free power.

We work with global pioneering companies to embed our SteelCell® technology into their mass-market energy products that serve commercial, data centre, automotive and residential markets.

Through our customers, we can equip manufacturers, industry and governments to help solve climate change and accelerate the world's transition to clean affordable energy.

OUR PRODUCT: STEELCELL®

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 among the most sought-after power generation technologies in the world and Ceres Power's SteelCell® is endorsed by multiple world-leading engineering companies.

HOW IT WORKS

In simple terms, SteelCell® is a perforated sheet of steel with special screen-printed ceramic layers. Using an electrochemical reaction, these can convert a variety of fuels directly into electrical power.

Ceres Power's core technology platform is protected by 50 patent families and is attracting the attention of manufacturers and system companies around the world.

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

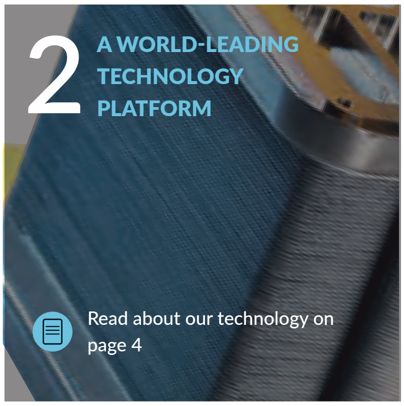
For further information within this document and relevant page numbers

Additional information online

A strong proposition

1 ENABLING A LOW CARBON FUTURE

Read about sustainability on pages 24 and 26

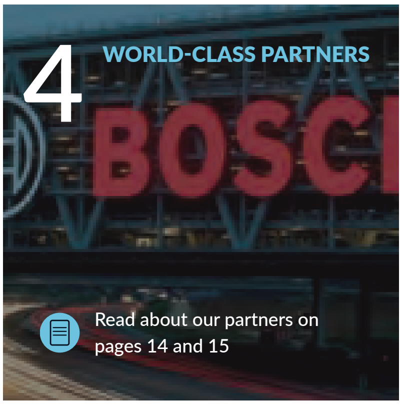


2 A WORLD-LEADING TECHNOLOGY PLATFORM

Read about our technology on page 4

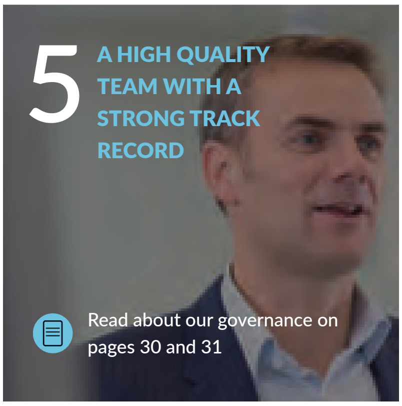
3 MULTIPLE APPLICATIONS, MULTIPLE GEOGRAPHIES

Read about our marketplace on pages 6 and 7



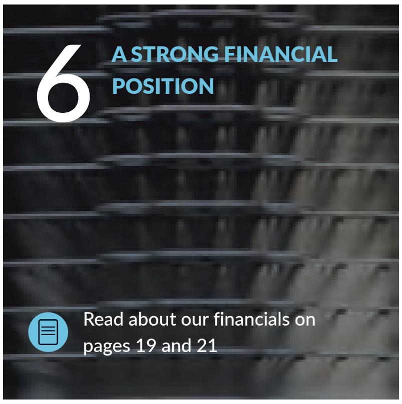
4 WORLD-CLASS PARTNERS

Read about our partners on pages 14 and 15



5 A HIGH QUALITY TEAM WITH A STRONG TRACK RECORD

Read about our governance on pages 30 and 31



6 A STRONG FINANCIAL POSITION

Read about our financials on pages 19 and 21

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FINANCIAL STATEMENTS

Chairman's statement

Ceres is playing a leading role in providing solutions that slash emissions and air pollution, for industry, data centres, transportation and everyday living.

2019 marked an inflection point for Ceres, when plans and potential began to translate into tangible delivery and measurable gains. Our close links with two of the world's major players in engine manufacture developed into two significant commercial licences and a commitment to form a manufacturing joint venture with Weichai in China.

Successful capital raising also ensured that our investment plans are fully funded, freeing us to concentrate on the growth of the business. We also widened our partner portfolio and, with our Japanese partner Miura Co. Ltd, will reach the first commercialisation of our technology in Q4 2019.

Market potential

Ceres is playing a leading role in providing technology that cuts emissions and air pollution, for transportation, industry, data centres and everyday living. The SteelCell® solid oxide fuel cell's capability to deliver much more efficient power than centralised generation, and with minimal emissions, comes to market as both governments and industry recognise climate change as a clear and present danger.

The UK Government is the first G20 country to legislate towards meeting a net-zero emissions target by 2050, and the EU is debating following suit. In Japan, there are now more than 300,000 ENE-Farm domestic energy units installed, heated and powered by fuel cells and, at next year's Tokyo Olympics, there will be a fleet of 100 fuel-cell-powered buses to transport spectators.

The Korean Government has announced a target of 15GW of stationary fuel cell capacity by 2040, and to put 80,000 hydrogen fuel cell electric vehicles (FCEVs) on its roads within the next three years. China, with its targets to reduce emissions and to counter considerable issues over air pollution in their cities, also has an active programme for new electric vehicles, including buses.

These types of measures, in territories that are focus areas for Ceres, come in addition to a myriad of urban and national targets, controls, incentives and penalties worldwide. Their effects can be seen driving new low-carbon, low-pollutant strategies. For example, Volkswagen has announced that its final generation of combustion engines will roll off the line in 2026 signalling the end of its internal combustion engine era.

During the year, the industry saw an increased level of investment in fuel cell technology, led by corporates with financial institutions following, as was the case with Ceres Power. The fuel cell market is projected to reach US$25 billion by 2025.

Operational activity

During FY2019, we continued to strengthen our relationships with leading global OEMs.

In particular, our relationships with Weichai, one of the world's leading automotive companies, and Bosch became even stronger. In Japan, we provide the fuel cell system for Miura's new 4.2kW CHP system, to be launched later this year; and in Korea, just after the close of the financial year, we added Doosan, one of the world's largest producers of fuel cell systems, to our partner portfolio. We also continue development projects with Cummins and Honda.

Each of these collaborations brings new learning and insight, and during the year we were delighted to appoint Dr Haoran Hu from Weichai to the Board as a Non-Executive Director. Ceres will benefit from his wealth of experience in the power and technology sectors, and his distinguished record of commercialising technology.

ESG

As our business grows, we are determined to manage our growth while focusing on environmental, social and governance (ESG) issues. As a business rooted in environmental improvement, this comes naturally to us. For the first time, we are reporting our progress against the UN's Sustainable Development Goals (SDGs), and have defined our own ESG policy, further details of which can be found on page 24.

Conclusion

This excellent year is once again the product of the powers of our people: their drive to innovate, their passion for challenge and their commitment to bring to market ever-more sustainable solutions. We attracted many new professionals to our team during the year and will create a further 60 high-skilled manufacturing roles as we open our new £8 million fuel cell manufacturing facility in early 2020 in Redhill, UK.

I thank everyone for their contribution, along with all our commercial partners, as we look forward to even greater things in FY2020.

ALAN AUBREY
CHAIRMAN
1 October 2019

Highlights

Commercial

Fourth licence partner added

- First product launch: Miura Co. to use Ceres' SteelCell® in fuel cell combined heat and power (CHP) product launch for commercial use in Japan
- Strategic partnerships signed with Bosch and Weichai including equity investment and licensing
- Post financial year-end: new system licence and joint development agreement worth £8.0 million with Doosan
- Order book[1] of £28.4 million (at report date).

133%
Revenue and other income growth

£71.3M
Fully funded cash

£8.0M
Manufacturing facility on track

Technology and Operations

New capacity and efficiency gains

- UK blueprint manufacturing facility (CP2) on track for production from January 2020. An £8.0 million investment with 60 new skilled jobs
- Increasing number of systems under licence (5kW, 10kW and 30kW)
- SteelCell® achieved key milestone of 60% net efficiency, twice that of a conventional gas engine and greater than a centralised megawatt-scale gas turbine.

Financial

Revenue doubles for fourth consecutive year

- Revenue and other operating income up 133% to £16.4 million at improved 75% gross margin
- Operating loss reduced to £7.9 million from £11.9 million
- Net cash used in operating activities down from £9.5 million to £3.1 million, reflecting improved operating loss
- Equity-free cash outflow[2] up slightly from £10.9 million to £11.9 million. £9.0 million invested, largely on new CP2 manufacturing facility in UK
- Raised £77.1 million of new equity (before expenses) in the year from strategic partners and financial institutions
- Cash and short-term investments of £71.3 million at 30 June 2019. Well financed to execute our plans.

Read about our performance on pages 16 to 19

[1] Order book is the contracted commercial revenue and grant income 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 and pipeline as a performance measure indicator as they believe that it is a useful indicator of the Group's commercial progress.

[2] Equity free cash outflow is the net change in cash and cash equivalents in the year (£1.2 million) less net cash generated from financing activities (£76.8 million) add the movement in short-term investments (£63.7 million). Management use equity free cash outflow 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.

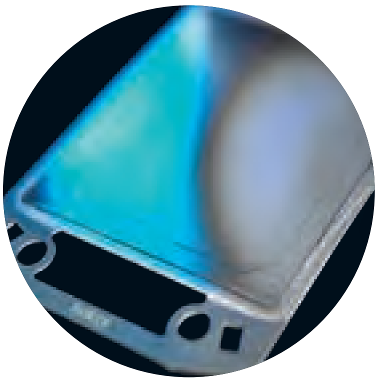
At a glance

Who we are and what we do

Ceres Power provides unique fuel cell technology which is borne out of Imperial College, London. We are a high-growth UK technology company with around 240 employees. Our licensing model focuses on being a high-margin, asset-light enterprise.

We are the developer of the groundbreaking SteelCell® – a low cost, non-combustion power generation technology.

A fuel cell is a power generation unit that produces, with no combustion, an electric current from a chemical reaction. It is the most efficient way to convert fuel to power. Fuel cell generation results in energy with low or even zero CO_2 produced (depending on the fuel used) as well as clean air with no particulates, SOx or NOx emissions.



Our Unique Technology – The SteelCell®

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. This enables a switch from centralised to distributed energy generation for business, homes and transport.

The key differentiators of the 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 hydrogen and other sustainable fuels in the future
- SteelCell® is highly efficient, robust and cost-effective to mass-manufacture
- Produces low or even zero carbon emissions and with 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.

The SteelCell® is a compelling proposition in a world that is working to tackle air pollution and climate change.

Applications

In addition to Ceres' 1kW stack which historically was associated with residential, micro-combined heat and power, we have developed a 5kW stack. Being modular and with improvements in performance, it has opened opportunities in the commercial, data centre and vehicle sectors. We continue to take this progression to new levels, and are currently developing systems up to 30kW in size.

Read about our business model on pages 10 to 11

Our geographic progress

Macro

- The market size for fuel cells is projected to grow to $25 billion by 2025
- 228 global cities, with a combined population of 436 million people, have already set greenhouse gas reduction goals and targets. Many have net-zero emissions targets by 2050, and goals of 80% reductions by 2030.

EUROPE

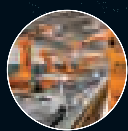
- June 2019: UK Government became the first G20 country to legislate for a net-zero emissions target by 2050
- Many cities already have aggressive bus transportation policies (e.g. London, Paris, Madrid and Athens) where only zero emission buses can be bought from 2025
- Incentive schemes in place for small-scale micro-CHP systems

CHINA

- Has introduced subsidies and zero-emission zones to reduce air pollution and carbon emissions in cities
- Current Five-Year Plan has supported fuel cell market through transport subsidies of up to US$74,000 per bus in 2018
- 1,000 fuel cell commercial vehicles sold in 2018, targeting 1 million fuel cell electric vehicles (FCEVs) on the roads by 2030

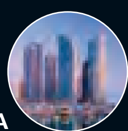
US

- Twenty-four States have committed to uphold their emissions commitments despite the country's withdrawal from the Paris Agreement
- States with targets include Connecticut (renewable and fuel cell technologies to produce 40% of power by 2030) and California (60% by 2030)
- US Federal Investment Tax Credit (30% in 2018) and state incentives and regulations introduced for stationary fuel cell systems



JAPAN

- The world's most mature fuel cell market
- Government goal of 5.3 million residential combined heat and power (CHP) fuel cell units, and 1GW of CHP for commercial and industry sectors by 2030
- 50,000 fuel cell CHP systems installed in 2018, with a total installed base of 300,000



SOUTH KOREA

- 300MW stationary fuel cell capacity in operation at the end of 2018
- Targeting fuel cell power generation to reach 15GW by 2040
- Setting increasing renewable power production targets (6% in 2018, 10% by 2023) for Korea's largest power generators

> *"We are embedding the SteelCell® into the leading manufacturers and OEMs across the world to enable them to deliver clean power."*

Read about our marketplace on pages 6 and 7

The global opportunity

Macro drivers of the global opportunity

AIR QUALITY

- The World Health Organization estimates that around seven million people die every year due to exposure to fine particles in polluted air
- Main causes of air pollution include combustion technologies
- Coal-fired power is being phased out in the UK, but coal consumption continues to rise worldwide

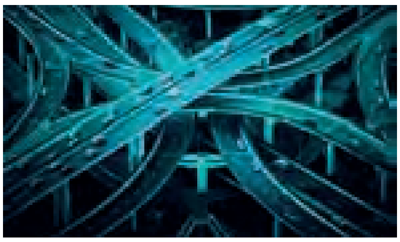
CLIMATE CHANGE

- Nine of the 10 hottest years ever recorded have taken place since 2005
- There is now an urgent 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

- Major car manufacturers now announcing end-dates for combustion engine production
- High pollutants such as SOx and NOx are particularly damaging to health and environments
- Regulations to ban diesel and petrol engines are entering into force around the world, including the UK, many EU countries, South Korea, India, Taiwan, Japan, and the world's largest car market – China

SteelCell® addresses multiple markets

Market	Total addressable market	Ceres' current applications
 DECENTRALISED POWER	100 GW	– Ceres working with Bosch on 10kW modular system – Miura commercial sector 4.2kW product launch in Q4 2019 (first Ceres commercialisation) – 1kW prototype – Other early stage relationships
 TRANSPORT	300 GW	– 30kW range extender for buses – Applicable for wider range of commercial vehicles
 DATA CENTRES	>50 GW	– Bosch 10kW system – Ceres prototype developed under US Department of Energy (DoE)

ELECTRIFICATION

- With costs at record lows and still decreasing, renewable energy is disrupting centralised generation
- Battery electric vehicles will increase demand from the grid
- Grid reinforcement will be needed for a resilient charging infrastructure
- Fuel cells provide flexible distributed power

BALANCING RENEWABLES

- The electrification of energy and transport is accelerating
- The challenges are balancing intermittency and long-term energy storage
- Electrochemical, combustion-free solutions such as batteries and fuel cells are well positioned

DISTRIBUTED POWER

- Producing power through fuel cells at the point of use is significantly more efficient and offers flexibility to balance intermittency
- This results in 30% lower cost, low or even zero carbon and zero NOx, SOx and particulates
- These reductions can be achieved across commercial, residential and transport applications

Applications	Why the SteelCell®
	– Natural gas today, hydrogen tomorrow. Versatility on path to net zero – Balances renewables and provides grid reinforcement – More efficient than other power generation – Can decarbonise heat – Modular platform from 1kW in homes to 10s/100s kW for commercial uses
	**In vehicle** – Acts as a range extender to battery electric vehicles (BEVs) for larger vehicles – Can perform with different fuels **Out of vehicle** – Can generate power at point of BEV recharge, avoiding upgrades to distribution network
	– Data centres require high power densities for power and cooling requirements – Clean power provided by fuel cells brings simplicity, lower cost, improved efficiency and much lower carbon footprint – 50% decrease in physical infrastructure on site (simpler energy supply chain, less site equipment to maintain, waste heat re-use, elimination of electrical distribution)

Our strategy

Our strategic vision

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

Strategic Objective	Description	Performance To Date	Planned Future Actions	Link to KPIs
COMMERCIAL PROGRESS WITH NEW AND EXISTING CUSTOMERS	We have customers at different levels of contract with us. Our objective is to bring as many as possible through to commercialisation. We aim to delight our customers, both through the performance of our technology and our service to them.	We focus on all our customers and licence agreements. To make sure we can deliver on their programmes, we have expanded our engineering team to support them.	We will continue to add new customers and focus on delivering on existing programmes.	1 2 3
ESTABLISH STEELCELL® TECHNOLOGY AS THE INDUSTRY STANDARD	We aim to attract multiple system partners and OEMs to drive demand of the SteelCell® in volume. We can either accelerate their system designs with Ceres IP or rely on them to develop systems independently. We are targeting world-class manufacturing partners in key regions to supply the SteelCell® to multiple system partners.	We have developed a 5kW stack to feed higher power and a range of modular systems for different applications. With our growing customer base we need to provide cell and stack capacity to meet our near-term customer programmes. We are therefore scaling up our UK production to meet their demand.	We continue to create new systems with better performance and power output. We may also look to partner with system integrators to assist with different applications for our technology. The additional manufacturing capacity created in our new facility in Redhill is due to come on stream in January 2020. We will also support our partner Bosch in building their initial manufacturing plant in Bamberg, Germany.	2 4
MAINTAIN TECHNOLOGY LEADERSHIP	We aim to establish our SteelCell® technology as the Solid Oxide Fuel Cell (SOFC) technology of choice for the world's leading OEMs, setting the standard within the industry. We also want to retain leadership as a system developer. We will also continue to innovate, exploring new applications for our core technologies and capabilities alongside our current fuel cell offering.	We have developed the SteelCell® with the potential to be one of the most robust and lowest cost fuel-flexible fuel cells in the world. We have a large and experienced team of electrochemists, scientists and engineers capable of innovating new products in new electrochemical applications.	We will continue to develop our stacks and systems to further their maturity, performance, cost and lifetime. We will continue trialling the 5kW SteelCell® stack in real-life applications to prove its maturity. We will explore new applications for our technology in adjacent markets.	5

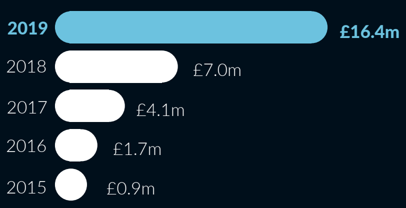
Our key performance indicators

The Board monitors the Group's progress against its strategic objectives and the financial performance of the Group's operations.

The following details the principal key performance indicators (KPIs) used by the Group. We utilise both financial and non-financial KPIs to measure performance.

Financial KPIs

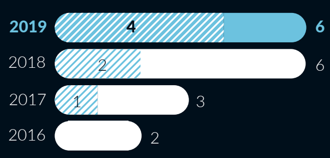
1 Revenue & other income



Description:
Ceres Power has doubled revenue for four successive years.

Link to strategy
We anticipate continued high-quality revenue growth going forwards.

2 Partners at JDA and Licensing



Description:
Doosan and Bosch join Weichai and Miura as our licensing partners.

Link to strategy
System licensees will drive volume for our manufacturing partners.

Key
Licence
JDA

3 Order book and pipeline

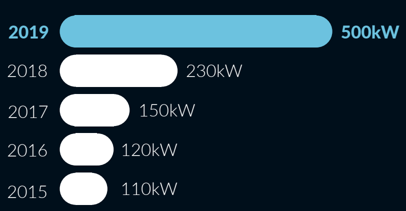
Description:
Order book and pipeline at the date of signing the accounts. 'Order book' refers to confirmed contracted revenue and other income, while 'pipeline' is contracted revenue and other income which management estimate is contingent upon options not under the control of Ceres.

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

Key
Order book

Non-financial KPIs

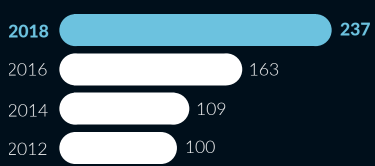
4 Overall manufacturing capacity



Description:
Stack manufacturing capacity from Ceres and its partners.

Link to strategy
The capacity helps customer programmes to achieve their goals, and we expect this to increase next year as our Redhill plant and Bosch's facility come on stream.

5 Power density



Description:
Improvement since 2012 at cell level. The power density has been indexed with the baseline being the 2012 technology release to customers.

Link to strategy
This is a key focus of our development which can translate into improvements in cost, power and efficiency.

Our business model

Innovation and development

We continue to invest in, and improve, our SteelCell® technology and systems to maintain our leadership position in fuel cells and to leverage our electrochemistry expertise.

We improve the performance, power density, life and cost of the core technology, both through investment in core material science and improving manufacturing processes.

We research and develop higher-efficiency systems, for a range of fuels and new applications.

Joint development programmes

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

Manufacturing partners

BOSCH

WEICHAI 潍柴

System/ OEM partners

MIURA

DOOSAN

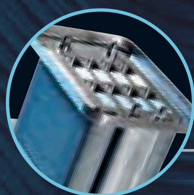
WEICHAI 潍柴

CeresPower

TECH TRANSFER

ADVANCE LICENCE FEES

MANUFACTURING PARTNER
SteelCell® stacks
(Royalty per kW)



TECH TRANSFER

ADVANCE LICENCE FEES

OEM PARTNER
SteelCell® products
(Royalty per kW)

Technology transfer and licensing

We license our core technology and system design to partners, and share our technology to enable them to develop products and scale production.

Royalties for product sales

We receive royalties for every product sold.

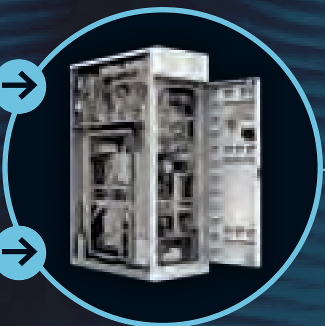
- We provide cell and stack IP
- We receive licence fees and engineering revenue

- Manufacturing partners sell stacks to OEM partners
- We receive royalties for every stack sold

- We provide system IP
- We receive licence fees and engineering revenue

- OEM partners sell systems to end-users
- We receive royalties for every system sold

System



End customer

Value created for stakeholders

WIDER SOCIETY

We aim to play a central role in the global transition to clean, affordable power to help tackle climate change and air pollution.

Creating power through the SteelCell® emits low or even zero carbon, as well as zero particulates, SOx or NOx.

SHAREHOLDERS

With Ceres Power, investors can participate in a high-growth opportunity, with a globally-critical purpose and a culture that is heavily aligned to the UN's Sustainable Development Goals.

EMPLOYEES

Ceres Power is an inspiring place to work and our people are as dynamic, flexible and innovative as our technology.

Work is challenging and exciting as we collaborate with some of the world's most progressive companies and offer excellent career progression.

We believe in equal opportunities for everyone from everywhere, and offer excellent training and development.

SUPPLIERS AND PARTNERS

Ceres Power's commercial strategy aligns growth and profit with our partners and suppliers, as we target the significant total addressable market of global energy.

Our manufacturing strategy

CP2: our new blueprint plant

As a company with an asset-light licensing model, it may seem counter-intuitive that we are currently constructing an £8 million manufacturing plant.

Indeed, when it opens in January 2020, this new ‘CP2’ facility in Redhill will give Ceres a 2MW capability to manufacture 200,000 cells – enough capacity before manufacturing partners come on stream – expandable to 10MW (one million cells) if needed. However, its primary role will be to serve as a blueprint plant.

Jim Falla, COO, explains: “This new facility is about helping our customers to market. With CP2, we can fulfil smaller manufacturing runs to advance a new product. But as importantly it will enable us to demonstrate physical, complete and functioning metal-to-cell production lines. Our larger partners can then inspect and evaluate them and, with complete confidence, replicate and scale them up at their own sites to produce cells in mass industrial volumes.”

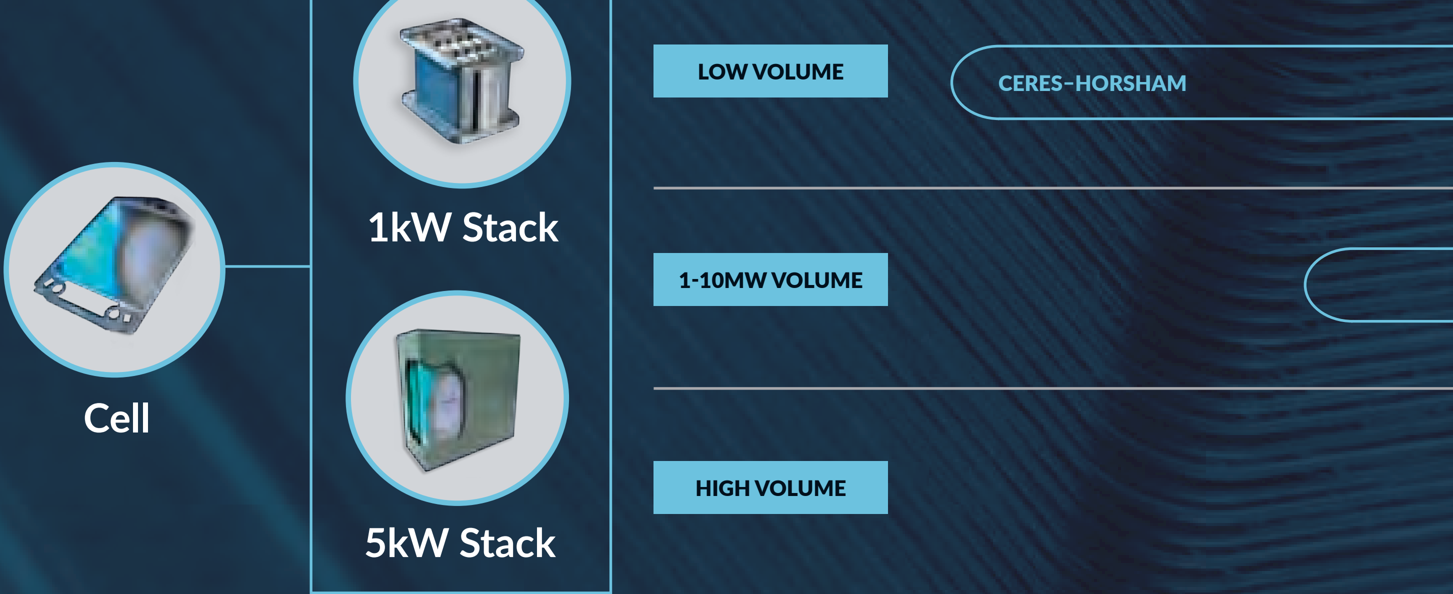
Our team is already working with our partner Bosch in Germany to build an essentially identical line there, with an ultimate objective to scale up in time.

CP2 is creating around 60 skilled UK jobs. It also comes as Ceres has launched a 5kW stack in addition to the current 1kW option; recruited new customer-facing quality specialists; scaled up our supply chain; and is preparing for ISO 9000 certification.

The new plant marks a maturity in our development as we draw on two discrete centres of excellence: in R&D (at Horsham HQ), and in manufacturing and process development (at CP2 in Redhill) where we will develop the next generation of automation, quality and throughput.

Cell and Stack

Manufacturing Partner Activities



CERES–NEW MANUFACTURING SITE (CP2)

JOINT VENTURE/MANUFACTURING PARTNER

SteelCell® and Stack supply

Manufacturing Licence Fees and Royalties

Our strategy in action

Bosch

The Bosch Group is a leading global supplier of technology and services, with interests in nearly every country in the world. It employs roughly 410,000 associates worldwide and generated sales of €78.5 billion in 2018.

Its operations are divided into four business sectors: Mobility Solutions, Industrial Technology, Consumer Goods, and Energy & Building Technology. It is a leading Internet of Things (IoT) company and offers innovative solutions for smart homes, smart cities, connected mobility and connected manufacturing.

Our strategic collaboration, which began in August 2018, builds on Ceres' unique SteelCell® technology and combines our two companies' respective areas of expertise in fuel cells, manufacturing and product development. Under the agreement, we will further develop the technology and Bosch will establish initial low-volume production in Germany, with the goal of enabling a future scale-up and mass-manufacture of the SteelCell® for use in multiple applications. These will include creating small power stations to be used in cities, factories, data centres and charge points for electric vehicles.

The Collaboration and Licence Agreement, which includes joint development agreements, marked a major milestone in Ceres' progression and is worth around £20 million in revenue up to the end of 2020. Our close working relationship has ensured that preparations for low-volume production at Bosch are well underway.

In addition, Bosch made a £9 million equity investment in Ceres in 2018.

Weichai Power

Weichai Power is part of the Weichai Group, one of the leading automotive and equipment manufacturing companies in China.

Partially state-owned, the Group is listed on the Main Board of both the Hong Kong and Shenzhen stock exchanges with a market cap of over £10 billion. Among numerous interests, the Weichai Group manufactured over 600,000 engines and 150,000 heavy duty vehicles in 2018.

Weichai has a strong track record of making strategic investments in businesses around the world. These include 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.

In December 2018, our two companies finalised the long-term strategic collaboration which was first announced in May 2018. Alongside a total investment of £48 million for a 20% interest in Ceres Power, the agreement provides us with important access to the Chinese market, the world's fastest growing market for fuel cells. Our joint development of a 30kW SteelCell® range-extender system, using compressed natural gas (CNG) for electric buses, is underway. Both companies have also committed to create a fuel cell manufacturing Joint Venture in China, anticipated in late 2020. The Licence Agreement and JDAs in place are worth up to £39 million in revenues to Ceres Power. Weichai has an 18 month standstill until 27 January 2020 under which it may not acquire more than 20% of Ceres Power's issued share capital and an 18 month holding period until 3 June 2020.

Miura

Miura Co. Ltd is on the point of launching the first fuel cell product using Ceres SteelCell® technology. Field trials in Japan are underway and the first commercial launch is expected with a select number of customers in Q4 2019. The 4.2kW combined heat and power (CHP) product will target the commercial building sector in Japan.

Japan is one of the most advanced markets in the world for fuel cells and a key target market for Ceres. Miura is Japan's leading industrial boiler manufacturer with revenues of over US$1 billion. They operate in a supportive climate: the Japanese Government has a clear hydrogen strategy and recognises the important role that fuel cells can now play for a low carbon future.

Ceres first started working with Miura in December 2016 with system-level tech transfer and this commercialisation follows a successful joint development programme based on Ceres' SteelCell® SOFC technology.

The imminent launch is a case example of Ceres' business model, focused on multi-year development partnerships with global OEMs to develop products using Ceres Power's technology. Ceres receives income from three streams: licence fees for the initial use of the system technology, engineering fees during product development and royalties at commercialisation.

Doosan

In July 2019, just after the close of FY2019, Ceres Power and Doosan signed a Collaboration and Licensing Agreement to jointly develop a 5-20kW power system, initially targeting the Korean commercial building market. The agreement includes licensing, technology transfer and engineering services. Doosan has also taken a system-level licence of the SteelCell® technology to develop a low carbon 5-20kW power system. The agreement is worth £8 million over two years.

South Korea is one of the world's leading fuel cell markets with a supportive regulatory regime and ambitious long-term targets. The South Korean Government recently announced several initiatives to promote increased use of renewable generation and hydrogen technology. As part of this aim it is targeting fuel cell manufacture for power generation to reach an output of 15GW by 2040; a significant increase on its 300MW capability today.

Doosan is a world leader in the fuel cell industry and has added the SteelCell® to its portfolio of other fuel cell technologies (PAFC and PEM). Doosan's existing stationary fuel cell business exceeded 1 trillion won (c. US$850 million) in orders for the first time in 2018, just three years after entering the market.

Our two companies plan to explore expanding the collaboration to include more applications in South Korea and internationally, as well as possibly including manufacturing.

Chief Executive's review

> ***Our success is directly linked to that of our partners, and our teams can be regularly found at customer sites in Germany, China, Japan and Korea.***

We can look back on FY2019 with a great deal of pride. The collective effort of our teams, the strength of our technology and the important foundations laid in previous years all combined to see us double our revenues – an achievement we have now recorded for four successive years.

This progress has been broadly based. Commercially, we continue to attract new partners in new dynamic territories, such as South Korea, and to deepen relationships with world-class manufacturers who will give our technology the global platform it deserves.

Operationally, we are scaling up, and the fit-out of our new Redhill manufacturing reference facility is on schedule to commence production in January 2020. Technologically our R&D continues to find measurable ways in which our products can deliver even more.

As a result, we finished the year with revenues and other income up by 133% to £16.4 million. The Group also has a strong order book of £28.4 million, a pipeline worth more than £50 million and an investment programme that is fully funded with £71.3 million of cash, cash equivalents and short-term deposits at the year end.

Market dynamics

Just as climate change and its threats are now being recognised by governments worldwide, so fuel cell technology is regarded as a key asset in mitigating the causes of climate change and air pollution.

Our SteelCell® product is a solid oxide fuel cell (SOFC) – a technology that has multiple applications providing decentralised electricity for offices, homes and powering datacentres as well as for electric vehicles.

With its key attributes of conversion efficiency, versatility and exceptionally competitive production cost, SteelCell® met with notable success during the year in becoming a technology of choice with world-class OEMs. Critically, Ceres Power also has firm relationships in the main territories where SOFC technology is growing rapidly: these include Japan, China, the US, the EU and, perhaps the most active market for fuel cells, South Korea.

Excellent commercial progress

Ceres' growth strategy is driven by licensing our technology to global OEM partners, and generating royalties as those partners achieve full-scale commercialisation. We therefore benefit from an asset-light business model with a favourable margin.

Our success is directly linked to that of our licensees, and our teams can regularly be found on-site at customers' sites in Germany, China, Japan and Korea, helping to implement technology transfer and drive application development.

During the year, we achieved significant steps forward in our commercial deals with four licensees:

- **Bosch.** We had been working with Robert Bosch through a joint development agreement (JDA) in the previous financial year, and in FY2019 we strengthened that relationship with a Collaboration and Licence Agreement. This provides significant staged revenues to Ceres from the date of contract signing in August 2018 to the end of 2020, amounting to around £20 million.

  The collaboration injects momentum and resources as we develop our technology, while also establishing low-volume production of our SteelCell® technology at Bosch in Germany – the precursor to a potential scale-up to high volume production.

- **Weichai Power.** This major Chinese automotive and equipment manufacturer has a market cap in excess of US$10 billion, and among multiple interests, its output includes some 600,000 engines a year.

  In December 2018, we were proud to finalise a long-term strategic collaboration with Weichai that was initially announced in May 2018. The landmark deal includes a licence agreement, a joint development agreement worth £9 million to Ceres, and a commitment to form a JV to invest in a new high-volume fuel cell manufacturing facility. The licence agreement will generate technology transfer payments of up to £30m for Ceres, separate from ongoing future royalties.

  Following a successful technology transfer and the licensing of system-level technology, we announced in September 2019 that the combined team has produced a first prototype 30kW SteelCell® range extender system for demonstration in an electric city bus utilising widely available compressed natural gas fuel.

  This successfully marks the completion of the initial joint development agreement between Ceres and Weichai and our teams are now focused on developing the next stage system to go on bus field trials in 2020. Following these field trials, Weichai and Ceres intend to establish a fuel cell manufacturing joint venture in Shandong Province, China to manufacture SteelCell® SOFC systems.

CASE STUDY

South Korea: a progressive market for SOFCs

The economy of South Korea is one of the world's great transformation stories.

A largely agricultural country as recently as the mid-1900s, South Korea today is an economic superpower, built on its pre-eminence in industries such as electronics and superconductors.

It has also pioneered the use of fuel cells to power its development, society and climate improvement.

Tony Cochrane, Chief Commercial Officer, comments: "The Korean Government has shown clear leadership with its Renewable Portfolio Standard. This mandates that green energy makes an increasing contribution to the country's energy needs."

We see growth for our SOFC technology in the South Korean market from two principal sources. The first is in Seoul, the capital city with over 10 million people at its heart and 25 million overall. Legislation requires that an increasing proportion of the electricity serving all new-build high rises must come from clean power. But this poses a conundrum: there is not enough roof space to locate solar cells – the only viable and truly renewable option – in the quantities needed to meet this threshold. Fuel cell technology therefore provides an efficient and highly practical addition to the mix.

The second growth area lies in power generation, where 35% of input to the grid must come from renewable and fuel cell sources by 2040. A leading industrial player, Doosan, is serving part of this need with phosphoric acid fuel cells, but in their search for greater efficiency they have licensed Ceres Power's SOFC technology. We are now working on a joint development programme to engineer power solutions in the 5-20kW range, for use in South Korea and, in time, other markets such as the UK, EU, US and South East Asia. This £8 million agreement (excluding royalties) includes technology transfer, licence fees and engineering services.

Chief Executive's review

CASE STUDY

SteelCell®: a solution for today and tomorrow

On a planet that is seeking to control and reverse the effects of climate change, you could regard the Ceres SteelCell® as being usefully "omnivorous".

Its solid oxide fuel cell (SOFC) technology converts fuel to electrical power using both current or future fuels – those fuels can be natural gas, biofuel, or indeed hydrogen, whether pure or in a blend.

Today, natural gas is abundant and projections point to a continued rise in consumption for years to come. Yet in nations such as the UK, Germany and Italy, decarbonising heat is a stated priority of their respective governments. In Germany, for example, they are looking to raise the permitted hydrogen content of gas supplies delivered over the grid from 10% to 20%.

Hydrogen may indeed prove to be crucial to the future; in fact, Shell recently projected that by 2075, the hydrogen market could be three times greater that of oil and gas. Mark Selby, CTO of Ceres Power says: "Hydrogen opens up many exciting possibilities and we have demonstrated that in combination with SOFC technology, it could play a major role in a zero-carbon future."

Ceres is developing a hydrogen-only prototype (based on our SteelGen micro-CHP reference design) showing that tomorrow's fuel cell systems could be smaller, lighter and lower cost than systems that need to "extract" hydrogen from natural gas.

These early results suggest a potentially much lower cost while delivering the same efficiency, in a compact unit that is around half the size as well. Yet this could still provide heat and power for the home, and export enough electricity to operate a typical family electric vehicle.

Like Bosch, Weichai is also a direct investor in Ceres Power; raising its shareholding in the business to 20%, bringing its total equity investment to £48.1 million.

- **Miura Co., Ltd.** Japan's largest industrial boiler manufacturer has been working with Ceres since 2016 to develop an SOFC CHP unit for the commercial market. Operating on the main gas supply and capturing heat as hot water, the overall efficiency of the system reaches 90%, delivering both major energy savings and a lower carbon footprint. This product will have a soft market launch in Q4 2019, marking a milestone for Ceres as the first commercialisation of our SteelCell® technology.
- **Doosan.** Immediately following the financial year-end, Doosan Corporation signed a two-year collaboration and licensing agreement with Ceres. Doosan has established itself as a world leader in the fuel cell industry and the agreement with Ceres brings solid oxide technology to its current fuel cell portfolio. Doosan's existing stationary fuel cell business exceeded 1 trillion won (c. $850 million) in orders for the first time in 2018. The deal is worth £8 million to Ceres over two years and marks our entry into the progressive Korean market with the potential to expand the partnership to new applications and manufacturing.

We continued to make good progress with leading players Cummins and Honda in joint development programmes. Separately, there was a participant change to a Ceres programme funded by the UK's Advanced Propulsion Centre (APC). Our original planned partner Nissan chose not to proceed for its own business reasons, but we were pleased to announce that Weichai has come on board in their place. The project focuses on our fuel cell technology for EVs and, in particular, larger commercial vehicles.

Technology

As a technology licensing company, we are judged on our capacity to innovate. In essence, this requires us to excel in two areas. Firstly, we must continually mature and refine the products we have already created and ensure our licensees are getting the very best from them. Secondly, we must break new ground, applying restless and rigorous R&D maintaining our leading position in SOFC.

Our R&D team continues to develop the next generation (V6) of our core technology, with a focus on reducing manufacturing stages and increasing power density, whilst reducing cost. We are also engineering the next design of our 5kW stacks, as well, utilising our capabilities in energy conversion technology.

Operations

Our strategy is not for Ceres Power to become a mainstream fuel cell manufacturer, but an asset-light creator and licensor of our technology. However, a certain manufacturing scale is required to service our partners, and to define and prove processes that they can then replicate on a much greater scale – such as our current technology transfer programme with Bosch in Bamberg, Germany.

To meet these needs, which require more than we can service with our existing R&D lines in Horsham, we have installed the UK's first SOFC manufacturing blueprint plant in Redhill, UK. CP2 will have an initial capacity of 2MW per year – sufficient to meet our near-term needs, and act as a reference design for our partners – who will typically be looking to install volumes 100 times that capacity per site, using our licensing model. CP2 is on track to commence fuel cell production in January 2020.

Strong financials

The business achieved excellent commercial growth of revenue and other income of 133% in the reporting year, driven principally by licence revenues from our main partners.

We expect licence fees to represent a high proportion of our revenues over time, which is significant as they deliver excellent gross margins. This period, a higher proportion of license activity delivered gross margin of 74%, substantially ahead of our target of maintaining margins above 50%.

We also successfully raised £77.1 million of new equity from strategic partners and via a private placing with institutions during the year. This leaves us in the strong position of being fully-funded for our investment plans and frees the management team to focus on growing the business.

However, we are also looking to grow sustainably, striking a careful balance between targeting profitability and making essential investments for our long-term future – such as in the new CP2 facility, additional talent and further R&D. Our underlying operational cash outflow has reduced significantly, reflecting our increasing revenues and the careful balance we are striking.

Please see our CFO's report on page 21

Our people

During the year we welcomed around 70 new professionals into the business, predominantly technicians and engineers. We have now doubled our workforce since 2017 to 240, a figure that includes 30 different nationalities and a positive gender split.

I would like to place on record my thanks to this exceptional team, who have excelled on every front: from serving the needs of our main licensees, here in the UK and away on-site; to the design, project management and build of CP2; to the performance increases achieved with our technology and achieving high quality manufacturing of fuel cells for our partners; to attracting new licensees including, at the close of the year, the global leader Doosan.

Outlook

We are absolutely focused on the needs and expectations of our licensees, for whom operational excellence, added value and robust delivery are key. Alongside this, we are aware and prepared for the challenges of scaling up, launching CP2, and not only refining our technology but adapting it for further and future applications.

We are proud to be setting the pace and standards for SOFC technology and playing our part in addressing the major challenges of climate change and air quality and look forward to extending our technology to a widening portfolio of global partners and applications.

P. Caldwell

PHIL CALDWELL
CHIEF EXECUTIVE OFFICER
1 October 2019

Q&A with Phil Caldwell

PHIL CALDWELL
CHIEF EXECUTIVE OFFICER

Q Why have some of the world's largest engineering and technology companies chosen to partner with Ceres?

A Customers are looking for a future-proof technology that is scalable and can grow over time. They like the cost potential of the SteelCell® and stack. We offer a world-leading and pioneering technology that meets the needs for electrification and clean distributed energy. We have significant expertise in electrochemistry, engineering and manufacturing and we offer a solution for now and for the future energy state. We offer long-term strategic collaboration.

Q Is the SteelCell® zero carbon?

A Yes it is, by using biofuels and hydrogen, and even with natural gas it delivers power with much reduced carbon. This technology performs with both today and tomorrow's fuels. It can use renewable fuels such as biomethane or bioethanol as well as hydrogen or a hydrogen-mix in the gas grid.

Q Surely other fuel cell technology exists, why Ceres' SteelCell®?

A At a basic level fuel cell technology is not a new idea, it was first invented in 1838. So absolutely, other technologies exist. Over the past year we have seen a concentration of investment in two key types; proton-exchange membrane (PEM) and the solid-oxide fuel cell (SOFC) that is Ceres' solution. Importantly, the SteelCell® is an advanced SOFC solution that has the same benefits of efficiency and fuel-flexibility as others, while also being affordable and robust. We are reassured that when global companies have sought an SOFC solution, Ceres has been the partner of choice. Our vision is to set the industry standard in fuel cell technology.

Q What are the immediate priorities for the Company?

A Our number one priority is continuing to support our customers and delivering on the ambitious programmes we have in place to take their products to market. Our new CP2 manufacturing facility is on track to go live in early 2020, and this will play an important role in supplying customers with sufficient stacks until they can start their own manufacturing in volume.

Q Looking to the future, what excites you?

A As this year's report has highlighted, we are at a tipping point for the business where we see a clear path forward to capitalise on our technology. That is testament to the enormous efforts and talents of our team, the strength and depth of our customer partnerships and the support of our shareholders. I am most excited by the opportunity to share in our success and to continue to progress and adapt our technology for future applications.

> ***We offer a world-leading and pioneering technology that meets the needs for electrification and clean distributed energy.***

Read about the marketplace on pages 6 and 7

Read about sustainability on pages 24 to 26

Read about performance on pages 16 to 19

Chief Financial Officer's Statement

Taken in the round, FY2019 was further evidence that we are delivering against our aim to build a robust and steadily maturing business.

Introduction

I am pleased to report a strong financial performance in FY2019; a year in which we exceeded expectations and doubled our revenues for the fourth year in succession. Top-line growth of revenue and other operating income stood at 133%.

This reflects the strides the Company has made in securing business with world-class partners, with nearly half of our revenues generated by licence fees from our partners Bosch and Weichai. It is also worth noting that these licence fees helped deliver excellent overall gross margins – 75% in FY2019.

This confidence in Ceres was echoed by our success in attracting £77.1 million into the business, via a private placing and from strategic partners (before expenses). This strong endorsement of our technology and strategy enables the management team to focus on developing the business and to maximise its potential.

Investing in people

Alongside excellent licence fees during the year, our engineering services made a significant contribution to revenues. This reflects the expansion of our engineering teams who deliver our joint development programmes. Examples included working with Weichai to create a prototype 30kW system and the project for Bosch to industrialise our stacks.

We expect to see an increased demand for engineering services in the coming year, and regard it as crucial that we are resourced to provide the specialist skills our customers need to advance their products to market. As a licensor, we also have a constant need to be able to allocate teams to continually improve our product and break new ground. For both these reasons, we will continue to invest in high-calibre people, both in engineering and manufacturing.

We exited FY2019 with around 240 people, an increase of 30% over the prior year.

A steadily maturing business

For the first time, we have capitalised a proportion of our development costs (£1.3 million), reflecting our confidence in the commercialisation potential we see in our technology. This milestone was met as a result of the Bosch and Weichai contracts signed in late 2018 and this change takes effect from 1 January 2019. This positive move can be fairly seen as a milestone as we evolve as a business.

The operating loss reduced to £7.9m in FY2019 (2018: £11.9m) as a result of growth in our gross margin, driven by the increase in revenue and a change in the revenue mix, which was offset by the increase in cost base due to our investment in people and our new manufacturing centre in Redhill.

This facility ("CP2"), with a budget of £8 million, accounts for most of our capex in the year and it is currently on track to open in January 2020. The facility should not be seen as a separate operational entity; Ceres provides complete packages of work to our customers to enable them to licence and commercialise our technology, and CP2's role will be as an enabler.

As well as serving the early stage manufacturing needs of partners, CP2 will allow us to fully demonstrate and prove technology to our manufacturing licensees, en route to their taking our IP and scaling up their own manufacturing to industrial volumes.

Equity free cash outflow[1] stood at £11.9 million, similar to the previous year (£10.9 million), although the more representative measure of net cash used in operating activities (which excludes cash flows from investing activities) was considerably reduced at £3.1 million (2018: £9.5 million).

Our cash position for the year was £71.3 million. This is in line with expectations and gives us firm foundations on which to plan, develop and grow.

Taken in the round, FY2019 was further evidence that we are delivering against our aim to build a robust and steadily maturing business.

Outlook

We go confidently into FY2020 with the expectation that revenue will continue to grow. Growth will be largely derived from the increasing demand for engineering services as noted above and the contribution of CP2 in the second half of the year.

We expect the mix of revenues to vary based on deal flow, and this mix to deliver gross margins of above 50%.

With our focus firmly trained on contract delivery, we will continue to invest to ensure we have the quality and depth of resources we need in terms of people, plant and technology.

RICHARD PRESTON
CHIEF FINANCIAL OFFICER
1 October 2019

1. Equity free cash outflow is the net change in cash and cash equivalents in the year (£1.2 million) less net cash generated from financing activities (£76.8 million) add the movement in short-term investments (£63.7 million). Management use equity free cash outflow as an alternative performance measure as they believe that it is a more relevant and comparable measure of the overall cash flows of the Group as it excludes any funding activities or changes in investments.

Principal risks and uncertainties

Our approach to risk

There are a number of risks and uncertainties that have the potential to impact the execution of the Group's strategy, as well as its short-term results. The Executive Directors regularly review the risks facing the Company, and the Board has identified those that are principal to its business due to their potential severity. These are identified on this page and on page 23, along with mitigations to reduce the likelihood of them occurring and to manage any possible impact.

Risk management process

The Board is responsible for the risk framework and aims to ensure that the Group's ability to achieve its objectives outweighs its risk exposure. However, the Group's risk management programme can only provide reasonable, but 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 and the Audit Committee subsequently puts them to the Board annually for inclusion in the Annual Report.

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

TREND DIRECTION

↑ Increasing ↓ Decreasing

ALIGNMENT TO STRATEGY	Risk	Description	Mitigation	Change
Maintain technology leadership	**1** **Core technology**	There is a risk that we will not be able to successfully develop and apply the Company's core fuel cell technology to potential products at the right cost point or performance, in the time frame anticipated. The level of this risk has been reduced because we have greater confidence based on long-term trials and ongoing validation.	Ceres Power's prime focus is to i) deliver its technology for customers, and ii) continually improve the technology to maintain technological advantage. We have continued to make progress during the year in both these respects.	↓
	Stack and system technology	This risk has increased as we validate the stack technology in tandem with issuing it to customers for trials. Technical failure at customer trials could affect customer sentiment in some applications.	Targeting new markets that require different technical attributes and working in close collaboration with partners continues to mitigate these risks.	↑
Establish SteelCell® technology as industry standard	**2** **Competitive and market**	The value proposition of our technology may become eroded, impacting on the Group's future profitability and growth opportunities. This risk is net unchanged as more customers validate the technology; new markets such as EV recharging emerge; and a climate of changing legislation and trends against fossil fuels emerges, which is offset by some current misconceptions that Ceres technology only works with hydrocarbons.	Our strategy addresses different geographical markets and we have broadened the applications available, mitigating failure in a single market or product. We continuously monitor competitor activity, diversification of applications and market developments. The Company is also beginning to show that Ceres technology can make a significant and valuable contribution to a net zero-carbon future.	–

Read about our strategy on page 8

ALIGNMENT TO STRATEGY	Risk	Description	Mitigation	Change
Maintain technology leadership	3 Intellectual property protection	The Group's competitive advantage could be at risk from successful challenges to its patents, unauthorised parties using the Group's technology in their own products, or others infringing existing intellectual property rights (IPRs). This risk has risen due to increasing information and cybersecurity threats as our technology gets closer to commercialisation, and as we increasingly disclose more of our technology to partners and the supply chain. There is also a risk that the Group will unwittingly infringe valid IPRs of others, which could limit full commercialisation of the technology.	We have 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 provide additional protection to the Group for agreement, pursuit and defence of IP. We have also recently focused efforts to improve our information and cybersecurity. We continually perform freedom-to-operate searches to minimise this risk.	↑
Commercial progress	4 Commercial	Our partners may choose not to use our technology in their products or go to market slower than anticipated. This risk has reduced with the continued commercial progress and interest from customers.	We continue to increase our pipeline of customers and have expanded market applications, mitigating the risk of individual customers choosing not to move forward. Customers have continued to meet our expectations with their go-to-market ambitions.	↓
Commercial progress	5 Operational	The Company may be unable to satisfy customer contracts due to supply chain, growth management, short-term manufacturing or technical issues. This includes the risk of disruption to our supply chain under some Brexit scenarios. This risk is net unchanged because our planned increase in manufacturing capacity, which reduces risk, is offset in the short-term by associated growth challenges.	We continually monitor our manufacturing processes and resources to best deliver programmes. We work with suppliers to ensure quality standards and timely delivery. We continue to monitor the Brexit situation closely and have taken mitigating action including stockpiling, foreign currency hedging and contingency planning. We have made a significant investment in a new manufacturing facility to provide capacity for customer development while separating development activities.	–
Establish SteelCell® technology as industry standard	6 Supplier dependence	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, although we expect this to reduce as our manufacturing partners become more active with their considerable supply chain strength.	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. We accept the risk for now that some suppliers will be single-source.	↑
Establish SteelCell® technology as industry standard	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.	The Group successfully raised £77.1 million through equity issues in the year.	↓

Sustainability

It is also exceptionally versatile, both in its uses – whether for heating homes, or charging electric vehicles, or powering data centres.

Environmental, Social & Governance
As a company whose purpose is to deliver clean, sustainable power, Ceres Power's commitment to acting and developing sustainably lies deep in our DNA.

In this reporting year we have taken a closer look at our impact on the environment and society more widely. As part of this work, we have formalised Ceres Power's first dedicated ESG Policy, which you can see at www.cerespower.com

The policy has been driven by a newly formed ESG Committee, chaired by the CEO, to ensure that we adhere to our policy objectives. Following this inaugural year, we will continue to develop the ambitious requirements established by our ESG policy and its goals.

A critical part of our guidance comes from the UN's Sustainable Development Goals (SDGs), which encompass poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

These goals, which are increasingly shared by investors and corporates, frame our thinking on how we can play our part in creating a better and fairer world by the UN's target date of 2030.

At the moment, we believe we are making a meaningful contribution to six of the SDGs focused on environmental impact and, more widely, to six social and governance-related goals.

Our global environmental impact
Our core technology, the SteelCell®, stands ready to play a significant role in the transition to a zero-carbon future. This solid oxide fuel cell technology converts fuel into power at much higher efficiency than traditional methods. It does so without combustion, producing near- or even zero-carbon emissions as well as zero-NOx, SOx or particulate air pollutants.

It is also exceptionally versatile, both in its uses – whether for heating homes, or charging electric vehicles, or powering data centres – and in the variety of source fuels it can use. SteelCell® can produce clean electrical power from everyday natural gas, or biofuels (and so encourage their growth), or future fuels such as hydrogen (giving greater incentive for the world to invest in the hydrogen economy). Unlike other fuel cells, which typically use a greater amount of rare earth material, SteelCell® has recyclability at its heart. Its construction comprises 97% steel, the most widely recycled material globally and one that is largely recycled or reused again.

Critically, as a licensing company, we are leading where many sustainably-driven companies can follow. We already work with mainstream global partners such as Bosch, Weichai, Doosan and Honda, who can take our technology and scale it up to provide the world with literally millions of homes, cars and businesses powered by clean energy.

SteelCell® will provide communities across the globe with access to a readily available, secure and decentralised source of clean power, greatly helping to increase quality of life wherever it is installed.

RELEVANT SDGS

Our current social and governance impact

As a forward-thinking company, we have also been targeting sustainability not just in our product but in our culture, philosophy and direction closer to home.

We've reviewed key social indicators such as diversity within our workforce. In an industry that tends not to attract many female applicants, we are pleased to report that 16% of Ceres Power's roles are held by women, compared to an industry average of 12%. This is something we want to build on. We also employ over 30 different nationalities.

We believe in nurturing and investing in talent, and our training policy provides opportunities to upskill our people as we aim to attract the best minds to Ceres Power. One of our most successful schemes to date has been our graduate and intern programme. Even as a small company, we have welcomed six people onto our graduate scheme as well as nine interns over the past two years, with many going on to take up full-time roles with us. This commitment to training and opportunity will extend to new people as we open our CP2 manufacturing facility in early 2020.

Over the next 12 months 'we will review how best' to implement a non-financial reporting system covering our energy use and greenhouse gas emissions. This will help us to actively seek out opportunities to manage our environmental impact.

RELEVANT SDGS

Including a SteelCell® range extender will significantly improve the sustainability of the fleet.

CASE STUDY

Transportation power generation

In May 2018 we entered into a partnership with Weichai Power, one of China's leading automobile and equipment manufacturing companies. The objective is to further develop SteelCell® technology in China's rapidly expanding fuel cell market, helping to address the need for decarbonisation and to improve air quality. The prospective Joint Venture we will establish with Weichai is being driven in part by the Chinese Government who have stimulated the market through subsidies and zero-emissions zones. The first field trials will include range extenders for buses which will ultimately reduce air pollution and carbon emissions, while improving public health and lowering operating costs.

This partnership should also help to increase manufacturing volumes, and in turn achieve economies of scale that drive down the costs of fuel cells and make them more widely available. It is estimated that Weichai sell approximately 30,000 buses a year. By including a SteelCell® range extender they will significantly improve the sustainability of their fleet.

Sustainability

A summary of our contribution

It's clear to us that our technology can provide real and tangible benefits globally and make a significant contribution to sustainable development. This is a motivating goal that inspires us to continually align our business strategy with making the world a better place.

Below is a short summary detailing our activities and their contribution to the SDGs.

Environment	– The SteelCell® creates no additional pollutants such as PM, NOx and SOx, minimising the negative effects energy generation can have on air quality and health.
	– The philosophy of Ceres is to play a central role in the global transition to affordable clean power. We are passionate about our ground-breaking technology and ensuring it is available to all.
	– Today the SteelCell® uses natural gas and delivers power at a 30% carbon reduction when compared to the combustion engine. As the infrastructure for tomorrow's fuels grow, the SteelCell® switches easily to consume these with potential for zero carbon emissions.
	– Our vision is to help to provide secure, clean, affordable energy to the next generation of cities within transport, domestic, commercial and data environments.
	– By harnessing the considerable efficiency gains of our technology, we are able to cut the energy consumption of businesses, homes and transport in the future, and so reduce GHG emissions.
	– We are planning to monitor our own energy consumption, while continually ensuring our newest SteelCell® innovations minimise the impact of energy generation.
Social & Governance	– We take the health and safety of our employees seriously. HSE is a standing agenda point for every plc Board meeting. Employees also have access to physical and mental health checks.
	– We believe in investing in people and make training programmes and mentors available. Our developing graduate programme, accredited by IMechE, trains approximately three new graduates each year.
	– We believe in promoting gender equality and outperform the industry's average when it comes to male/female ratios.
	– At the heart of our technology and success are our people. Employee engagement is critical to attract and keep the best people and we aim to provide a rewarding place to work in every sense. We offer competitive employment packages including share options for all.
	– We have a diverse and multinational workforce of over 30 different nationalities, ensuring we have the best minds working at Ceres Power and a global cross-section of experiences and cultures.
	– We operate at a high level of corporate governance adhering to all relevant legislation.

Executive team

PHIL CALDWELL
Chief Executive Officer
Find Phil's bio on the Board of Directors on page 28.

RICHARD PRESTON
Chief Financial Officer
Find Richard's bio on the Board of Directors on page 28.

DR MARK SELBY
Chief Technology Officer
Mark joined Ceres Power in 2006 and is responsible for leading all aspects of the strategy and delivery of our SteelCell technology development. Prior to joining Ceres, he was a team member of the Control & Electronics Department at Ricardo UK Limited. Mark holds degrees in Electronics, Dynamics and Control Systems awarded by the University of Leeds.

Brings to the team:
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, Ontario and an MBA from Cornell University.

Brings to the team:
A successful commercialisation record and a 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, bringing with him over 20 years' international experience in the automotive industry, where he held senior operational, engineering and programme management positions. He has deep 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 included 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 team:
Mature operational know-how of systems and processes aligned to Ceres Power's objectives. Experienced in establishing outsource and manufacturing plants offshore in Asia.

Board of Directors

Key

R Member of the Remuneration Committee NG Member of the Nomination and Governance Committee A Member of the Audit Committee

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. He led commercial and strategic business development activities including securing OEM partners, executing licence deals and Joint Ventures. Prior to that role, Phil was responsible for business development for the electrochemical technology business within ICI. He holds a Master's degree in Chemical Engineering from Imperial College, 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 February 2013. He was previously Financial Controller, appointed in 2008, and also undertook various programme manager roles across the business. Prior to joining Ceres 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, and the ability to drive and hold the Company to account. Comprehensive understanding of the business. City experience.

ALAN AUBREY R NG
Chairman

Alan joined the Company in December 2012 as Chairman. He is CEO of IP Group plc, a FTSE 250 company and a leader in global intellectual property commercialisation. He is also Non-Executive Chairman of Proactis, an AIM-listed software company, and is a Non-Executive Director of a number of other prominent technology enterprises. 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 provided specialist 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:

A wealth of experience commercialising new technologies in fast-growth companies. Expertise in investor relations and City practices.

STEVE CALLAGHAN R NG A
Senior Independent Director

Steve joined the Company in December 2012 to lead the turnaround and strategy reset phase. He was appointed Senior Independent Director in March 2014. Since 2016, he has been 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 NG A

Caroline joined the Company in October 2018 and is also the CTO of Babylon Health, a fast-growing Digital Healthcare Technology company. Prior to joining Babylon, she was a founding member and then CTO of McLaren Applied Technologies. She has worked in a range of sectors from motorsports to elite sports, manufacturing, energy and healthcare. Caroline is a Fellow of the Royal Academy of Engineering and was until recently a Visiting Professor at Oxford. She holds a PhD in Applied Mechanics from the University of Cambridge.

Brings to the Board:

Wide-ranging experience in the creation and development of products derived from innovative technology solutions.

AIDAN HUGHES
Non-Executive Director R NG A

Aidan joined the Company in February 2015 as a Non-Executive Director and Chairman of the Audit Committee. He has over 20 years' senior finance experience in a variety of listed companies, including as Finance Director at Sage Group plc from 1993 to 2000 and as a director of Communisis plc from 2001 to 2004. From 2004 until May 2019 he was a Non-Executive Director of Dialog Semiconductors plc, where he chaired its Audit Committee for much of his tenure. He is also an investor and adviser 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.

HAORAN HU
Non-Executive Director A

Following the Company's Strategic Collaboration Agreement with Weichai Power, Haoran joined the Company in December 2018 as Weichai's nominee Non-Executive Director. He is the Vice President and Chief Technology Officer of Weichai Power Co., one of China's largest diesel engine and vehicle powertrain system manufacturers. He previously held engineering leadership positions at Eaton Corp, Caterpillar Inc., Detroit Diesel Corporation and Jacobs Vehicle Systems. Haoran holds a Doctor of Science in Mechanical Engineering from MIT and an MBA degree from the Ohio State University.

Brings to the Board:

Over 25 years' experience in the research and development of engines and powertrain systems.

ROBERT TREZONA
Non-Executive Director

Robert joined the Company in December 2012. He has spent nearly 20 years working in the clean energy field, and is one of the UK's leading cleantech investors. He is currently Head of Cleantech at IP Group, a Commissioner of the Energy Transitions Commission and an advisor to the UK government on green finance. He began his career as a fuel cell scientist, initially at Johnson Matthey, then at Ceres Power. He holds an MA and 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

The Board embodies and promotes a corporate culture based on sound ethical values and behaviours from the top down.

Dear Shareholder,

On the Board's behalf I am pleased to introduce the Ceres Power Corporate Governance Report for the year ended 30 June 2019.

We remain committed to applying the updated 2018 Quoted Companies Alliance Corporate Governance Code (the 2018 QCA Code) and its 10 principles. The Board recognises that these are essential to support the long-term sustainable growth of the business. We are accountable to the Company's shareholders, and 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. However, 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 in compliance with the 2006 Companies Act.

In the following Corporate Governance Report on pages 30 to 44, we aim to explain how the Board discharges its governance responsibilities.

Board effectiveness

We need to carry out regular reviews of our collective effectiveness and performance as a Board, as well as that of our Committees and individual Directors. We have implemented suggestions arising from our external Board evaluation process, carried out by Mrs Pat Chapman-Pincher (a board effectiveness consultant) in November 2016, and we are planning another Board effectiveness review.

During the year we have also engaged our lawyers to advise on practical changes to Board meeting structure to increase the efficiency of Board meetings. The Board and its Committees regularly review their effectiveness internally and we are satisfied that they continue to function well.

We have made key changes in the following areas:

1. The Board meets quarterly with a focus on strategy and risk. An operational Executive Board reports into the Board.
2. We have introduced a formal process to better manage potential conflicts of interest at Board level.
3. We have evolved the remit of the Technical and Operations Committee to report into the Executive Board.
4. Mike Lloyd retired from his position as a Non-Executive Director during the year, and we have recruited Caroline Hargrove for her direct experience of fast-growing technology companies.
5. Mark Selby retired from the Board and now sits on the Executive Board.

The Board welcomed the appointment of Haoran Hu as a Non-Executive Director, nominated by Weichai Power, who joined the Board in December 2018.

We are also looking to appoint another independent Non-Executive Director to the Board.

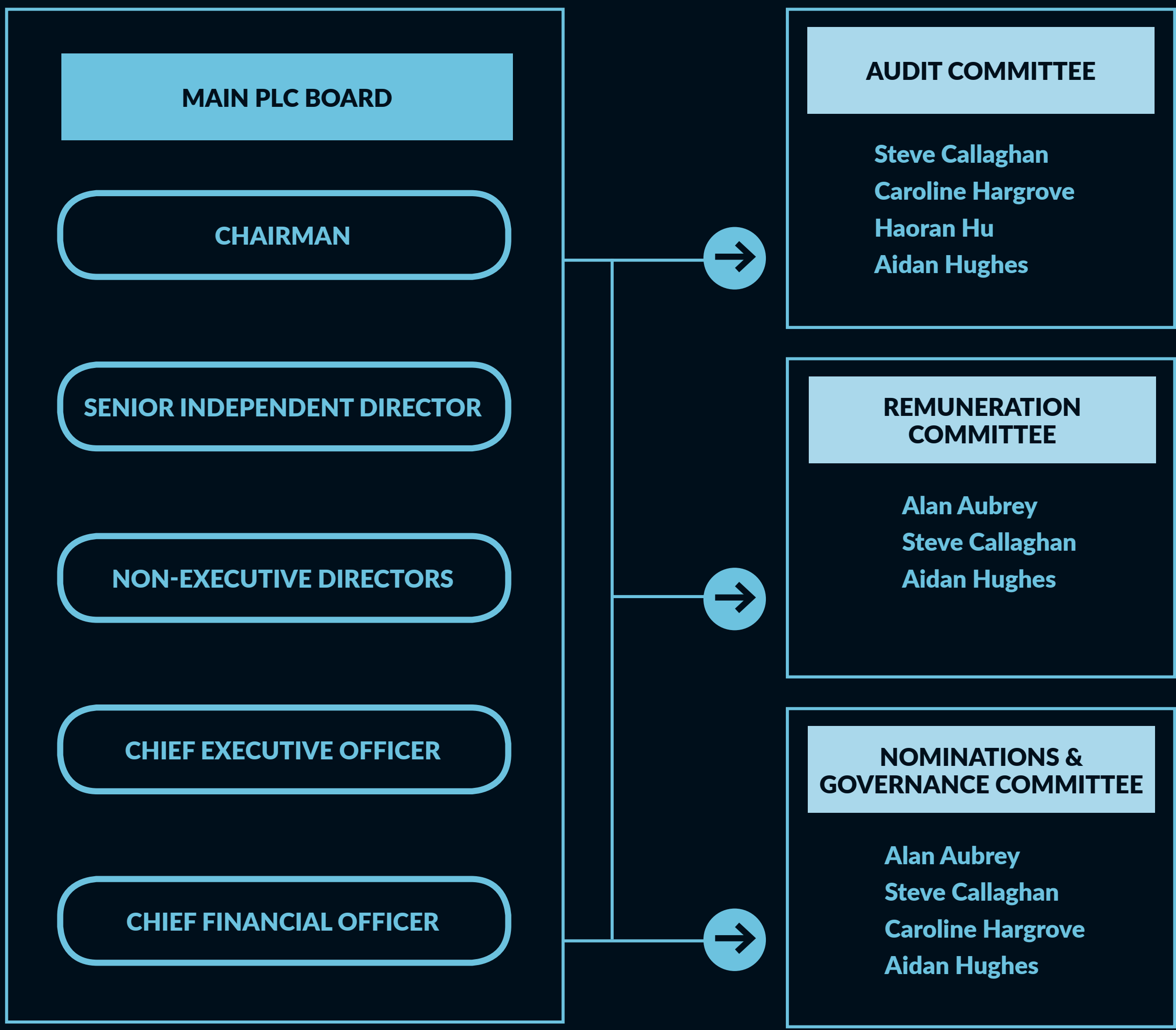
Corporate values

The Board embodies and promotes a corporate culture based on sound ethical values and behaviours from the top down, and this guides the Group's objectives and strategy. This has now been formalised into our environmental and social governance (ESG) policy, recently published. For the first time, we are also showing our progress against the UN's Sustainable Development Goals (SDGs), which encompass every area of fair, honest and responsible operation.

Where possible, we look to take these values into our relations with suppliers and customers, compliance and internal controls, employee management, engagement and reward systems, and responsibility to the environment and local community.

This year we have reviewed our significant positive impact on the environment and society for the first time, more of which is laid out in the Sustainability section on pages 24 to 26.

Our commitment to health and safety is also non-negotiable, and no practical or commercial interest is permitted to override the safety and well-being of our people. This is reinforced by continuous reviews of our processes and plant, accurate reporting of incidents and "near-misses", and root-cause investigations. Reports are provided to the Board at every meeting to track incidents and to ensure remedial actions are taken as necessary.



Shareholder communications

During the year we have seen a greater level of shareholder engagement and communication as we successfully raised funds and widened the investor base.

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

We regularly communicate with our shareholders through a variety of channels: 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.

We also continually update our website (www.cerespower.com). This is the primary source of information about the Group, giving an overview of activities and detailing all recent announcements, significant developments, presentations and our Annual Reports.

We welcome contact from shareholders to raise any concern or question, and endeavour to offer a response from a Director in person. Investors are encouraged to participate at the Annual General Meeting and any general meetings.

AGM

Ceres Power's AGM will be held at 3 Gatton Park Business Centre, Wells Place, Merstham, Redhill, RH1 3DR on 4 December 2019 and I very much look forward to meeting shareholders who are able to attend. The meeting will give investors an opportunity to meet the Board personally and ask questions about the Group's activities.

ALAN AUBREY
CHAIRMAN
1 October 2019

Corporate governance report

The Board of Directors
At the date of signing these accounts, the Board had two Executive Directors and six Non-Executive Directors, including the Chairman. Biographical information for each Director and their contribution to the business is set out on pages 28 to 29.

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 as necessary, and provides an induction into the Group in all relevant areas. Directors attend ad hoc training, seminars and/or conferences relevant to their specific skills, professional qualifications and roles within the Board. All members of the Board have access to appropriate professional development courses to support them in meeting their obligations and duties. They also receive ongoing briefings on current developments, including updates on governance and regulatory issues.

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. Directors attend ad hoc training, seminars and/or conferences relevant to their specific skills, professional qualifications and roles within the Board. All members of the Board have access to appropriate professional development courses to support them in meeting their obligations and duties. They also receive ongoing briefings on current developments, including updates on governance and regulatory issues.

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. It includes considering and developing 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 five occasions, attended a two-day strategy meeting and undertook several conference calls to cover matters which included those shown under "Key areas of focus" (below).

The Chief Executive Officer, Chief Financial Officer and Company Secretary are responsible for keeping the Board advised of significant 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 are held regularly, and the Directors 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 the Company's strategy and that it works effectively as a team.

The Board and Non-Executive Directors make a point of visiting the Horsham HQ site regularly. They hold meetings with senior management, track progress against KPIs, and identify potential risks and issues to ensure that the Company remains on track to grow in its market and maximise shareholder value.

The Board's Committees also regularly carry out their own internal evaluations, and in this reporting year confirmed that their respective compositions, skills and experience are still considered appropriate and effective. During these evaluations it was decided to appoint Caroline Hargrove to the Nomination and Governance Committee and to the Audit Committee, and Haoran Hu to the Audit Committee. The membership and key activities of each Committee are set out later in this governance report.

Acting on the conclusions of the external Board effectiveness review in November 2016, the Board also moved from monthly to quarterly meetings to improve the focus of the main plc Board. The Executive Board continues to meet monthly.

During the year the Board's agendas and papers were refined to ensure that it concentrates on the key strategic issues and risks; specifically, those relating to managing conflicts of interest and the move towards commercialisation.

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

Composition of the Board
In the financial year, the Board reduced the number of Executive Directors to two as Mark Selby, CTO, stepped down. In December 2018, it also increased its number of Non-Executive Directors as Haoran Hu was appointed as Weichai Power's nominee director, following their taking a 20% stake in the Company.

At the end of the year, the Board comprised eight Directors: the Non-Executive Chairman, the Senior Independent Director, four other Non-Executive Directors, the Chief Executive Officer and the Chief Financial 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 our 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 a forum in which matters are discussed openly and robustly.

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

– We have improved Board and Committee effectiveness and focus by reducing the frequency of Board meetings to quarterly; this allows for more strategic planning and to align further with the 2018 QCA Code.
– The Board meeting structure has been revised to take into account Director independence, and we have rotated off one Non-Executive Director, appointed two new Non-Executive Directors and are looking to appoint another independent Non-Executive Director. In accordance with best practice, the Executive Directors leave at the end of each meeting and a session exclusively for Non-Executive Directors then follows.
– The Company raised £77.1 million through equity issues with financial investors and strategic partners, including the exercise of the Weichai warrant, and completed a share consolidation.
– We entered into a strategic collaboration agreement with Bosch.
– We committed to construct the new "CP2" manufacturing facility in Redhill.
– We began a programme to improve the Group's information security systems and procedures.
– We changed our Nominated Adviser and looked to strengthen the Group's ESG profile.
– We reviewed the macro competitive environment in the energy sector.
– Scenarios are being considered around the potential Weichai joint venture, associated governance and impact.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board considers that Steve Callaghan, Aidan Hughes and Caroline Hargrove 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. Rob Trezona, who also represents IP Group plc, is also not considered independent according to the Code; however, he has extensive experience with high-technology clean energy companies and cleantech investment which is of great value to the Board. Haoran Hu, who represents Weichai Power, is also not considered independent.

Although the Board agrees that it has sufficient independent Non-Executive Directors of good standing and judgement to balance the Board, and for it to be considered effective, the Board is looking to appoint an additional independent Non-Executive Director in due course.

The Non-Executive Directors do not participate in any of the Company pension or bonus arrangements, and they do not receive any remuneration from the Company other than Directors' fees and reimbursement of expenses.

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 period of two three-year terms, with the approval of the Nominations Committee, the Board and the individual Director concerned.

Haoran Hu will stand for election at the 2019 AGM along with Stephen Callaghan, Phil Caldwell, Aidan Hughes and Robert Trezona who will stand for re-election. Their biographies and contribution to the business are set out on pages 28 to 29.

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

Corporate governance report

Board attendance

The Chief Technology Officer, Chief Operating Officer, Chief Commercial Officer and other senior management are invited to 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 when required.

Committee	Main plc Board	Audit Committee	Remuneration Committee	Noms and Gov Committee
Meetings held in the year	5	3	2	1
Executive Directors				
Phil Caldwell	5	n/a	n/a	n/a
Richard Preston	5	n/a	n/a	n/a
Mark Selby[2]	1	n/a	n/a	n/a
Non-Executive Directors				
Alan Aubrey	5	n/a	2	1
Steve Callaghan	4	2	2	1
Caroline Hargrove[1]	3	1	n/a	n/a
Haoran Hu[1]	2	1	n/a	n/a
Aidan Hughes	5	3	2	1
Rob Trezona	5	n/a	n/a	n/a
Mike Lloyd	1	1	n/a	n/a

[1] Caroline Hargrove and Haoran Hu attended all the available meetings since they joined the Company during the year

[2] Mark Selby attended all required meetings during the period he was on the Board.

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 them. These are designed to safeguard the assets of the Group, and to ensure the reliability of financial information, for both internal and external use.

The Group prepares detailed management accounts and working capital cash flow projections, and these are considered by the Board 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.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

Committees of the Board

The Board delegates certain items of business to its Committees. At the year-end, these were the Audit Committee, Remuneration Committee and Nominations and Governance Committee. During the year, the Technical and Operations Committee changed from reporting into the Board to reporting into the Executive Board, with a summary being provided to the Board. Each Committee operates under clear terms of reference, which 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. It can also 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 regularly 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 37.

Audit Committee

The Audit Committee is composed entirely of Non-Executive Directors and is chaired by Aidan Hughes. Steve Callaghan has been a member for the whole year, while Caroline Hargrove and Haoran Hu joined the Committee during the year. Mike Lloyd stepped down from the Committee when he left the Board in July 2018.

The Committee 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 29.

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. Alongside the non-Board Technical and Operations Committee, it 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.

At the invitation of the Committee, its meetings are attended 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 non-Board Technical and Operations Committee's responsibility relating to technical, operational, business continuity and health and safety-related risks) and 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 recommendations 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 whistleblowing 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 considered impacts to the business as commercial activities develop, including joint venture disclosures and governance, revenue recognition, warranty provisions and the potential capitalisation of development costs. It also reviewed the Group's tax structure and treasury policy in the light of its new customers, and considered the impact to the business of Brexit scenarios.

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 and 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.

Corporate governance report

The Committee also assessed the effectiveness of the external auditor, KPMG LLP, and was satisfied that the advice the Company received has been objective and independent. The Audit Committee has put in place, and regularly reviews, a policy on external auditor independence to ensure objectivity and independence is safe-guarded. KPMG have been assessed as independent and have non-audit fees not exceeding the 70% cap set out in the policy.

Audit and non-audit fees paid to KPMG during the year are disclosed in note 3 to the Financial Statements in this Annual Report. Non-audit fees were 27% (2018: 38%) of audit fees and primarily consisted audit related assurance services in relation to the interim financial results.

KPMG were appointed as the Group's external auditor in 2015. Although the Committee is satisfied that KPMG continues to provide an effective audit service, in line with good governance practice to regularly review the external auditor, the Audit Committee has determined to put the external audit out to tender. Following the tender process the auditor appointed by the Board will be subject to approval by Shareholders at the 2019 AGM.

Nominations and Governance Committee

During the year, the members of the Committee were Alan Aubrey as Chairman, Steve Callaghan, Aidan Hughes, Caroline Hargrove (from March 2019) and Mike Lloyd (until July 2018). Caroline Hargrove was appointed Chair of the Committee after the year end.

The Board has appointed the Nominations and Governance Committee to oversee the composition of the Board and Committees, as well as senior executive recruitment and succession planning.

The Committee's main responsibilities include:

- regularly reviewing the structure, size and composition required of the Board and to make recommendations to the Board regarding any changes, considering succession planning and the independence of its members;
- identifying and nominating potential candidates for new Board positions, the role of the Senior Non-Executive Director and members of the Board Committees, for approval of the Board;
- making recommendations to the Board for the reappointment of Non-Executive Directors; and
- monitoring trends and best practice in corporate governance, reviewing Ceres' own corporate governance policies and procedures, and making recommendations for changes to the Board.

The Board remains mindful of the need to have the right diversity and balance on the Board, as it does across our employee base as a whole.

During the year, the Nominations and Governance Committee continued to monitor Board structure and succession plans for both the Board and senior management below Board level, and recommended the addition of one independent director in due course. The Committee also considered potential conflicts of interest relating to non-independent members of the Board.

Remuneration Committee report

(unaudited unless otherwise stated)

Dear Shareholder,

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

During the past year, the Committee, chaired by Stephen Callaghan, was exclusively composed of independent Non-Executive Directors. The Committee comprised Stephen Callaghan, Alan Aubrey, Aidan Hughes and Mike Lloyd (until his retirement from the Board and the Committee in July 2018). The Chief Executive Officer, Chief Financial Officer and Company Secretary are invited to attend meetings where appropriate. The Committee meets three times annually, and in the past year each member was able to give 100% attendance.

The Remuneration Committee Report is split into the following three sections:

- a summary of the work completed by the Committee in FY2019;
- the Remuneration Policy Report (the Policy) which sets out the Group's approach to Directors' remuneration; and
- the Annual Report on Remuneration which sets out the remuneration paid to Directors in FY2019.

We expand on each of these areas below.

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 annual bonuses and agreeing Long Term Incentive Plan (LTIP) awards; and considering wider inclusion in the LTIP beyond the Executive Team. As part of this activity, the Committee also conducted a market review and considered recent corporate governance developments;
- considering and agreeing the annual Group-wide salary increase;
- agreeing the adoption of an LTIP policy, and approving the achievement level for LTIP awards which vested during the year;
- considering dilution effects of share option schemes and best practices regarding the exercise of share options;
- considering and selecting key performance targets and thresholds for the financial year;
- considering best practices for enabling Persons Discharging Managerial Responsibility (PDMR) to trade;
- reviewing terms of reference for the Committee;
- updating and issuing new Sharesave scheme rules; and
- agreeing to grant Sharesave shares available to all employees.

Remuneration policy report

The remuneration policy of the Group is to:

- provide a suitable remuneration package to attract, motivate and retain Executive Directors and the 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 about 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 the overall aim of attracting and retaining high-quality people, 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.

Remuneration Committee report

(unaudited unless otherwise stated)

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 FY2020 have been set at £226,600 for the CEO and £160,000 for the CFO, being increases of 3.0% and 6.7% from £220,000 and £150,000 respectively. The CFO's increase is the second part of a phased increase over two years.

PERFORMANCE-RELATED ANNUAL BONUS

The purpose of this 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 achieving 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 FY2019, the recommended maximum bonus available as a percentage of base salary is 100% for the CEO and 40% for the CFO.

The Committee has reviewed individuals' achievements against their targets for the year and has determined that the actual bonuses to be awarded are 86.4% of the maximum award for the CEO and 85.0% of the maximum award for the CFO (2018: 98% for the CEO and 123% 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 together with employer's National Insurance saved on employee pension contributions. This complies 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 an 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 2018 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. However, they are no longer the preferred method of share incentivisation and no ordinary share options were awarded in the year.

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 on the recommendation of the Remuneration Committee, based on market comparisons with positions of similar responsibility and scope in companies of a similar size and in comparable industries. Non-Executive Directors do not have service contracts; are not eligible for pension scheme membership or to participate in the Group's LTIP; and 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 of £45,000 reflects his responsibilities and time commitment to the role, leading an effective Board to enable the delivery of the Group's growth strategy and to create long-term sustainable shareholder value. The Chairman's remuneration also covers his participation in any subcommittees.

As with the Executive Directors, Non-Executive Directors' fees of £40,000 each 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.

There are currently 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 for 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 Sharesave scheme, giving them 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 2019 is set out in the table below.

	Salary/fee £	Pension £	Bonus £	Total 2018/19 £	Total 2017/18 £
Executive					
Phil Caldwell	215,872	18,163	190,000	**424,035**	320,619
Richard Preston	146,440	12,540	51,000	**209,980**	198,518
Mark Selby[2]	32,450	2,730	12,900	**48,080**	180,726
Non-Executive Directors					
Alan Aubrey	45,000	–	–	**45,000**	45,000
Stephen Callaghan	40,000	–	–	**40,000**	40,000
Caroline Hargrove[1]	30,000	–	–	**30,000**	–
Haoran Hu[1]	22,769	–	–	**22,769**	–
Aidan Hughes	40,000	–	–	**40,000**	40,000
Mike Lloyd[1]	3,385	–	–	**3,385**	40,000
Robert Trezona	40,000	–	–	**40,000**	40,000

1 The remuneration paid to Caroline Hargrove and Haoran Hu accrued from their appointment date, being 1 October 2018 and 6 December 2018 respectively. The remuneration paid to Mike Lloyd ceased on his retirement from the Board on 31 July 2018.

2 Mark Selby retired from the Board on 1 October 2018; therefore, only his remuneration to that date has been included. His bonus in the current year has been pro-rated.

Remuneration Committee report
(unaudited unless otherwise stated)

Details of Directors' interests in share options (audited)

All share options as at 1 July 2018 have been restated for the 1-for-10 share consolidation which occurred on 7 August 2018.

	At 1 July 2018 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2019 number	Exercise price	Exercise period
Phil Caldwell							
Options (unapproved)	200,000	–	–	–	**200,000**	£0.85	Sep 2014 – Nov 2023
Options (unapproved)	200,000	–	–	–	**200,000**	£0.85	Sep 2015 – Nov 2023
Options[1]	200,000	–	–	–	**200,000**	£0.85	Nov 2016 – Nov 2023
Options[1]	200,000	–	–	–	**200,000**	£0.85	Nov 2017 – Nov 2023
Options[1]	200,000	–	–	–	**200,000**	£0.85	Nov 2018 – Nov 2023
Options[1]	200,000	–	–	–	**200,000**	£0.85	Nov 2019 – Nov 2023
Options (unapproved)	100,000	–	–	–	**100,000**	£0.85	Jul 2017 – Jul 2024
Options (unapproved)	100,000	–	–	–	**100,000**	£0.85	Jul 2018 – Jul 2024
Options (unapproved)	100,000	–	–	–	**100,000**	£0.85	Jul 2019 – Jul 2024
Options (unapproved)	100,000	–	–	–	**100,000**	£0.85	Jul 2020 – Jul 2024
Sharesave options (approved)[2]	20,833	–	(20,833)	–	**–**	£0.43	May – Oct 2019
Sharesave options (approved)	13,636	–	–	–	**13,636**	£0.67	Feb – Jul 2020
Sharesave options (approved)	–	7,109	–	–	**7,109**	£1.27	Jun – Nov 2022
LTIP	650,700	–	–	–	**650,700**	£0.10	Sep 2019 – Sep 2026
LTIP	87,000	–	–	–	**87,000**	£0.10	Oct 2020 – Oct 2027
LTIP	–	138,530	–	–	**138,530**	£0.10	Oct 2021 – Oct 2028
	2,372,169	145,639	(20,833)	–	**2,496,975**		

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

[2] Phil Caldwell exercised all 20,833 options on 13 May 2019 at an exercise price of £0.432 and retained the shares. The closing mid-market price on this date was £1.830.

	At 1 July 2018 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2019 number	Exercise price	Exercise period
Richard Preston							
Options (approved)	40,000	–	–	–	**40,000**	£0.10	Jan 2016 – Jan 2023
Options (approved)	40,000	–	–	–	**40,000**	£0.10	Jan 2017 – Jan 2023
Options (approved)	40,000	–	–	–	**40,000**	£0.10	Jan 2018 – Jan 2023
Options (approved)	40,000	–	–	–	**40,000**	£0.10	Jan 2019 – Jan 2023
Options (unapproved)	37,500	–	–	–	**37,500**	£0.99	Apr 2016 – Apr 2023
Options (unapproved)	37,500	–	–	–	**37,500**	£0.99	Apr 2017 – Apr 2023
Options (unapproved)	37,500	–	–	–	**37,500**	£0.99	Apr 2018 – Apr 2023
Options (unapproved)	37,500	–	–	–	**37,500**	£0.99	Apr 2019 – Apr 2023
Options (unapproved)	37,500	–	–	–	**37,500**	£0.85	Jul 2017 – Jul 2024
Options (unapproved)	37,500	–	–	–	**37,500**	£0.85	Jul 2018 – Jul 2024
Options (unapproved)	37,500	–	–	–	**37,500**	£0.85	Jul 2019 – Jul 2024
Options (unapproved)	37,500	–	–	–	**37,500**	£0.85	Jul 2020 – Jul 2024
Sharesave options (approved)[1]	16,544	–	(16,544)	–	**–**	£0.54	Feb – July 2018
Sharesave options (approved)[2]	20,833	–	(20,833)	–	**–**	£0.43	May – Oct 2019
Sharesave options (approved)	8,491	–	–	–	**8,491**	£1.06	Feb – July 2021
Sharesave options (approved)	–	7,109	–	–	**7,109**	£1.27	Jun – Nov 2022
LTIP	130,200	–	–	–	**130,200**	£0.10	Sep 2019 – Sep 2026
LTIP	47,000	–	–	–	**47,000**	£0.10	Oct 2020 – Oct 2027
LTIP	–	75,560	–	–	**75,560**	£0.10	Oct 2021 – Oct 2028
	683,068	82,669	(37,377)	–	**728,360**		

[1] Richard Preston exercised all 16,544 options on 10 July 2018 at a price of £0.544 and retained the shares. The closing mid-market price on this date was £1.6225 (these shares were exercised prior to the share consolidation undertaken on 7 August 2018 – for comparability, the number exercised and the share price are stated as if the consolidation had already taken place).

[2] Richard Preston exercised all 20,833 options on 13 May 2019 at an exercise price of £0.432 and retained the shares. The closing mid-market price on this date was £1.830.

Remuneration Committee report

(unaudited unless otherwise stated)

Details of Directors' interests in share options (audited)

All share options as at 1 July 2018 have been restated for the 1-for-10 share consolidation which occurred on 7 August 2018.

	At 1 July 2018 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2019 number	Exercise price	Exercise period
Stephen Callaghan							
Options (unapproved)[1]	150,000	–	(150,000)	–	–	£0.99	Apr 2016 – Apr 2023
	150,000	–	(150,000)	–	–		

[1] Stephen Callaghan exercised all 150,000 options on 11 December 2018 at a price of £0.99 and he retained the shares. The closing mid-market price on this date was £1.695.

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

During the 2014 and 2016 years, certain key employees and Directors who were 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 issuing 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 and Richard Preston were awarded 893,251 and 150,000 ESS shares respectively. The number of ESS shares has been adjusted to reflect the 1-for-10 share consolidation which occurred on 7 August 2018.

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: 46,928 shares;
- Stephen Callaghan: 539,919 shares;
- Aidan Hughes: 26,520 shares;
- Richard Preston: 59,641 shares; and
- Robert Trezona: 12,454 shares.

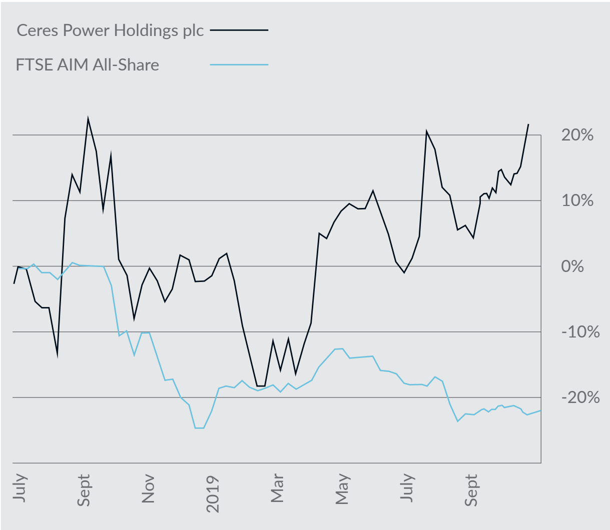
Alan Aubrey held an interest in IP Group plc, the parent company of IP2IPO Ltd, a substantial shareholder of the Company.

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.

Having taken advice from the Company's Nomad, the Remuneration Committee is considering enabling PDMRs to exercise and sell shares without disrupting the market by opening biannual windows in which they can trade.

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 2018 to 27 September 2019. 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 1 October 2019 and was signed on its behalf by:

STEPHEN CALLAGHAN

REMUNERATION COMMITTEE CHAIRMAN

Directors' report

for the year ended 30 June 2019

The Directors present their Annual Report and the audited Financial Statements for the year ended 30 June 2019.

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 the outlook ahead, is set out in detail in the Chairman's Statement on page 2 and the Chief Executive's Review on pages 16 to 19.

The Directors continue to monitor developments in respect of the UK's withdrawal from the European Union (EU) and the impact this may have on customers and suppliers there, employee working rights and future grant funding. The Company recognises that foreign currency risk is one of the primary financial management risks in relation to the UK's withdrawal and this is further detailed in note 18 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 51.

The Directors do not recommend the payment of a dividend (2018: £nil).

Research and development

During the year, the Group incurred expenditure of £13,799,000 (2018: £11,422,000) on research and development which was expensed to the Consolidated Statement of Profit and Loss and Other Comprehensive Income. In addition, £1,288,000 of development costs relating to the design, development and configuration of the Group's core technology and manufacturing processes were capitalised as a development intangible in the year (2018: £47,000). The Chief Executive's Review reports on research and development progress during the year.

Charitable and political contributions

The Group made no charitable or political donations and incurred no political expenditure during the year (2018: £nil).

Principal risks and uncertainties

In addition to financial risk management which is detailed in note 18 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. These are set out in the Strategic Report on pages 22 and 23.

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
- Haoran Hu (Non-Executive Director) – appointed 6 December 2018
- Aidan Hughes (Non-Executive Director)
- Mike Lloyd (Non-Executive Director) – retired from the Board 31 July 2018
- Richard Preston (Chief Financial Officer)
- Mark Selby (Chief Technology Officer) – retired from the Board 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 153,127,810 ordinary shares of £0.10 each of the Company on 25 September 2019:

Investor	Number of £0.10 ordinary shares	Percentage
Weichai Power	30,376,331	19.8%
IP Group plc	30,352,266	19.8%
Lombard Odier Asset Management	13,636,284	8.9%
Richard Griffiths	8,946,795	5.8%
Robert Bosch	5,973,660	3.9%
Oceanwood Capital	5,582,034	3.6%

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, represented 32 days (2018: 59 days). Trade creditors of the Company at the year-end as a proportion of amounts invoiced by suppliers during the year represented 30 days (2018: 2 days).

Corporate governance

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

Directors' report

for the year ended 30 June 2019

Financial instruments

At the year-end the Group did 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 receivables and trade payables 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. They 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 intend either 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 that governs 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 as 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 they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG were appointed as the Group's external auditor in 2015. Although the Committee is satisfied that KPMG continues to provide an effective audit service, in line with good governance practice to regularly review the external auditor, the Audit Committee has determined to put the external audit out to tender. Following the tender process the auditor appointed by the Board will be subject to approval by Shareholders at the 2019 AGM.

By order of the Board

RICHARD PRESTON
CHIEF FINANCIAL OFFICER
1 October 2019

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 2019 which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity, company balance sheet, company statement of changes in equity and the related notes, including the accounting policies in the notes to the consolidated financial statements and the notes to the company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2019 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.

Overview		
Materiality: group financial statements as a whole	£480,000 (2018: £480,000) 2% of Group total expenses (2018: 4% of Group loss before tax)	
Coverage	100% (2018: 100%)	
Key audit matters		**vs 2018**
Recurring risks	Risk of error over revenue recognition	◀▶
	Parent company carrying value of investment in subsidiaries	◀▶
New risks	Capitalisation of internally generated development costs	▲
	The impact on our audit of uncertainties due to the UK exiting the European Union	▲

2. Key audit matters: including 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
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 23 (Strategic Report) and page 35 (Audit Committee Report).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverability of parent company investments in subsidiary undertakings below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge**: We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis**: When addressing the recoverability of the parent company investments in subsidiaries and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency**: As well as assessing individual disclosures as part of our procedures on the recoverability of the parent company investments in subsidiary undertakings, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

	The risk	Our response
Risk of error over revenue recognition (£15.3 million; 2018: £6.3 million) Refer to page 35 (Audit Committee Report), pages 58 to 59 (accounting policy) and pages 59 to 62 (financial disclosures).	**Subjective estimate:** Each commercial revenue contract agreed with a customer is bespoke with differing performance obligations over varying time periods. Revenue is allocated to performance obligations of each contract. The identifying of the various performance obligations and initial allocation of the transaction price is significantly judgemental. Revenue on hardware is allocated based on a cost-plus margin, revenue on engineering services is allocated based on either a cost-plus margin or a residual method, and revenue on licences is allocated based on a residual method. Revenue is recognised during the contract life when earned. For hardware it is on supply. For engineering services it is on a percentage completion basis based on hours incurred to date versus total estimated hours to complete over the period the work is performed. A revision in estimates associated with costs and timing or an error in calculation could have a material impact on revenue recognised in the period. The licence of intellectual property can either be right to use or right to access. This is highly judgemental dependent on the specific circumstances of the licence agreement. The revenue on right to use licences is recognised on delivery of documents, and the revenue on right to access licences is recognised over time. These judgements give rise to a risk that revenue is not recognised appropriately. The effect of these matters is that, as part of our risk assessment, we determined that revenue recognition has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivity estimated by the Group within accounting policy note 1.	Our procedures included: • **Control design:** We evaluated 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 IFRS 15 and considered the application of the policy in light of particular circumstances of individual contracts. • **Test of detail:** For contracts that contained a licence of IP we assessed the contract against the specific guidance in IFRS 15 to determine whether this constituted a right to access or right to use licence, and hence the timing of revenue recognition. • **Test of detail:** For all high risk commercial revenue contracts (including those that are material in the period, with unusually high margin or which contain a licence) 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 agreed revenue to sales invoice and bank receipt. • **Test of detail:** We assessed the percentage of completion by comparing the hours incurred to date to total expected hours. We challenged total estimated hours through enquiry of project managers and review of historical forecasting accuracy. We also performed sensitivity analysis over the hours remaining on the project to assess how inaccurate they would need to be before there was a material error on hours or material error on the cumulative amount of revenue recognised. • **Assessing transparency:** We assessed the group's disclosures in respect of the degree of estimation involved in arriving at the revenue recognised.

Independent auditor's report

to the members of Ceres Power Holdings plc

	The risk	Our response
Capitalisation of internally generated development costs (£1.1 million; 2018: nil) Refer to page 35 (Audit Committee report), page 68 (accounting policy) and page 69 (financial disclosures).	**Subjective judgement:** Within the year, there was a significant judgement made by the directors that the entity had now met the trigger point upon which capitalisation of internally generated intangible assets as required under the relevant accounting standard should commence. From this point, an accounting framework for capitalising development costs was established, and this includes further significant judgements in respect of which projects and CGUs meet the criteria for capitalisation, and which costs can be considered directly attributable and can be capitalised against these projects. The high level of judgement in respect of capitalising these costs gives rise to a risk of incorrect capitalisation in the year.	Our procedures included: • **Test of Detail:** Reviewed the capitalisation of development costs policy and ensured it had been appropriately applied. This included considering whether the trigger point for capitalising costs identified by the directors was appropriate. • **Enquiry of management:** We held detailed discussions with the directors and other management regarding the costs incurred in the year and anticipated future expenditure. • **Test of detail:** Agreed a sample of costs capitalised in the year to purchase invoices and bank payment or timesheets. • **Assessing transparency:** We considered the adequacy of the associated disclosures.
Parent company: carrying value of investment in subsidiaries (£134.6 million; 2018: £68.4 million) Refer to pages 85 and 86 (accounting policy) and pages 86 and 87 (financial disclosures).	**Low risk, high value:** The carrying amount of the company's investment in its subsidiary, held at cost less impairment, represents 92% (2018: 86%) 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:** Assessed 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:** Compared the carrying amount of the investment in subsidiary with the market value of the Group, being an approximation of the investment's 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

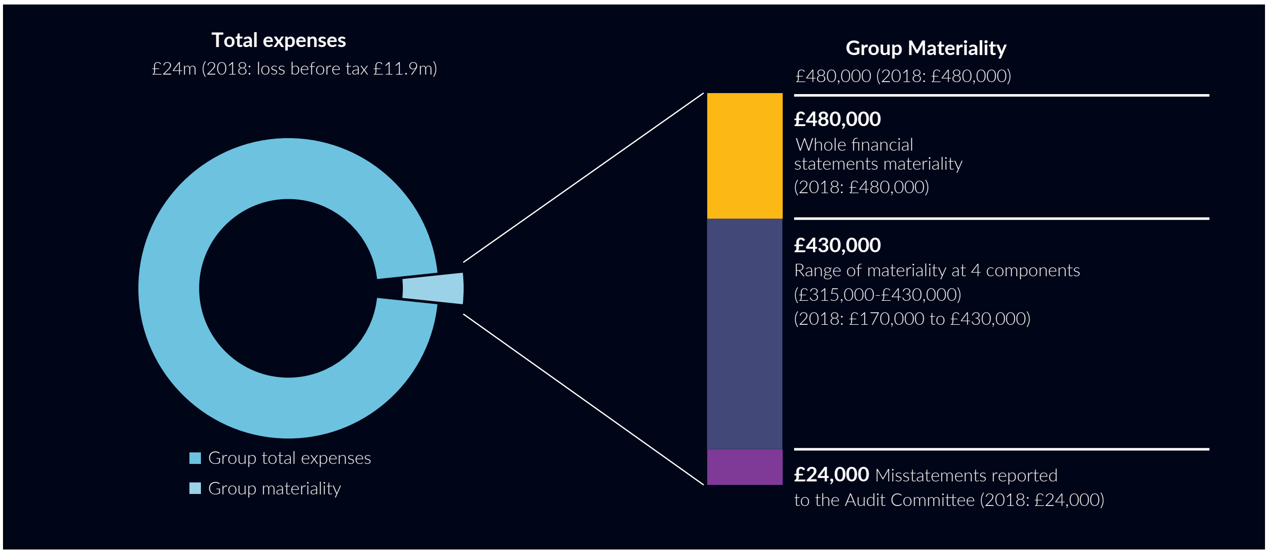
Materiality for the group financial statements as a whole was set at £480,000, determined with reference to a benchmark of group total expenses, of which it represents 2% (2018: the benchmark was group loss before tax and the materiality amount used of £480,000 represented 4%). The change in benchmark is due to the Group approaching breakeven position and therefore the movement in the loss in the current year does not reflect the growth in the business. Revenue can fluctuate due to the nature of the contracts, and hence total expenses are deemed to be the most accurate figure to reflect the Group's growth trend.

Materiality for the parent company financial statements as a whole was set at £430,000 (2018: £430,000), determined with reference to a benchmark of company total assets, of which it represents 0.3% (2018: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £24,000 (2018: £24,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 4 (2018: 4) reporting components, we subjected 4 (2018: 4) to full scope audits for group purposes. The components within the scope of our work accounted for 100% of group revenue, group loss before tax and group total assets.

The component materialities ranged from £315,000 to £430,000 (2018: £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 components (2018: all components), including the audit of the parent company, was performed by the Group team at the company's head office in Horsham, West Sussex.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Macro-economic uncertainty

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 44, 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 the 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)

1 October 2019

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Forest Gate
Brighton Road
Crawley
RH11 9PT

Consolidated statement of profit and loss and other comprehensive income

for the year ended 30 June 2019

	Note	2019 £'000	2018 £'000
Revenue	2	**15,300**	6,329
Cost of sales		**(3,804)**	(3,097)
Gross profit		**11,496**	3,232
Other operating income	3	**1,065**	680
Operating costs	3	**(20,485)**	(15,854)
Operating loss		**(7,924)**	(11,942)
Finance income	4	**552**	57
Loss before taxation	3	**(7,372)**	(11,885)
Taxation credit	7	**2,538**	1,961
Loss for the financial year and total comprehensive loss		**(4,834)**	(9,924)
Loss per £0.10 ordinary share expressed in pence per share:			
– basic and diluted	8	**(3.43)p**	(9.78)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 55 to 82 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 30 June 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**9,769**	2,197
Intangible assets	10	**1,322**	47
Other receivables	13	**741**	–
Total non-current assets		**11,832**	2,244
Current assets			
Inventories	12	**1,403**	1,400
Contract assets	2	**722**	–
Other assets	14	**1,497**	1,630
Derivative financial instruments	18	**28**	8
Current tax receivable	7	**2,292**	1,900
Trade and other receivables	13	**4,204**	3,151
Short-term investments	15	**63,700**	–
Cash and cash equivalents	15	**7,567**	6,395
Total current assets		**81,413**	14,484
Liabilities			
Current liabilities			
Trade and other payables	16	**(2,365)**	(1,734)
Contract liabilities	2	**(3,061)**	–
Other liabilities	17	**(1,838)**	(2,556)
Derivative financial instruments	18	**(66)**	(5)
Provisions	19	**(158)**	–
Total current liabilities		**(7,488)**	(4,295)
Net current assets		**73,925**	10,189
Non-current liabilities			
Other liabilities	17	**(323)**	–
Provisions	19	**(992)**	(851)
Total non-current liabilities		**(1,315)**	(851)
Net assets		**84,442**	11,582
Equity attributable to the owners of the parent			
Share capital	20	**15,277**	10,163
Share premium		**179,116**	107,445
Capital redemption reserve	21	**3,449**	3,449
Merger reserve	21	**7,463**	7,463
Accumulated losses		**(120,863)**	(116,938)
Total equity		**84,442**	11,582

The notes on pages 55 to 82 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 82 were approved by the Board of Directors on 1 October 2019 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 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss before taxation		**(7,372)**	(11,885)
Adjustments for:			
Finance income	4	**(552)**	(57)
Depreciation of property, plant and equipment	3	**1,025**	1,170
Amortisation of intangibles	3	**13**	–
Net foreign exchange losses/(gains)	3	**67**	(29)
Net change in fair value of financial instruments at fair value through profit or loss	3	**42**	(3)
Share-based payments	22	**909**	920
Operating cash flows before movements in working capital and provisions		**(5,868)**	(9,884)
Increase in trade, other receivables and assets		**(1,412)**	(2,319)
Increase in inventories		**(3)**	(805)
(Decrease)/increase in trade, other payables and liabilities		**(559)**	1,636
Increase in contract assets		**(722)**	–
Increase in contract liabilities		**3,061**	–
Increase in provisions		**299**	23
Net cash used in operations		**(5,204)**	(11,349)
Taxation received		**2,146**	1,866
Net cash used in operating activities		**(3,058)**	(9,483)
Investing activities			
Purchase of property, plant and equipment		**(7,693)**	(1,454)
Capitalised development expenditure		**(1,288)**	(47)
Movement in short-term investments		**(63,700)**	14,000
Finance income received		**193**	57
Net cash (used in)/generated from investing activities		**(72,488)**	12,556
Financing activities			
Proceeds from issuance of ordinary shares		**77,926**	135
Expenses from issuance of ordinary shares		**(1,141)**	–
Net cash generated from financing activities		**76,785**	135
Net increase in cash and cash equivalents		**1,239**	3,208
Exchange (losses)/gains on cash and cash equivalents		**(67)**	29
Cash and cash equivalents at beginning of year		**6,395**	3,158
Cash and cash equivalents at end of year	15	**7,567**	6,395

The notes on pages 55 to 82 are an integral part of these consolidated financial statements.

STRATEGIC REPORT
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Consolidated statement of changes in equity

for the year ended 30 June 2019

	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
At 1 July 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	20	39	96	–	–	–	135
Share-based payments	22	–	–	–	–	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
Comprehensive income							
Loss for the financial year		–	–	–	–	(4,834)	(4,834)
Total comprehensive loss		–	–	–	–	(4,834)	(4,834)
Transactions with owners							
Issue of shares, net of costs	20	5,114	71,671	–	–	–	76,785
Share-based payments	22	–	–	–	–	909	909
Total transactions with owners		5,114	71,671	–	–	909	77,694
At 30 June 2019		15,277	179,116	3,449	7,463	(120,863)	84,442

The notes on pages 55 to 82 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 30 June 2019

1. Accounting policies used in the preparation of the financial statements

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

The accounting policies applied in the preparation of these consolidated financial statements are set out below and at the start of the respective notes to these consolidated financial statements. 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 83 to 88.

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.

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.

Basis of consolidation

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

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

Going concern

Having reviewed the Group's forecast income and expenditure, performing appropriate sensitivity and scenario analyses, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy. 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 revenue recognised and the capitalisation of development costs.

1. Accounting policies used in the preparation of the financial statements continued

Critical accounting policy	Description	Notes
Revenue from customer contracts	There are significant management judgements and estimates when classifying, valuing and recognising revenue in relation to customer contracts. Customer contracts typically include engineering services, access to or sale of technology hardware and licenses. Revenue is allocated to these key components based on initial cost estimates to deliver the obligations under the contract and established margins for the different components. Management has established a range of margins to apply to contract components where the costs can be reliably estimated. Given the sometimes complex and long-term nature of customer contracts, these forecast cost estimations and margins are considered a significant area of judgement when valuing and allocating revenue to key components. In determining the revenue recognition for license components of customer contracts, judgements must be made as to the nature of the licenses (right to access or right to use) and the number and timing of performance obligations associated with those licences. These judgements are made based on the interpretation of key clauses and conditions within each customer contract. Revenue for engineering services is recognised based on the percentage of completion method and is measured based on the total contract costs at each reporting period compared to the estimated total contract costs to deliver the service over the contract life. The assessment of the total project costs to deliver the contracted service are updated during the term of the contract by project managers and are subject to internal reviews, including comparison to previous forecasts and past experience. Material differences in the amount of revenue in any given period may result if the judgements or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgements and estimates.	2
Capitalisation and amortisation of development costs	When determining the criteria for starting, and subsequently ceasing, the capitalisation of development costs as an internally generated asset, IAS 38 requires that strict criteria are met; in particular, that it is probable that future economic benefits will result from the development asset. Management's view has always been that this probability threshold needed to be sufficiently high, such that development costs would not be capitalised before the Group could demonstrate the inflow of future economic benefits from significant "go-to-market" licence contracts with customers. Following the successful agreement of contracts with Robert Bosch and Weichai Power in September and December 2018 respectively, management believes that this threshold of probability has been met. As a result, from 1 January 2019 management has put in place processes to review and assess all customer and internal development programme expenditure to ascertain whether it is appropriate to capitalise development costs under IAS 38. Determining when capitalisation should commence and cease is a critical judgement, as is the basis for amortising the capitalised costs. Within the Group there is an established Technology and Product Development Process with gated milestones that assesses the technology and product viability and maturity. Until a programme has passed the required milestone gate, all expenditure is deemed "Research" and expensed as incurred. Expenses incurred after the milestone gate is passed are capitalised within the parameters set out in the accounting policy. Once a programme has passed the milestone gate, confirming a production design version is approved or development activities are completed, the capitalisation of costs is stopped and further expenditure is expensed. Management assess the period of amortisation over the deemed useful life of each asset to ensure that the amortisation cost is matched by the inflow of future economic benefits expected to be received from customers in the form of license and royalty income.	10

1. Accounting policies used in the preparation of the financial statements continued

Adopted IFRSs not yet applied

The following adopted IFRSs have been issued, have an effective date for annual periods beginning after 1 January 2019 and 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 16 – Leases. IFRS 16 specifies how the reporting entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

  Management have assessed the possible impact to the consolidated financial statements of the adoption of this standard using the modified retrospective approach and estimate that a 'Right of use' asset of between £4.5 and 5.0 million will be created, a 'Finance lease' liability of between £5.0 and 5.5 million will be created and there will be an opening reserves adjustment of between £0.25 and 0.75 million.

  Under current guidance, the costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term as a lease expense. Under IFRS 16, the costs in respect of leases are the depreciation of the 'Right of use' asset and an imputed interest charge arising on the 'Finance lease' liability. This may result in lease expenses being recognised sooner under IFRS 16 than under previous guidance, however the impact is not anticipated to be material to the consolidated income statement.

  The Group plans to apply IFRS 16 initially on 1 July 2019. Given the relatively low number of lease asset held by the group, management consider the discount rate to be the only area of significant judgement in determining the assets and liabilities at transition.
- IFRS 17 – Insurance Contracts
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle:

  Amendments to IFRS 3 Business Combinations

  IFRS 11 Joint Arrangements

  IAS 12 Income Taxes

  IAS 23 Borrowing Costs
- Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments

Notes to the consolidated financial statements
for the year ended 30 June 2019

2. Revenue and segmental information

Revenue and direct costs

The Group adopted IFRS 15 with a date of initial application of 1 July 2018. The revenue recognition accounting policy applied in preparation of the results for the current financial year reflects the application of IFRS 15 and is detailed below. The Group has elected to adopt the standard using the cumulative effect transition method. Under this transition method, the new standard has been applied as at the date of initial application without restatement of comparative amounts. There is no cumulative impact on the opening balance of equity as at 1 July 2018 as a result of the initial application of the new standard. The comparative information has not been adjusted and therefore continues to be reported under IAS 18, 'Revenue Recognition'.

Revenue comprises the fair value of the consideration received or receivable for the provision 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.

Revenue primarily consists of amounts received or receivable under evaluation, development, supply and licence contracts. The nature of goods and services provided under these contracts consists of engineering services, access to or sale of technology hardware and licenses to access and use intellectual property (IP).

Engineering services are provided under evaluation and development agreements. The nature of the work typically comprises engineering staff time for design, development, modelling and test analysis. The performance obligation in relation to this work is deemed to be satisfied over time based on a percentage of completion basis.

Technology hardware is provided to customers under evaluation, development and supply agreements. Where access to the hardware is provided under an evaluation agreement, the performance obligation is deemed to be satisfied on a straight-line basis over the period that the customers preferred technology performance attributes are verified under the evaluation agreement. Where access to the hardware is provided under development and supply agreements, the performance obligation is satisfied at the point in time that the hardware is delivered.

Access to intellectual property (IP) is provided to customers under licence agreements. The nature of the licenses (right to access or right to use) is determined based on the interpretation of key clauses and conditions within each customer contract. The performance obligation is the disclosure of IP under the licence and is based on the number and timing of disclosures associated with those licences. For a right to use license the performance obligation is satisfied at a point in time when the IP is disclosed. For a right to access license the performance obligation is satisfied over the time that access is granted to IP developed.

Revenue is allocated to engineering services and access to or sale of technology hardware based on initial cost estimates to deliver the obligations under the contract and established margins for the different components (cost-plus margin). Management has established a range of margins to apply to contract components where the costs can be reliably estimated. Given the sometimes complex and long-term nature of customer contracts, these forecast cost estimations and margins are considered a significant area of judgement when valuing and allocating revenue to key components.

Revenue is allocated to licences on a stand-alone selling price basis where observable. Where the licence forms part of a wider contract for the provision of engineering services and technology hardware, the Group uses a cost-plus margin approach for revenue allocated to engineering services and technology hardware components and a residual approach for allocating revenue to licences.

Revenue allocated to key components of contracts is recognised when performance obligations in relation to the key components are satisfied. Performance obligations are deemed to be satisfied as follows:

- Access to technology hardware – either on delivery or over time access is granted
- Sale of technology hardware – on delivery
- Engineering services – percentage of completion
- Right-to-use license – at the point in time the IP is disclosed
- Right-to-access – over time that access is granted to IP developed

2. Revenue and segmental information continued

Revenue and direct costs continued

Percentage of completion is measured based on the total contract costs at each reporting period compared to the estimated total contract costs to deliver the service over the contract life. The assessment of the total project costs to deliver the contracted service are updated during the term of the contract by project managers and are subject to internal reviews, including comparison to previous forecasts and past experience.

Material differences in the amount of revenue in any given period may result if the judgements or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgements and estimates.

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, a contract asset or liability is recognised.

All costs incurred in fulfilling the key 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 the contract fulfilment costs are incurred and when the revenue is recognised, a contract asset is recognised. 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. The Group expenses pre-contract legal costs which are incurred regardless of whether a contract is awarded.

Operating segments

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 Executive Board which is made up of 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.

The Group is organised into one operating segment, which is the development and commercialisation of its fuel cell technology. All of the Group's non-current assets are located in the United Kingdom.

The Group's revenue is disaggregated by geographical market, major product/service lines, and timing of revenue recognition:

Geographical market

	2019 £'000	2018 £'000
Europe	**10,553**	610
Asia	**4,441**	4,314
North America	**306**	1,405
	15,300	6,329

Major product/service lines

	2019 £'000	2018 £'000
Engineering services and provision of technology hardware	**7,888**	5,420
Licenses	**7,412**	909
	15,300	6,329

2. Revenue and segmental information continued

Timing of transfer of goods and services

	2019 £'000	2018 £'000
Products and services transferred at a point in time	**7,057**	1,229
Products and services transferred over time	**8,243**	5,100
	15,300	6,329

The contract assets and liabilities as of 1 July 2018 and 30 June 2019 are as follows:

	Note	30 June 2019 £'000	1 July 2018 £'000
Trade receivables	13	**2,404**	1,744
Contract assets – accrued income		**306**	709
Contract assets – deferred costs		**416**	625
		3,126	3,078
Contract liabilities – deferred income		**(3,061)**	(933)
Provision for loss making contracts	19	**(65)**	-
Provision for warranties	19	**(93)**	-
		(3,219)	(933)

There were no impairment losses recognised against trade receivables in either the current or prior years relating to the adoption of IFRS 9 Financial Instruments. Further details regarding the composition of trade receivables can be found in note 13 and on the adoption of IFRS 9 in note 18.

The contract assets – accrued income – primarily relate to consideration for work completed but not billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

The contract assets – deferred costs – relates to the cost to provide hardware to customers under evaluation agreements. The cost is deferred and recognised on a straight-line basis over the period of access as the customers' preferred technology performance attributes are verified under the agreement.

The contract liabilities – deferred income – primarily relate to the advance consideration received from customers. There are no significant financing components associated with deferred income.

Revenue recognised in the current year that was included in the contract liabilities – deferred income – balance at the beginning of the period was £664,000.

There were no significant amounts of revenue recognised in the year ended 30 June 2019 arising from performance obligations satisfied in previous periods.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract assets 2019 £'000	Contract liabilities 2019 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period		**664**
Increases due to cash received, excluding amounts recognised as revenue during the period		**(2,792)**
Transfers from contract assets recognised at the beginning of the period to receivables	**(709)**	
Increases as a result of changes in the measure of progress	**306**	

2. Revenue and segmental information continued

The revenue expected to be recognised in future years for evaluation and development, supply and licence agreements in respect of performance obligations that are unsatisfied (or partially unsatisfied) at the year end is:

	2020 £'000	2021 £'000	2022 £'000
Evaluation, development, supply and licence agreements	**13,005**	**4,480**	**245**

The above analysis excludes revenue which is contracted but contingent upon milestones or decision criteria which are at the customers discretion.

The company applies the practical expedient in IFRS 15.121 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Changes in accounting policies

The Group adopted IFRS 15 using the cumulative effect transition method with a date of initial application of 1 July 2018. The comparative information has not been adjusted and therefore continues to be reported under IAS 18, 'Revenue Recognition'. There is no cumulative impact on the opening balance of equity as at 1 July 2018 as a result of the initial application of the new standard.

Consolidated statement of financial position

The impact of adopting IFRS 15 on the consolidated statement of financial position for the year ended 30 June 2019 compared to the revenue determined in accordance with IAS 18 is as follows:

	Impact of changes in accounting policies		
	As reported £'000	Adjustments £'000	Balances without adoption of IFRS 15 £'000
Current assets			
Inventories	1,403	416	1,819
Contract assets	722	(722)	-
Other assets	1,497	306	1,803
Derivative financial instruments	28	-	28
Current tax receivable	2,292	-	2,292
Trade and other receivables	4,204	-	4,204
Short-term investments	63,700	-	63,700
Cash and cash equivalents	7,567	-	7,567
Total current assets	81,413	-	81,413
Liabilities			
Current liabilities			
Trade and other payables	(2,365)		(2,365)
Contract liabilities	(3,061)	3,061	-
Other liabilities	(1,838)	(3,061)	(4,899)
Derivative financial instruments	(66)	-	(66)
Provisions	(158)	-	(158)
Total current liabilities	(7,488)		(7,488)

Other than the impact noted above on adopting IFRS 15, there were no further changes to the consolidated statement of financial position for the year ended 30 June 2019.

Consolidated statement of profit and loss and other comprehensive income

There is no impact on the consolidated statement of profit and loss and other comprehensive income as a result of the adoption of IFRS 15 for the year ended 30 June 2019 compared to the revenue determined in accordance with IAS 18.

2. Revenue and segmental information continued

Consolidated cash flow statement

The impact of adopting IFRS 15 on the consolidated cash flow statement for the year ended 30 June 2019 compared to the revenue determined in accordance with IAS 18 is as follows:

	Impact of changes in accounting policies		
	As reported £'000	Adjustments £'000	Balances without adoption of IFRS 15 £'000
Operating cash flows before movements in working capital and provisions	(5,868)	-	(5,868)
Increase in trade, other receivables and assets	(1,412)	(306)	(1,718)
Increase in inventories	(3)	(416)	(419)
(Decrease)/increase in trade, other payables and liabilities	(559)	3,061	2,502
Increase in contract assets	(722)	722	-
Increase in contract liabilities	3,061	(3,061)	-
Increase in provisions	299	-	299
Net cash used in operations	(5,204)	-	(5,204)

Other than the impact noted above on adopting IFRS 15, there were no further changes to the consolidated cash flow statement for the year ended 30 June 2019.

3. Loss before taxation

Research and development

The Group undertakes research and development activities either on its own behalf or in conjunction with customers.

Group and customer funded expenditure on research, and on development activities not meeting the conditions for capitalisation (see note 10), are written off as incurred and charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

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.

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 as the related costs are incurred and expensed. The reimbursement of the cost of an item of plant and equipment or intangible by way of a capital grant is presented as deferred income and recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as other operating income on a basis consistent with the depreciation or amortisation of the asset over its estimated useful life.

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 income. 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.

3. Loss before taxation continued

	2019 £'000	2018 £'000
Operating costs are split as follows:		
Research and development costs	**13,799**	11,422
Administrative expenses	**4,618**	3,430
Commercial expenses	**2,068**	1,002
	20,485	15,854
Loss before taxation is stated after charging/(crediting):		
Staff costs, including share-based payments (note 5)	**11,507**	8,967
Depreciation on property, plant and equipment (note 9)	**1,025**	1,170
Amortisation of intangibles (note 10)	**13**	–
Operating lease rentals payable – property, plant and machinery	**680**	366
Other operating income – grant income	**(1,065)**	(680)
Repairs expenditure on property, plant and equipment	**478**	325
Net change in fair value of financial instruments at fair value through profit or loss	**42**	(3)
Net foreign exchange loss/(gain)	**67**	(29)
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	**20**	13
Fees payable to the Company's auditor for other services:		
– the audit of the Company's subsidiaries	**53**	47
– taxation compliance services	**–**	3
– audit related assurance services – interim financial information	**16**	12
– audit related assurance services – government grants	**4**	12
	93	87

4. Finance income

Interest income
Interest income is recognised in the income statement in the period in which it is earned.

	2019 £'000	2018 £'000
Interest receivable on cash and short-term investments	**552**	57

Notes to the consolidated financial statements
for the year ended 30 June 2019

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

	2019 Number	2018 Number
By activity:		
Research and development	**112**	94
Prototype production	**50**	23
Administration	**24**	20
Commercial	**5**	6
	191	143

	2019 £'000	2018 £'000
Staff costs (for the above persons) comprised:		
Wages and salaries, including compensation for loss of office	**8,974**	6,854
Social security costs	**958**	718
Other pension costs (note 6)	**666**	475
Share-based payments (note 22)	**909**	920
	11,507	8,967

	2019 £'000	2018 £'000
Directors' emoluments:		
Aggregate emoluments	**870**	864
Company contributions to defined contribution pension schemes	**33**	41
Gain on exercise of share options	**200**	91
	1,103	996

	2019 £'000	2018 £'000
Highest paid Director:		
Aggregate emoluments	**406**	303
Company contributions to defined contribution pension schemes	**18**	17
Gain on exercise of share options	**29**	–
	453	320

Two Directors (2018: three Directors) have retirement benefits accruing under defined contribution pension schemes.

Additional information on the emoluments of the directors, together with information regarding the share interests and share options of the directors, is included in the Remuneration report on pages 37 to 42, which form part of these audited financial statements.

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:

	2019 £'000	2018 £'000
Salaries and other short-term employment benefits	**1,230**	1,047
Post-employment benefits	**67**	66
Share-based payments	**595**	613
	1,892	1,726

6. Pensions

Pension scheme arrangements

The Group operates a defined contribution pension plan for employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The plan is a post-employment benefit plan under which the Group pays fixed contributions during the employee's service and will have no legal or constructive obligation to pay amounts after the employee's service ends. 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.

The pension charge represents contributions payable by the Group to the funds and amounted to £666,000 (2018: £475,000). A total of £103,000 (2018: £78,000) was payable to the funds at the year end.

7. Taxation and deferred taxation

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 under the SME and large company R&D tax credit regimes.

Deferred taxation

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.

	2019 £'000	2018 £'000
UK corporation tax	**(2,292)**	(1,900)
Adjustment in respect of prior periods	**(246)**	(61)
Taxation credit	**(2,538)**	(1,961)

No corporation tax liability has arisen during the year (2018: £nil) due to the losses incurred.

A tax credit has arisen as a result of expenditure surrendered and claimed under the SME and large company R&D tax credit regimes in the current and prior years.

7. Taxation and deferred taxation continued

The tax result for the year is different from the standard rate of small profits UK corporation tax of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £'000	2018 £'000
Loss before taxation	**(7,372)**	(11,885)
Loss before taxation multiplied by the UK tax rate of 19.00% (2018: 19.00%)	**(1,401)**	(2,258)
Effects of:		
Losses carried forward	**322**	1,121
Enhanced tax deductions for R&D expenditure	**(1,580)**	(1,418)
Expenses not deductible	**180**	52
Fixed asset differences	**(428)**	35
Adjustment in respect of prior periods – R&D tax credit	**(246)**	(61)
Difference between R&D tax credit and small company tax rates	**781**	633
Share option timing differences	**(166)**	(65)
Total taxation credit	**(2,538)**	(1,961)

Deferred taxation

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

	2019 £'000	2018 £'000
Tax effect of temporary differences because of:		
Difference between capital allowances and depreciation	**(1,211)**	(1,641)
Deductions relating to share options	**(938)**	(872)
Losses carried forward	**(11,596)**	(11,245)
	(13,745)	(13,758)

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% (2018: 17%).

8. Loss per share

On 7 August 2018 Ceres Power Holdings plc completed a 1-for-10 share consolidation, where every ten existing ordinary shares of £0.01 each in the Company were consolidated into one ordinary share of £0.10 each. The basic and diluted loss per share for the prior year has been adjusted to represent the £0.10 ordinary share capital structure so it is comparable to the current year share capital.

Basic and diluted loss per £0.10 ordinary share of 3.43p for the financial year ended 30 June 2019 (2018: 9.78p (adjusted)) 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 2019 or in the previous year.

The loss for the financial year ended 30 June 2019 was £4,834,000 (2018: £9,924,000) and the weighted average number of £0.10 ordinary shares in issue during the year ended 30 June 2019 was 140,956,490 (2018: 101,483,381 (adjusted)).

9. Property, plant and equipment

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
Motor vehicles	Three to five 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.

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Motor vehicles £'000	Total £'000
Cost							
At 1 July 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
Additions	132	1,535	463	–	6,455	12	8,597
At 30 June 2019	2,222	10,846	1,458	69	6,803	12	21,410
Accumulated depreciation							
At 1 July 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
Charge for the year	68	798	159	–	–	–	1,025
At 30 June 2019	2,096	8,478	998	69	–	–	11,641
Net book value							
At 30 June 2019	126	2,368	460	–	6,803	12	9,769
At 30 June 2018	62	1,631	156	–	348	–	2,197
At 30 June 2017	16	1,803	94	–	–	–	1,913

Assets under construction primarily consist of plant and machinery and leasehold improvements relating to the new manufacturing site which is yet to be commissioned at the year end.

10. Intangible assets

Research and development

Expenditure incurred on research and development is distinguished as relating to a research phase or development phase with reference to the Group's technology and product development process.

All research phase expenditure is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as an expense when incurred (see note 3).

Development phase expenditure is capitalised from the point that all of the following conditions are met:

- the product or process under development is technically and commercially feasible;
- the Group intends to and has the technical ability and sufficient resources to complete the development;
- future economic benefits are probable; and
- the Group can measure reliably the expenditure attributable to the asset during its development.

Development phase activities involve a plan or design for the production of new or substantially improved products or processes in relation to the Group's core fuel cell and system technology and intellectual property. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalisation of development phase activities continues until the point at which the product or process under development meets its originally mandated technical specification. For product and process development, this is at the point where the production design version is approved or the development is completed.

Subsequent expenditure is capitalised where it enhances the functionality of the asset and demonstrably generates an enhanced economic benefit to the Group. All other subsequent expenditure on the product or process is expensed as incurred.

Where development activities are funded through Government Grants and the cost of those activities is capitalised under this policy, the grants received are considered Capital Grants and are presented as deferred income and recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income as other operating income on a basis consistent with the depreciation or amortisation of the asset over its estimated useful life.

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.

10. Intangible assets continued

	2019 £'000	2018 £'000
Cost		
At 1 July	**47**	–
Additions from internal developments in relation to manufacturing site	**187**	47
Additions from customer and internal development programmes	**1,101**	–
At 30 June	**1,335**	47
Accumulated amortisation		
At 1 July	**–**	–
Charge for the year	**13**	–
At 30 June	**13**	–
Net book value		
At 30 June	**1,322**	47

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

Capitalised development 2 – 7 years

The development intangible relates to the design, development and configuration of the Company's core fuel cell and system technology and manufacturing processes. Amortisation of capitalised development commences once the development is complete and is available for use.

11. Subsidiary undertakings

Details of the Group's subsidiaries at 30 June 2019 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.

In December 2018 Ceres Power Holdings plc signed a Joint Venture agreement with Weichai Power Co. Ltd which set out the structure and terms for forming a Joint Venture company in Weifang, Shandong Province, China, between the two parties. The purpose of the Joint Venture will be to research, develop, manufacture, market, sell and distribute licensed products within China. The Joint Venture is expected to be formed during the financial year ended 30 June 2021 but is subject to meeting certain contractual milestones. The Group has committed to acquire a 49% equity stake in the Joint Venture for an initial investment of RMB 68 million (£8 million).

Ceres Power will receive future revenues from the Joint Venture for the use of its technology under licence as well as engineering service revenues and manufacturing and sales royalties.

The two parties may decide to make further investments in the Joint Venture over time.

On 2 September 2019, Ceres Power Licence Company Ltd was incorporated in England and Wales. The company is a 100% owned subsidiary of Ceres Power Intermediate Holdings Ltd. The principle activity of the company is the provision of overseas license and royalty services.

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12. Inventories

Inventories
Inventories consist of raw materials and finished goods.

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.

	2019 £'000	2018 £'000
Current:		
Raw materials and finished goods	**1,403**	775
Work in progress	**–**	625
	1,403	1,400

Inventories in raw materials and finished goods have increased in line with an increase in manufacturing capacity in the year and management's decision to hold a greater volume of some raw materials as the UK moves closer to a withdrawal from the EU.

13. Trade and other receivables

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 using the expected credit loss model. 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.

	2019 £'000	2018 £'000
Current:		
Trade receivables	**2,404**	1,744
Other receivables	**1,800**	1,407
	4,204	3,151
Non-current:		
Other receivables	**741**	–

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 are no expected credit losses and have been no provisions for impairment of receivables during the year (2018: £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

	2019 £'000	2018 £'000
Current:		
Prepayments	**523**	304
Prepayment of capital expenditure	**409**	519
Accrued income	**565**	807
	1,497	1,630

Accrued income is recognised in accordance with relevant accounting policies and primarily consists of grant income and interest receivable on short-term bank deposits. Prepayment of capital expenditure relates to instalment payments made to suppliers of plant and equipment assets which were under construction but undelivered at the balance sheet date.

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15. Cash, cash equivalents and short-term investments

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.

	2019 £'000	2018 £'000
Cash at bank and in hand	**1,502**	3,828
Money market funds	**6,065**	2,567
Cash and cash equivalents	**7,567**	6,395
Short-term bank deposits greater than one month	**63,700**	–
	71,267	6,395

The Group holds surplus funds in accordance with the treasury policy, as set out in note 18.

	Interest rate type	2019 £'000	2018 £'000
Interest rate risk profile of the Group's financial assets:			
Cash at bank and in hand	Floating	**1,502**	3,828
Money market funds	Floating	**6,065**	2,567
Short-term bank deposits greater than one month	Fixed and floating	**63,700**	–
		71,267	6,395

During the 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 0.75% and 1.28%. 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

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.

	2019 £'000	2018 £'000
Current:		
Trade payables	**2,255**	1,650
Taxation and social security	**–**	3
Other payables	**110**	81
	2,365	1,734

17. Other liabilities

	2019 £'000	2018 £'000
Current:		
Accruals	**1,838**	1,623
Deferred income	**–**	933
	1,838	2,556
Non-current:		
Accruals	**323**	–

18. Financial instruments

IFRS 9 – Financial Instruments

IFRS 9 replaces the previous guidance relating to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 July 2018 resulted in no changes in existing accounting policies. The adoption of IFRS 9 had no impact on the opening balance sheet of the Group.

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, and in limited circumstances options, 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 later in this note.

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

The Group only uses derivative financial instruments to hedge foreign currency exposures which arise from an underlying current or anticipated business requirement. 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). The fair value of currency options is estimated using the Black–Scholes pricing model based on the strike price with reference to the future exchange rate, spot rate and risk-free interest rate. Forward exchange contracts and options are included in the Level 2 classification.

Other than the forward contracts and options noted below, none of the Group's assets and liabilities were measured at fair value at 30 June 2019 (2018: £nil).

18. Financial instruments continued

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

	Fair value hierarchy	Carrying amount 2019 £'000	Fair value 2019 £'000	Carrying amount 2018 £'000	Fair value 2018 £'000
Financial assets at amortised cost					
Trade and other receivables		**4,945**	**4,945**	3,151	3,151
Cash, cash equivalents and short-term investments		**71,267**	**71,267**	6,395	6,395
Financial assets designated as fair value through profit or loss					
Forward exchange contracts	**Level 2**	**3**	**3**	8	8
Currency options	**Level 2**	**25**	**25**	–	–
Financial liabilities measured at amortised cost					
Trade and other payables and accruals		**(4,526)**	**(4,526)**	(3,357)	(3,357)
Financial liabilities designated as fair value through profit or loss					
Forward exchange contracts	**Level 2**	**(7)**	**(7)**	(5)	(5)
Currency options	**Level 2**	**(59)**	**(59)**	–	–
Total financial instruments		**71,648**	**71,648**	6,192	6,192

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, 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, cash equivalents 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 places surplus funds of no more than £8 million per institution 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 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 six customers (2018: nine) of which £1,818,000 relates to the Europe geographic region, £84,000 to North America and £502,000 to Asia (2018: £2,000 related to the Europe geographic region, £589,000 to North America and £1,153,000 to Asia).

Contract assets at the year end related to three customers of which £49,000 relates to the Europe geographic region, £86,000 to North America and £171,000 to Asia.

The Group's customers are large multinational companies or research institutions 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 £644,000 in the year ended 30 June 2019 (2018: £114,000). The increase in sensitivity to interest rate changes is driven by the significant increase in cash, cash equivalents and short-term investments held at the balance sheet date.

18. Financial instruments continued

Liquidity risk

Liquidity risk is the risk arising from the Group not being able to meet its financial obligations. The Group manages its liquidity needs by preparing cash flow forecasts, including forecasting of the Group's liquidity requirements, to ensure the Group has sufficient cash to meet its operational needs. Liquidity risk decreased in the reporting period as a result of the cash raised from equity fundraises (see note 20).

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

	30 June 2019				30 June 2018		
	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
Non-derivative financial liabilities							
Trade and other payables and accruals	**(4,526)**	**(4,526)**	**(4,203)**	**(323)**	(3,357)	(3,357)	(3,357)
Derivative financial liabilities							
Forward exchange contracts:							
(Outflow)	**(7)**	**(151)**	**(151)**	**–**	(5)	(205)	(205)
Inflow	**–**	**147**	**147**	**–**	–	200	200
Currency options:							
(Outflow)	**(59)**	**(2,651)**	**(2,651)**	**–**	–	–	–
Inflow	**–**	**2,684**	**2,684**	**–**	–	–	–

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 euros, US dollars, Canadian dollars and Japanese yen. The Group seeks to mitigate its foreign currency exposure by entering into forward currency exchange contracts, and in limited circumstances, currency options 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 and options are primarily 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 2019	Euro £'000	US dollar £'000	Canadian dollar £'000	Japanese yen £'000	Other £'000
Exposures to foreign currency risk:					
Cash and cash equivalents	**3**	**7**	**75**	**41**	**33**
Trade receivables	**1,818**	**84**	**–**	**–**	**–**
Trade payables	**(186)**	**(451)**	**–**	**(27)**	**(49)**
Forward exchange contracts – foreign currency inflow/(outflow)	**(423)**	**315**	**297**	**(73)**	**–**
Currency options – foreign currency inflow/(outflow)	**(2,673)**	**–**	**–**	**–**	**–**
Balance sheet exposure	**(1,461)**	**(45)**	**372**	**(59)**	**(16)**
Net contracted income and expenditure	**7,978**	**319**	**(278)**	**64**	**(16)**
Net exposure	**6,517**	**274**	**94**	**5**	**(32)**

18. Financial instruments continued

Foreign currency exposures continued

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

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)	
	2019 £'000	2018 £'000
Euro	**(162)**	18
US dollar	**(5)**	(41)
Canadian dollar	**41**	(5)
Japanese yen	**(7)**	(18)
Other	**(2)**	–

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.

19. Provisions

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.

Property dilapidations

Provisions have been made for future dilapidation costs on the leased properties. 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.

Warranties

As at the year end, no technology hardware supplied or sold to customers was provided with contractual warranties. Where a constructive obligation has been created through an expectation or past practice, a provision for the associated costs of future claims has been included at the year end. A provision for constructive obligation warranties is recognised when the underlying products and services are sold. The provision is based on the past performance of the technology hardware, management's knowledge, customer expectations and a weighting of possible outcomes against their associated probabilities.

Notes to the consolidated financial statements
for the year ended 30 June 2019

19. Provisions continued

Contract losses
The Group holds provisions for expected contractual costs that it expects to incur over the life of the contract. Management exercises judgement to determine the value of the costs to be incurred and the amount of the provision to be made. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount to be incurred. Provision is made when the contractual or constructive obligation occurs. The provision is released to the Consolidated Statement of Profit and Loss and Other Comprehensive Income over time or at the point in time that the actual costs are incurred.

The movement in provisions charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income in the year is set out below along with the value of provisions at 30 June 2019:

	Property dilapidations £'000	Warranties £'000	Contract losses £'000	Total £'000
At 1 July 2018	851	–	–	851
Movements in the Consolidated Statement of Profit and Loss and Other Comprehensive Income:				
Increase in provision	141	93	65	299
At 30 June 2019	992	93	65	1,150
Current	–	93	65	158
Non-current	992	–	–	992
At 30 June 2019	992	93	65	1,150

The dilapidation provision at the year end represents 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. The warranty provision at the year end is the result of a constructive obligation.

20. Share capital

	2019			2018	
	Number of £0.01 Ordinary shares	Number of £0.10 Ordinary shares	£'000	Number of £0.01 Ordinary shares	£'000
Allotted and fully paid					
At 1 July	**1,016,269,193**	**–**	**10,163**	1,012,419,929	10,124
Allotted £0.01 Ordinary shares on exercise of employee share options	**6,041,441**	**–**	**60**	3,849,264	39
27 July 2018 – Allotted £0.01 Ordinary shares on cash placing	**260,952,296**	**–**	**2,609**	–	–
7 August 2018 – 1-for-10 share consolidation	**(1,283,262,930)**	**128,326,293**	**–**	–	–
Allotted £0.10 Ordinary shares on exercise of employee share options	**–**	**926,155**	**93**	–	–
Allotted £0.10 Ordinary shares on cash placing (see below)	**–**	**23,517,364**	**2,352**	–	–
At 30 June	**–**	**152,769,812**	**15,277**	1,016,269,193	10,163

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 2019, 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.

20. Share capital continued

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 previously described 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.

On 7 August 2018, Ceres Power Holdings plc completed a 1-for-10 share consolidation, where every ten existing ordinary shares of 1p each in the Company were consolidated into one ordinary share of 10p each. All outstanding equity 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 following allotments:

- 5,973,660 ordinary £0.10 shares to Robert Bosch GmbH for cash consideration of £9,008,279 on 25 September 2018;
- 663,740 ordinary £0.10 shares to Weichai Power for cash consideration of £1,000,920 on 5 October 2018; and
- The exercise of the option issued to Weichai Power, 16,879,964 ordinary £0.10 shares for cash consideration of £27,767,541 on 14 December 2018.

During the year 6,041,441 ordinary £0.01 shares were allotted for cash consideration of £308,000 and 926,155 ordinary £0.10 shares for cash consideration of £489,000 on the exercise of employee share options (2018: 3,849,264 ordinary £0.01 shares for cash consideration of £135,000) (see note 22).

21. 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.

22. Share options

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 are measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. The fair value of the share-based payment, determined at the grant date, is measured to reflect vesting and non-vesting 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.

On 7 August 2018, Ceres Power Holdings plc completed a 1-for-10 share consolidation, where every ten existing ordinary shares of 1p each in the Company were consolidated into one ordinary share of 10p each. All outstanding capital instruments including employee share options were amended as a result of this consolidation. All opening balances, transactions processed before this date and comparatives have been adjusted to reflect the new share capital structure of ordinary shares of £0.10 each.

The total charge recognised in the year ended 30 June 2019 relating to employee share-based payments was £909,000 (2018: £920,000).

22. Share options continued

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.

	2019 £'000	2018 £'000
a) 2004 Employees' share option scheme	**117**	289
b) Sharesave schemes	**108**	98
c) Long Term Incentive Plan (LTIP)	**684**	533
d) Executive Directors' one-off award	**–**	–
	909	920

a) 2004 Employees' share option scheme

In previous years the Company issued share options under this scheme for Directors and employees, under which approved and unapproved share options were granted. The Company adopted the "Ceres Power Holdings Ltd 2004 Employees' share option scheme" at the time of listing in November 2004.

Under this scheme, Directors and employees hold options to subscribe for £0.10 ordinary shares in Ceres Power Holdings plc at prices ranging from £0.10 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:

`	2019		2018	
	Number ('000)	Weighted average exercise price	Adjusted Number ('000)	Adjusted Weighted average exercise price
Outstanding at 1 July	**6,633**	**£0.65**	7,075	£0.62
Granted	**–**	**–**	50	£1.35
Exercised	**(825)**	**£0.57**	(363)	£0.33
Lapsed	**–**	**–**	(129)	£0.46
Outstanding at 30 June	**5,808**	**£0.49**	6,633	£0.65
Exercisable	**4,782**	**£0.58**	4,465	£0.60

The weighted average share price on the exercise date of options was £1.62 (2018: £1.20).

The weighted average fair value of options granted in the prior year was £0.70.

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

	2019		2018	
Expiry date – 30 June	Number ('000)	Weighted average exercise price	Adjusted Number ('000)	Adjusted Weighted average exercise price
2023	**1,802**	**£0.24**	2,319	£0.27
2024	**1,864**	**£0.84**	1,989	£0.83
2025	**1,698**	**£0.85**	1,871	£0.86
2026	**394**	**£0.85**	404	£0.84
2028	**50**	**£1.35**	50	£1.35

The options outstanding at the end of the year have a weighted average contractual life of 4.57 years (2018: 5.52 years).

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22. Share options continued

a) 2004 Employees' share option scheme continued

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

b) Sharesave scheme

During the year, a new 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:

	2019		2018	
	Number ('000)	Weighted average exercise price	Adjusted Number ('000)	Adjusted Weighted average exercise price
Outstanding at 1 July	**1,215**	**£0.61**	1,011	£0.51
Granted	**582**	**£1.27**	227	£1.06
Exercised	**(705)**	**£0.46**	(10)	£0.54
Lapsed/cancelled	**–**	**–**	(13)	£0.43
Outstanding at 30 June	**1,092**	**£0.68**	1,215	£0.61
Exercisable	**56**	**£0.43**	187	£0.54

The weighted average share price on the exercise date of options was £1.73 (2018: £1.30).

The weighted average fair value of options granted in the year was £0.71 (2018: £0.60).

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

	2019		2018	
Expiry date – 30 June	Number ('000)	Actual and weighted average exercise price	Adjusted Number ('000)	Adjusted Actual and weighted average exercise price
2019	**–**	**–**	187	£0.54
2020	**56**	**£0.43**	574	£0.43
2021	**227**	**£0.67**	227	£0.67
2022	**227**	**£1.06**	227	£1.06
2023	**582**	**£1.27**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 2.53 years (2018: 1.64 years).

22. Share options continued

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. Targets are major milestones which are aligned to the Group's strategic plan and also a sliding scale of Total Shareholder Return (TSR), which is measured over a period of three years with an additional holding period of two years for Executives. Malus, hold and clawback conditions apply.

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

	2019		2018	
	Number ('000)	Weighted average exercise price	Adjusted Number ('000)	Adjusted Weighted average exercise price
Outstanding at 1 July	**2,633**	**£0.10**	2,170	£0.10
Granted	**891**	**£0.10**	463	£0.10
Lapsed	**(170)**	**£0.10**	–	–
Outstanding at 30 June	**3,354**	**£0.10**	2,633	£0.10
Exercisable	**345**	**£0.10**	–	–

The weighted average fair value of options granted in the year was £1.00 (2018: £0.50).

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

	2019		2018	
Expiry date – 30 June	Number ('000)	Actual and weighted average exercise price	Adjusted Number ('000)	Adjusted Actual and weighted average exercise price
2026	**345**	**£0.10**	463	£0.10
2027	**1,664**	**£0.10**	1,707	£0.10
2028	**454**	**£0.10**	463	£0.10
2029	**891**	**£0.10**	–	–

The options outstanding at the end of the year have a weighted average contractual life of 7.90 years (2018: 8.37 years).

d) Executive Directors' one-off award

	2019		2018	
	Number ('000)	Weighted average exercise price	Adjusted Number ('000)	Adjusted Weighted average exercise price
Outstanding at 1 July	**180**	**£20.00**	180	£20.00
Lapsed	**(159)**	**£20.00**	–	–
Outstanding at 30 June	**21**	**£20.00**	180	£20.00
Exercisable	**21**	**£20.00**	180	£20.00

22. Share options continued

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

Expiry date – 30 June	2019 Number ('000)	2019 Actual and weighted average exercise price	2018 Adjusted Number ('000)	2018 Adjusted Actual and weighted average exercise price
2019	–	–	159	£20.00
2020	**21**	**£20.00**	21	£20.00

The options outstanding at the end of the year have a weighted average contractual life of 0.20 years (2018: 0.57 years).

Assumptions

The fair values of the 2004 and Sharesave schemes were measured by use of the Black–Scholes pricing model. The inputs to the Black–Scholes model were as follows:

Grant date	Sharesave scheme 2019 29 April 2019	Adjusted Sharesave scheme 2018 6 December 2017	Adjusted 2004 Scheme 2018 5 October 2018
Share price at date of grant (£)	**1.583**	1.330	1.350
Exercise price (£)	**1.266**	1.060	1.350
Expected volatility (%)	**53%**	55%	56%
Expected option life (years)	**3.25 years**	3.25 years	Up to 5 years
Average risk-free interest rate (%)	**1.00%**	1.75%	1.75%
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 fair values of the Executive and LTIP schemes were measured using a binomial pricing model and Monte Carlo simulation model respectively.

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

Grant date	LTIP 2019 10 October 2018	Adjusted LTIP 2018 5 October 2018
Share price at date of grant (£)	**1.885**	1.350
Exercise price (£)	**0.10**	0.10
Expected volatility (%)	**54%**	56%
Expected option life (years)	**Up to 7 years**	Up to 7 years
Average risk-free interest rate (%)	**1.75%**	1.75%
Expected dividend yield	**Nil**	Nil

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23. 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:

	2019 Land and Buildings £'000	2019 Other £'000	2018 Land and Buildings £'000	2018 Other £'000
No later than one year	**735**	**17**	429	29
Later than one year and no later than five years	**3,053**	**12**	1,732	9
Later than five years	**24**	**–**	457	–
	3,812	**29**	2,618	38

At the year end the properties had an average minimum lease term of 4.8 years (2018: 6.1 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The equipment leases have an average term of 1.9 years (2018: 1.1 years).

In 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 and serve as a reference plant for prospective manufacturing partners.

24. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

Grants received of £705,000 (2018: £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.

25. Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £1,116,000 as at 30 June 2019 (2018: £1,307,000), in respect of the acquisition of property, plant and equipment.

26. Related party transactions

The Group's related parties are its Directors and IP Group plc, through IP2IPO Ltd, which held 19.8% of the issued share capital at 30 June 2019 (2018: 25.34%).

IP Group plc nominated Alan Aubrey and Robert Trezona as Non-Executive Director representatives, both of whom served throughout the year. Compensation paid to the Group's Directors is disclosed in the Remuneration Committee Report on page 39. Transactions with IP Group plc during the year amounted to £83,000 (2018: £41,000) comprising primarily Non-Executive Director fees of £40,000 (2018: £40,000), disbursements of £3,000 (2018: £1,000), recruitment fees in relation to the appointment of Caroline Hargrove of £20,000 (2018: £nil) and £20,000 in corporate finance fees in relation to the placing on 27 July 2018 (2018: £nil). There was no outstanding balance due as at 30 June 2019 (2018: £nil).

In the year, the following Directors exercised share options and retained all the shares:

Date of exercise	Name	Relationship	Type of shares	Total number of options exercised	Weighted average market price at exercise	Total gain on exercise
10 Jul 2018	Richard Preston	Director and shareholder	£0.10 ordinary shares	16,544	£1.623	£17,843
10 Jul 2018	Mark Selby	Director and shareholder	£0.10 ordinary shares	16,544	£1.623	£17,843
11 Dec 2018	Steve Callaghan	Director and shareholder	£0.10 ordinary shares	150,000	£1.695	£106,125
13 May 2019	Phil Caldwell	Director and shareholder	£0.10 ordinary shares	20,833	£1.830	£29,125
13 May 2019	Richard Preston	Director and shareholder	£0.10 ordinary shares	20,833	£1.830	£29,125

In the prior year, Mike Lloyd, a Director and shareholder in the Company, exercised 92,000 share options at a market price of £1.250 and the gain on exercise was £90,670.

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

Company balance sheet

as at 30 June 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	3	**134,607**	68,364
Current assets			
Debtors: amounts falling due within one year	4	**11,087**	11,125
Cash at bank and in hand	5	**5**	289
		11,092	11,414
Creditors: amounts falling due within one year	6	**(198)**	(11,272)
Net current assets		**10,894**	142
Net assets		**145,501**	68,506
Capital and reserves			
Called up share capital	8	**15,277**	10,163
Share premium		**179,116**	107,445
Capital redemption reserve	9	**3,449**	3,449
Profit and loss account		**(52,341)**	(52,551)
Shareholders' funds		**145,501**	68,506

The notes on pages 85 to 88 are an integral part of these Company financial statements.

The financial statements on pages 83 to 88 were approved by the Board of Directors on 1 October 2019 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 2019

	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 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	8	39	96	–	–	135
Share-based payments charge	8	–	–	–	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
Comprehensive income						
Loss for the financial year		–	–	–	(699)	(699)
Total comprehensive loss		–	–	–	(699)	(699)
Transactions with owners						
Issue of shares, net of costs	8	5,114	71,671	–	–	76,785
Share-based payments charge	8	–	–	–	909	909
Total transactions with owners		5,114	71,671	–	909	77,694
At 30 June 2019		15,277	179,116	3,449	(52,341)	145,501

The notes on pages 85 to 88 are an integral part of these Company financial statements.

Notes to the Company financial statements

for the year ended 30 June 2019

1. Accounting policies used in the preparation of the financial statements

Basis of preparation

The 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 disclosures:

- IFRS 2 Share-based Payments in respect of Group-settled share-based payment; and
- IFRS 7 Financial Instrument Disclosure.

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

The financial statements are prepared on the historical cost basis.

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 £699,000 (2018: loss of £958,000), which is stated after charging £20,000 (2018: £13,000) for remuneration receivable by the Company's auditor for the auditing of the financial statements and £16,000 (2018: £12,000) in relation to the audit of the interim financial information.

3. Fixed asset investments

Investments in equity securities

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

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 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 are measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. The fair value of the share-based payment, determined at the grant date, is measured to reflect vesting and non-vesting 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.

Notes to the Company financial statements

for the year ended 30 June 2019

3. Fixed asset investments 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.

Investment in Group undertakings:

	2019 £'000	2018 £'000
Cost		
At 1 July	**80,806**	79,751
Capital contributions arising from share-based payment charge	**909**	920
Additional investment in shares of Ceres Power Intermediate Holdings Ltd	**76,883**	135
Ceres Power Intermediate Holdings Ltd buyback and cancellation of shares	**(11,549)**	–
At 30 June	**147,049**	80,806
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	**134,607**	68,364

During the year, Ceres Power Intermediate Holdings Ltd undertook a capital restructure where it completed a buyback of 1,154,936,637 of its own ordinary share of £0.01 each from Ceres Power Holdings plc for consideration of £11,549,366. Ceres Power Intermediate Holdings Ltd subsequently cancelled these shares. As a result of the restructure the proportion of shares held by the Company and control of the Group did not change.

The Directors have reviewed the investment in its subsidiary for indicators of impairment at the 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 rate 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.

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%

3. Fixed asset investments continued

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

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.

	2019 £'000	2018 £'000
Other debtors	**13**	150
Prepayments and accrued income	**39**	21
Amounts owed by Group undertakings	**11,035**	10,954
	11,087	11,125

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 2019, a provision of £59,316,000 (2018: £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 £67,140,000 (2018: £69,575,000) are subordinated to all other creditors of Ceres Power Ltd.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

6. Creditors: amounts falling due within one year

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.

	2019 £'000	2018 £'000
Trade creditors	**44**	3
Accruals	**154**	488
Amounts owed to Group undertakings	**–**	10,781
	198	11,272

Notes to the Company financial statements

for the year ended 30 June 2019

7. Taxation

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 taxation

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.

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

	2019 £'000	2018 £'000
Tax effect of timing differences because of:		
Losses carried forward	**(1,148)**	(1,084)
	(1,148)	(1,084)

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% (2018: 17%).

8. Called-up share capital

	2019		2018	
	Number of £0.10 Ordinary shares	£'000	Number of £0.01 Ordinary shares	£'000
Allotted and fully paid:				
Ordinary shares at 30 June	**152,769,812**	**15,277**	1,016,269,193	10,163

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

Details of shares issued in the period are provided in note 20 to the Group financial statements. Details of share options are disclosed in note 22 to the Group financial statements.

9. 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.

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)
Haoran Hu (Non-Executive Director)
Aidan Hughes (Non-Executive Director)
Richard Preston (Chief Financial Officer)
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