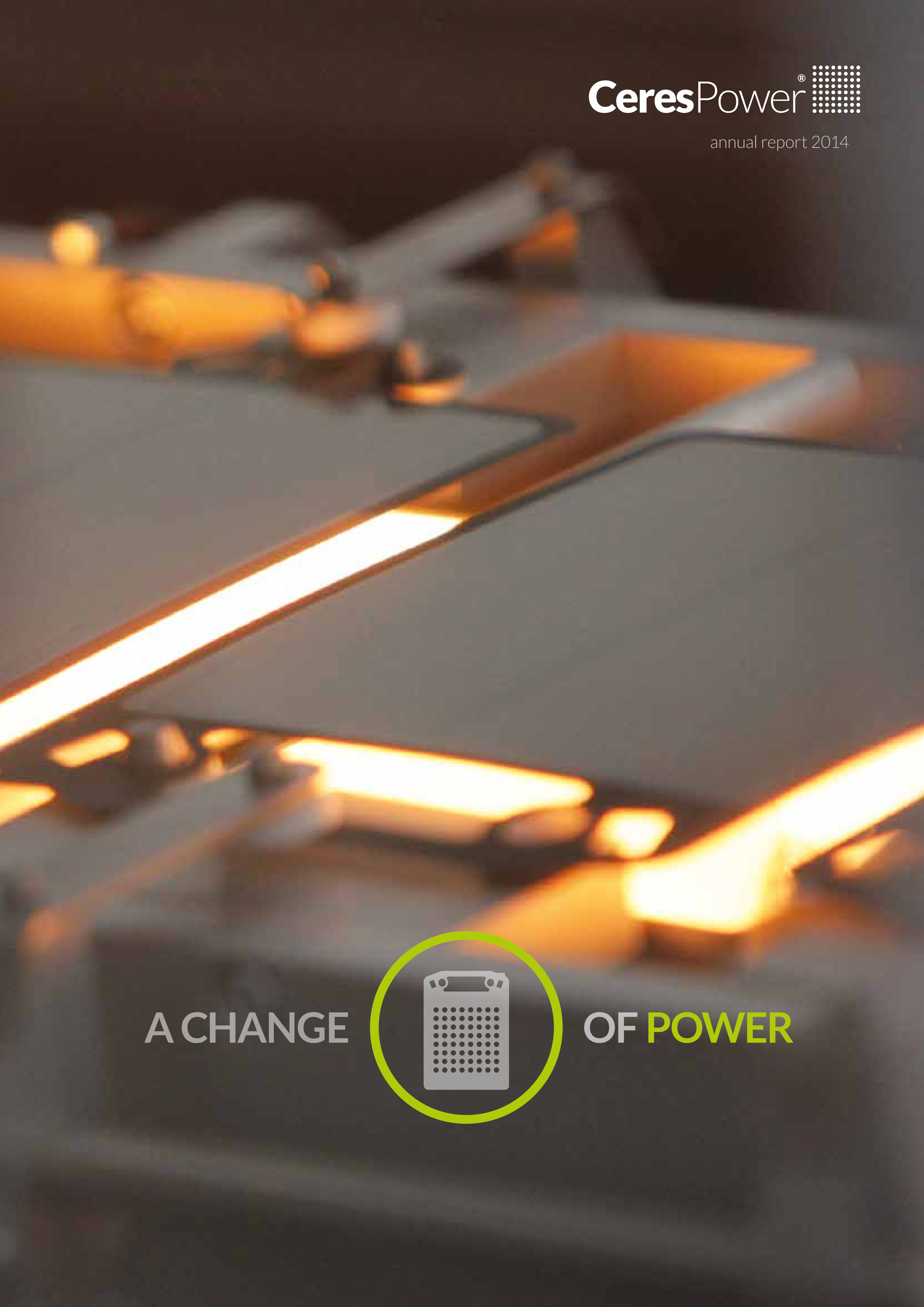
CeresPower®

annual report 2014



A CHANGE OF POWER

Ceres Power Holdings plc is a world leading developer of low cost, next generation fuel cell technology. Used in distributed energy products, our Steel Cells enable a change in the way homes and businesses generate their power, reducing energy costs, lowering CO_2 emissions, increasing efficiency and improving energy security and reliability.

Our aim is to create a fuel cell for the real world. The Ceres Steel Cell operates on natural gas and is manufactured using conventional materials such as steel and standard processes developed for the solar industry, meaning that it can be mass produced at an affordable price for domestic and business use.

Our unique Ceres Steel Cell is a cost effective technology that is being validated by our OEM partners around the world to be at the heart of the next generation of power products.

Highlights

During the reporting period:

- Joint Development Agreement signed with Cummins Power Generation to explore the development and commercialisation of the Steel Cell technology for products in Cummins' core markets of prime and backup power
- Evaluation of the Ceres Steel Cell with KD Navien, South Korea's largest boiler manufacturer, as part of Technology Assessment Agreement
- Increase of underlying revenue from near zero in 2013 to £0.5 million in 2014 (total revenue increasing from £0.5 million to £1.2 million) and reduction of loss for the financial year by approximately ⅓ from £11.4 million to £7.4 million

After the period end:

- Successful fundraising of £20 million from leading institutional investors provides the balance sheet strength to engage with commercial partners for the next stages of joint development and commercialisation of the technology
- Deepening relationship with global Japanese power system company as Joint Development Agreement signed following successful testing in Japan and the UK over the past year

A CHANGE OF POWER

Contents

Fuel Cells: A Change of Power

The way we use power is changing, but the way we generate and distribute it hasn't changed since the 1930s and we are still reliant on inefficient and expensive centralised generation and distribution.

A fuel cell is the most efficient way to generate power from fuel. By using the existing gas infrastructure to generate power in the home or business a fuel cell system removes the cost and efficiency losses of a transmission and distribution system.

For a typical home a fuel cell CHP system reduces:

27%

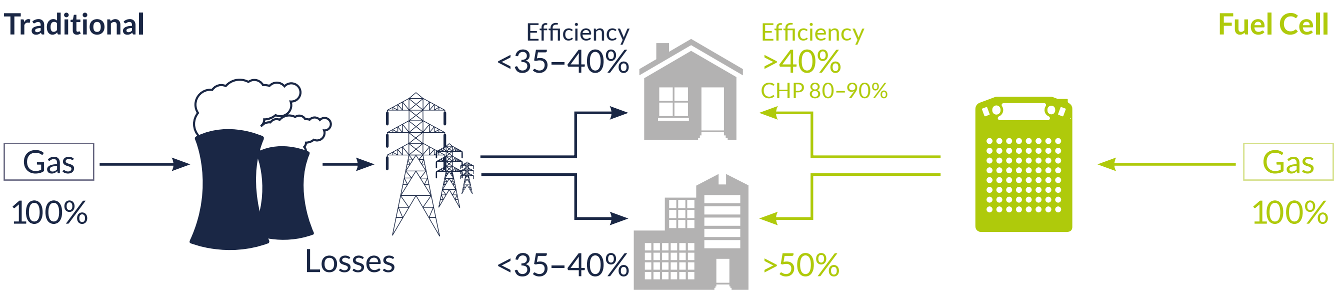
of energy consumption

30%

of CO_2 emissions

A CHANGE OF POWER

Traditional Centralised Generation vs Distributed Power Generation



As global demand for energy continues to outgrow our existing power generation and distribution infrastructure there are three main issues driving rapid growth of the fuel cell industry:

1. Cleaner power from our existing gas infrastructure

Even with an increasing proportion of renewable energy, gas is set to remain a significant part of our energy mix and is forecast to account for more than one-quarter of global energy demand by 2035[1].

Fuel cell technology is widely recognised as the most clean and efficient way to generate power from natural gas. So it is no coincidence that Japan and Korea, which import 97% of their energy needs in the form of liquefied natural gas (LNG), are the leading markets for fuel cell commercialisation, closely followed by the US as it moves towards energy independence based on its plentiful shale gas reserves.

2. Higher efficiency and lower cost power generation

Recent studies in the EU have shown that fuel cell Combined Heat and Power systems (CHPs), with their higher efficiency than the grid, save 27% of a typical home's energy consumption, 30% of its CO_2 emissions and eliminate other pollutants such as NOx almost entirely[2].

3. Security and reliability of our power supplies

Grid stability and the cost of replacing aging infrastructure is already a big issue.

In the US the unreliable power supply cost the economy $150 billion in 2013[3] and companies are looking for alternative solutions to ensure the reliability and security of supply to their businesses.

Our escalating use of the 21st Century technologies that allow us to lead mobile, wireless lifestyles is increasing the demand for power and the need for reliability further. The energy used to power supporting data centres now represents 2% of the electricity demand in the USA[4] and companies lose an average of $138,000 for every hour their data centre is offline. Several major corporations in the US are already deploying fuel cells for power generation to ensure security of supply[5].

1. International Energy Agency 'World Energy Outlook: Are We Entering a Golden Age for Gas?' – 2011.
2. FCH JU – Fuel Cell Distributed Generation Commercialisation Study published by Roland Berger, 2014.
3. Fuel Cell Annual Review 2013.
4. The New York Times: 'Power, Pollution & The Internet, September 2012.
5. Aberdeen Group: Datacentre Downtime – How Much Does It Really Cost, March 2012.

OUR TECHNOLOGY

To date the high cost of fuel cell technology has restricted its adoption. In order to make fuel cells affordable for everyone there needs to be a step change in their cost.

Our aim is to produce a fuel cell for every home and business and we are making this vision a reality with our unique Steel Cell technology.

The Ceres Steel Cell is one of the most cost effective, robust and energy efficient fuel cell technologies developed.

In the simplest terms it is a perforated sheet of steel with a special ceramic layer that converts fuel directly into electrical power in a very efficient way.

Our next generation Steel Cell technology uses mains natural gas and is manufactured using commodity materials such as steel and standard processes and equipment already developed for the solar industry, meaning that it can be mass produced at an affordable price for both domestic and business use.

A Rapidly Growing Market

Despite the relatively high cost of fuel cell systems today, in 2013 revenue from the stationary sector of the fuel cell industry was US$1.8 billion and is predicted to reach US$8.5 billion[1] by 2020.

- Global companies such as Panasonic and Toshiba increased their micro-CHP footprint in Japan, while in the US companies such as eBay and Google are using fuel cells to power their businesses
- By the end of 2013 the number of fuel cell micro-CHPs installed in Japan reached 85,000. This is forecast to rise to 138,000 by the end of 2014[2]

THE BUSINESS OPPORTUNITY FOR FUEL CELLS

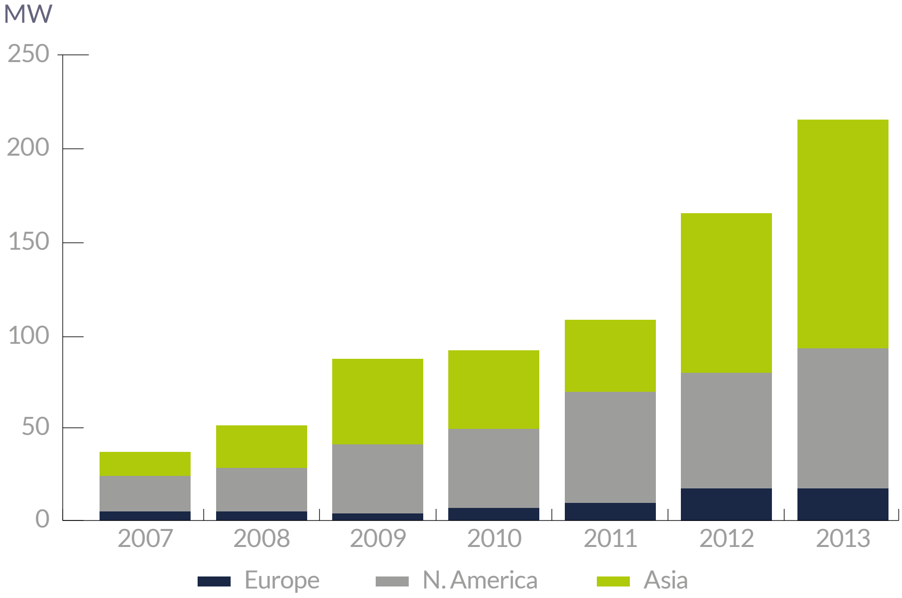
The Japanese government has a target to have 1 million homes powered by fuel cells by 2020 and 5 million homes by 2030. The benefits of such a policy can be put in context by comparison with the UK. If we had the same targets in the UK, energy bills would be reduced by 27%, gas savings would equate to 7% of total UK gas imports and the CO_2 emissions saved every year would be equivalent to 10 Carbon Capture and Storage plants[3].

In the US, generous state and federal subsidies have encouraged the adoption of MW fuel cell installations, with companies such as eBay, Google and Apple powering mission critical data centres. GE is also re-engaging with fuel cells, which were recently described by Jeff Immelt, GE CEO, as a game changing technology[4].

Korea is rapidly catching up with Japan as a leading producer of fuel cells. Posco, Korea's biggest steel company recently completed installing the world's largest fuel cell power plant.

Total government funding for fuel cell technologies incurred in Japan, the USA and Europe was US$8.3 billion between 1995 and 2013[5].

Installed Capacity, all applications



Source: Fuel Cell Annual Review 2013

1. Fuel Cells – A Global Strategic Business Report by Global Industry Analysts May 2014
2. Fuel Cell Annual Review 2014.
3. Fuel Cells the Smart Power Revolution, published by Ecuity Aug 2014.
4. Bloomberg New Energy Finance Summit 2014.
5. Fuel Cell Annual Review 2014

$1.8bn → $8.5bn

Revenue from the stationary fuel cell sector in 2013

Projected revenue by 2020

138,000 → 1 million

Fuel cell units in Japanese homes by end 2014

Target of Japanese homes powered by fuel cells by 2020

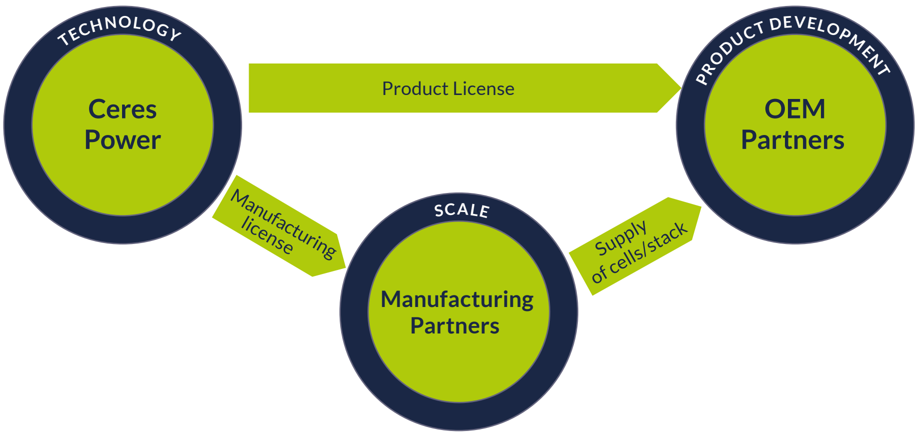
Working with our partners

At Ceres Power we offer our partners the opportunity to develop power systems and products using the unique Steel Cell technology.

We are working with several major OEM partners worldwide who are evaluating our technology across a variety of markets.

While leveraging our partners' expertise to design, develop and commercialise products with our Steel Cell technology, we provide access to our considerable Intellectual Property (IP) and expertise at the cell, stack and systems levels, combined with the ability to manufacture under license.

OUR PARTNERSHIP MODEL



Ceres provides value to its partners by reducing overall development costs and accelerating the time to market for new products.

Engagement with commercial OEM partners tends to follow a parallel path to the customers' product development cycle as shown below.

Revenues are generated throughout each stage, from initial evaluation through to joint product development and technology transfer with associated license fee and royalty payments.

Our considerable capability and know-how can also be scaled with strategic manufacturing partners to provide the Steel Cell to customers under a manufacturing license.

Typical commercialisation stages

Duration	12 months	24 months	12 – 24 months	On-going
	Technology Evaluation	Development Programme	Commercial Launch Programme	Product Sales
Milestones	Technology Validated	Product Developed	Production Launch	
Commercial Targets	Evaluation Agreements	Joint Development Agreements LICENSE	Technology Transfer Manufacturing Scale Up	

OUR BUSINESS MODEL

Stage 1. Technology Evaluation. In this initial stage the customer will pay for evaluation of the technology, often in the UK initially followed by a prolonged period of testing at the customer's site. This is typically a 6 to 12 month process carried out under strict "blackbox" guidelines, which allows the customer to test the technology but not access the Intellectual Property contained within the design.

Stage 2. Development Programme. Once the customer has validated that the technology meets performance and commercial requirements, a follow-on stage is to jointly develop a system or prototype product around the core Steel Cell technology under a Joint Development Agreement. This tends to be a multiyear development.

Stage 3. License/technology transfer and commercial product development. At the point at which the customer decides to go to commercial product development the technology IP is transferred under a license agreement. This typically has an upfront fee covering the initial transfer of rights to the technology, as well as ongoing royalties on future product sales that use the technology.

Chairman's Statement It is a huge endorsement of the technical team's capabilities that they have been able to progress to the next stages with customers as technically demanding as the Japanese OEMs.

Alan Aubrey
Chairman

FUEL CELLS: AN EMERGING INDUSTRY

This is an exciting time in the fuel cell industry. Following a prolonged development period we are now seeing the rapid emergence of an industry with the commercialisation of first generation products from leading global companies.

Growth of the sector has been particularly significant in Asia and the US, as favourable energy policies and subsidies, combined with a renewed interest in natural gas and billions of dollars of investment by private companies, support this initial commercialisation.

As with any emerging industry we are also seeing a period of consolidation. Many of the less well-financed independent fuel cell providers have exited the business or been acquired by larger OEM's, and significant partnerships have been made as companies form strategic alliances. This shows an increasing need for global engineering companies to access capability in fuel cell technology.

By focusing on our technology and partnering with these leading companies we are confident that we have the right strategy to take our technology through to product.

With the global market for fuel cells forecast to reach US$8.5 billion by 2020, this represents a significant opportunity for those companies that can emerge as winners over the next few years. Therefore I am particularly pleased that we have set Ceres Power on a strong financial footing with the addition of several high quality institutional investors through the recent £20 million fundraising.

"With the global market for fuel cells forecast to reach US$8.5 billion by 2020, this represents a significant opportunity."

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Progress
Since implementing our new strategy in 2013 Ceres has continued to deliver against its plan.

I am especially pleased with the calibre of commercial interest that Ceres has generated across different geographies and applications.

This is particularly so with the signing of a Joint Development Agreement and deepening of our relationship with one of the leading global Japanese power systems companies and the significant commercial progress made in a relatively short space of time with our ongoing relationship with Cummins Power Systems in the US.

It is a huge endorsement of the technical team's capabilities that they have been able to progress to the next stages with customers as technically demanding as the Japanese OEMs.

By satisfying demanding customer test requirements in both the UK and Asia, the Company has valuable third-party validation of the Steel Cell technology's disruptive performance, particularly its robustness.

We have made significant strides with the technology under the leadership of Mark Selby, our Chief Technology Officer, and I am pleased that this has been recognised by his promotion to the board.

People
I am delighted with the tremendous progress the Company has made, both technically and commercially, under the leadership of our CEO Phil Caldwell in his first full year with the Company.

We have a strong dedicated team who have embraced the new strategy and the increasing opportunities that this has generated. This progress can be clearly seen in the Horsham facility, which has never failed to impress the leading players from across the industry that have visited in the past year.

We continue to invest both in adding to the team in key areas and also the test and manufacturing infrastructure in Horsham. This will accelerate our development and enable further customer engagements.

I am confident that the Ceres Steel Cell technology can transform the way that power is generated and distributed and look forward to building on the significant progress made in the last twelve months to further position Ceres as one of the leading companies in the fuel cell industry in the year ahead.

Alan Aubrey
Chairman
7 November 2014

> I am delighted with the tremendous progress the Company has made, both technically and commercially.

Chief Executive's Statement I am pleased to report on the significant technical and commercial progress made in my first 12 months in the position of Chief Executive following the Company's strategic change of direction in 2013.

Phil Caldwell
Chief Executive Officer

A YEAR OF PROGRESS

Introduction
I am positive that we have the right strategy to compete in the rapidly growing fuel cell industry and, through the dedication of the team working not just in the UK but also at customer sites in Korea, Japan and the US, we have put in place a solid foundation for our future commercial success.

Strategy
The fuel cell industry today is dominated by the large global players who have the balance sheet strength to invest in technology and bring first products to market in environments with favourable energy policy and subsidies.

A partnering approach is being adopted with alliances of several companies coming together to cover all aspects of the product development cycle, from the design and manufacture of the core fuel cell technology to system-level product development and the channel to market, often through a utility or energy services company.

Our strategy of being a technology provider rather than a product company allows us to play to our strengths and focus on our next generation Steel Cell technology, while leveraging the expertise of some of the world's largest power companies.

By using the same core Steel Cell technology for different product applications across different geographies we are able to access the growing markets of Asia and the US through strategic partnerships and ultimately the licensing of our technology.

The licensing approach and outsourced manufacturing is often used in the consumer electronics industry where a commercial "eco-system" of technology designers, manufacturers and OEM's come together to provide the products we are all reliant upon today. At Ceres Power we are working on establishing our own eco-system of partners.

This approach enables us to scale the business through leveraging our partners' product development and manufacturing capabilities in order to bring the Steel Cell technology to market in the next generation of power products we all need for the home and business.

The recent fundraise backed by leading institutional investors endorses the Company strategy and gives Ceres the balance sheet strength to engage with these leading companies at this key stage of the Company's development.

Commercial
Over the past year we have made significant commercial progress in building a pipeline of opportunities from the global power sector and we have welcomed many of the leading players to our facilities in Horsham. All of the companies we are dealing with are leaders in their chosen markets

> We have made significant commercial progress in building a pipeline of opportunities from the global power sector and... all of the companies we are dealing with are leaders in their chosen markets.

and although not all can be expected to go through to commercialisation, success with a relatively small number of companies would give us a significant market share.

One of the most satisfying aspects of the past year has been seeing our technology successfully tested on several customer sites in Korea and Japan. This confirms the confidence that we have in the performance of the Steel Cell technology with third party validation by some of the world's most experienced engineering companies.

In January we shipped our first fuel cell power system to KD Navien (KDN) under the terms of the Technology Assessment Agreement, which has undergone extensive testing at an independent Korean test house and then at KDN's own facility near Seoul. As a first deployment outside of the UK we have made great progress and learnt a tremendous amount about how our technology performs in different environmental conditions.

We have successfully demonstrated superior performance for cycling and robustness compared to similar solid oxide fuel cell (SOFC) technologies and have agreed to extend the testing period to enable modification for localised conditions and ensure we reproduce the same performance at KDN as in the UK. During this time we have built a strong working relationship with the KDN team and in parallel to the testing we are in discussions for the next phases of the relationship to jointly develop a product for the Korean and international markets based on the Steel Cell technology.

I am extremely pleased with our progress in Japan this year, since opening our office in Kyoto in April and culminating in the recently signed next stage Joint Development Agreement with one of the leading Japanese power system companies. This follows extensive evaluation of the Steel Cell technology over the past year with testing in the UK and at the customer's facility in Japan. There is particular interest in the robustness and cycleability of the Steel Cell for different applications such as conventional generators, which has often been a problem for other SOFC technologies in the past. Under this agreement the companies will jointly develop a fuel cell stack using the Ceres Steel Cell technology combined with the engineering and design expertise of the Japanese OEM, to be built in the UK and then tested in Japan for its application for both residential and generator systems. Japan is a key market for us and we have developed a strong commercial pipeline and expect several more companies to enter evaluation stages in the coming months.

Recent advancements in the efficiency of the technology have opened up the opportunity for us to explore other applications, with a particular focus on the North American market. In March we signed a strategic Joint Development Agreement with Cummins Power Generation, a global provider of power systems, including those for the data centre and back-up power markets. The purpose of the collaboration is to explore the joint development and commercialization of the Steel Cell technology for products in Cummins' existing markets. There is significant interest in distributed generation using fuel cells in the US and we are exploring several commercial opportunities, which we expect to progress to the next stages in the coming year.

As part of our business strategy we are also further developing our relationships with energy companies and utilities in different regions and are starting to explore strategic partnerships for manufacturing scale-up in key markets such as Asia.

Technology

The Board has been very pleased with progress made this year against our technology roadmap. In the last year the technology team has continued to evaluate the ability of the technology to compete in the most advanced markets in the world for fuel cell power generation, namely the rapidly maturing Japanese consumer scale CHP units and the emerging "power only", or prime power, market in North America.

We have also supported our customers with their own technology evaluation programmes, which have allowed them to validate our technology's unrivalled ability to shutdown repetitively in planned and unplanned scenarios.

I am most excited by the improvement in electrical efficiency from ~50% published this time last year to over 57%. Operation in an unoptimised CHP prototype product showed 47% net efficiency, which puts our technology firmly in the same high-efficiency category as m-CHP products on sale today in Japan, but at a much lower overall cost, improving potential savings for domestic micro-CHP customers. Looking to the future, our roadmap for the next period includes activities that aim to increase efficiency and power density still further and will strengthen our cost USP against other technologies.

With the support of a £1 million government grant from the Department of Energy and Climate Change (DECC) to accelerate the worldwide commercialisation of this technology, the team has made great strides in improving the Fuel Cell Module design, including improving emissions compliance at system level. This is key to enable adoption in all our target markets and it offers our partners an easier route to developing products around the technology.

Across all areas of our technology we continue to generate and protect our intellectual property. We file numerous patents where they strengthen our position and protect our competitive advantage, and since June 2013 we have increased the number of patent and trade mark families we have filed for from 33 to 39.

Our focus on increasing efficiency of the core Steel Cell technology combined with system development with our partners gives us confidence that we can address larger scale prime power applications where this is the main requirement.

> "I am most excited by the improvement in electrical efficiency... which puts our technology firmly in the same high-efficiency category as m-CHP products on sale today in Japan, but at a much lower overall cost."

Manufacturing and Operations

In manufacturing, the Company's operational focus has been continuing the supply of quality fuel cells to the various internal and customer programmes, as well as investing in improvements to the manufacturing processes. For example, our recent partnership with DEK (part of ASM Assembly Solutions), a global provider of screen printing equipment, coupled with grant funding of £0.7 million from the Technology Strategy Board, which we announced in August 2014, is a key enabler to scale up some of our key processes more cost-effectively. The collaboration combines DEK's latest high speed photovoltaic manufacturing processes with Ceres existing manufacturing capability.

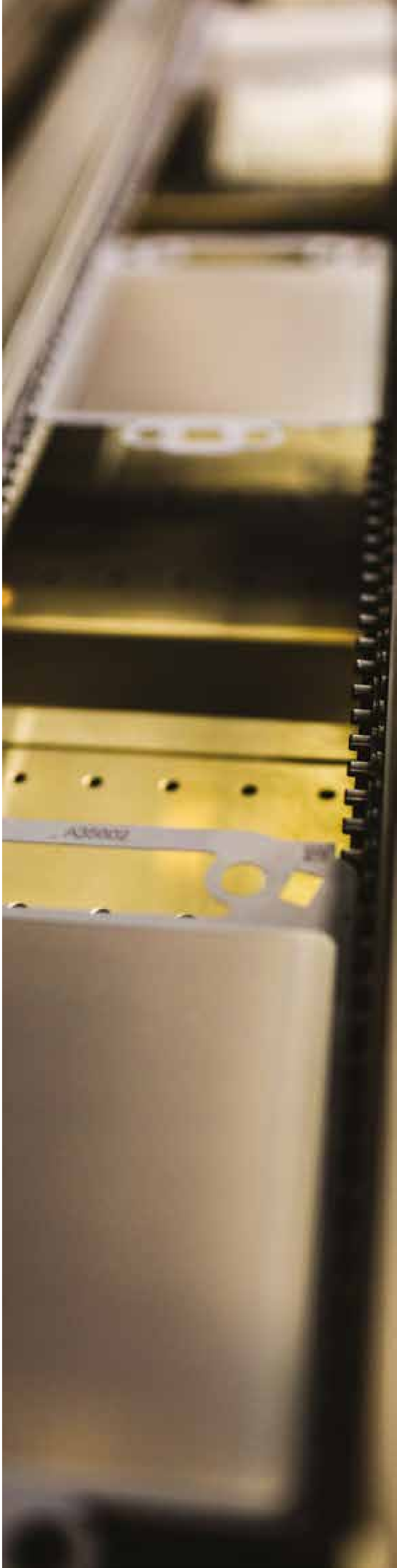
In the coming year we will continue to develop our manufacturing processes to enable further capacity, initially in the UK, and we will explore further scale-up with global manufacturing partners in line with our business strategy.

Financial

Apart from meeting commercial and technical milestones, we measure success of the business through careful management of the Company's resources and by measuring progress on our financial milestones.

The Company's loss for the financial year decreased from £8.3 million in 2013 (excluding restructuring costs of £3.1 million) to £7.4 million. As the weighted average number of shares in issue increased from 293 million to 537 million, the loss per ordinary share decreased from 3.88p to 1.38p.

Total revenue increased from £0.5 million in the year ending 30 June 2013 to £1.2 million in the current year. Excepting releases of deferred revenue in both the prior year (Calor Gas £0.5 million) and the current year (Bord Gais Eirann £0.7 million), the Group has increased its underlying revenue from £13,000 in the year ending 30 June 2013 to £0.5 million in the current year. This reflects



"The valuable third party validation we have received from our OEM partners reinforces our confidence that our Steel Cell technology has the potential to become the standard next generation fuel cell technology."

the continued progress the Company has made in developing new and deepening existing partner relationships.

Control of the Company's cost base is vital to Ceres. We are in a growth phase and we do expect our cost base to increase as we service customers and rebase from our restructuring in 2013. The Board is comfortable with the recurring operating costs of £10.1 million (2013: £10.2 million), which is necessary to continue the development and productionisation of the technology.

At the year end the Company had £7.7 million in cash and cash equivalents, having used £7.3 million net cash in operations in the period (2013: £7.3 million), and with the addition of the £20 million gross raised via an oversubscribed private placing in July 2014, the Group is well financed to deliver the next phase of its business plan.

During the year the Company began again to invest significantly in capital equipment (£0.5 million based on cashflow during the year, compared to £42,000 in 2013), which will be used to accelerate the technology development cycle. The single largest investment in 2014 is £1 million of new test facilities, which was part complete at year end.

Ceres is also making excellent use of the available government grants and is grateful for their availability, recognising £0.6 million in the year (2013: nil).

"Recent advancements in the efficiency of the technology have opened up the opportunity for us to begin to explore other applications, with a particular focus on the North American market."

Another important form of funding to the business is receiving R&D tax credits. We received £1.1 million of tax credit relating to the prior year and we estimate to recover a similar amount for the current year.

People

I continue to be impressed with the whole team at Ceres. Their commitment over the year has been excellent, and the Board recognises the importance of everyone's contribution to achieving the Company's goals. During the year we have recruited new colleagues in order to deliver our internal and external programmes, and we will continue to recruit the right resource to help us deliver to our objectives.

As the Chairman has stated in his report, since the year end we have promoted Mark Selby, Chief Technology Officer, to the main Board of Directors of the Company. This reflects his leadership and his active contribution to the development of our technology.

Risks

The Group faces a number of risks and uncertainties, which could affect the execution of its strategic objectives. The key business risks are outlined in the Directors' Report and the key financial risks are detailed in note 14 to the financial statements.

Outlook, key objectives and KPI's

In the past year we have laid a solid technical foundation and executed customer programmes to an extremely high standard of performance. We are now seeing the benefits of our internal developments coming through into our customer engagements with some of the most experienced power system companies in the world. We are building our global profile and we have a healthy commercial pipeline for the coming year.

Ceres considers its financial key performance indicators to be revenue from commercial activities, operating costs, and maintaining a strong cash position.

In the coming year I expect further revenue growth through advancement of partners to next stage Joint Development Agreements and bringing on new partners at the evaluation stage.

We will manage operating costs to support commercial activity and further investment will be made in the technical team and our test and manufacturing capabilities at Horsham as we pursue our own roadmap to produce a Steel Cell technology that is fit for real world applications in all metrics of performance and cost.

The valuable third party validation we have received from our OEM partners reinforces our confidence that our Steel Cell technology has the potential to become the standard next generation fuel cell technology.

This is a very exciting time in this rapidly growing industry and at Ceres Power we are well positioned to become one of the leading companies in this sector.

P. Caldwell

Phil Caldwell
Chief Executive Officer
7 November 2014

Board of Directors

Alan Aubrey
Chairman

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

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 the development of PEM fuel cell systems, where he led commercial and strategic business development activities, including securing OEM partners, executing license deals and joint ventures. Prior to joining Intelligent Energy, Phil was responsible for business development for the Electrochemical Technology Business within ICI. He has a Masters degree in Chemical Engineering from Imperial College, holds an MBA from IESE Barcelona and is a Chartered Engineer and Sainsbury Management Fellow.

Richard Preston
Chief Financial Officer

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

Mark Selby
Chief Technology Officer

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

Steve Callaghan

Non-Executive Director

Steve joined Ceres in December 2012 to lead the turnaround and strategy reset. He was appointed Senior Independent Director in March 2014. He is also NED at OMNICO Group and LUMATA Holdings, both Private Equity held businesses, and he is Chairman of Navtech Radar Ltd. Prior to joining Ceres 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.

Mike Lloyd

Non-Executive Director

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

Robert Trezona

Non-Executive Director

Robert joined the Company in December 2012. He has been working in technology venture for many years, focusing on cleantech and materials opportunities. He is the cleantech lead at IP Group plc and provides sector expertise across IP Group's portfolio as well as originating and managing investments in high-potential cleantech start-ups. Prior to this he was Head of Research and Development at the Carbon Trust, fuel cell team lead at Johnson Matthey and Ceres Power and strategy consultant for McKinsey and Company. He holds a PhD in Materials Science from the University of Cambridge.

Directors' Report
for the year ended 30 June 2014

The Directors present their report and the audited financial statements for the year ended 30 June 2014.

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

Review of business and future developments
A review of the Group's business, including events since the year end and an outlook for the future, are set out in detail in the Chairman's Statement and the Chief Executive's Statement on pages 8 to 13.

Results and dividends
The consolidated results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on page 19.

The Directors do not recommend the payment of a dividend (2013: £nil).

Research and development
During the year, the Group incurred expenditure of £7,138,000 (2013: £7,190,000) on research and development, all of which was expensed to the Consolidated Statement of Comprehensive Income. The Chief Executive's Statement reports on progress during the year.

Charitable and political contributions
The Group made no charitable or political contributions during the year (2013: £nil).

Post balance sheet event
During July 2014 the Company completed a private placing which raised £20 million gross through the issue of 235,705,868 ordinary shares.

Principal risks and uncertainties
In addition to financial risk management which is detailed in note 14 to the financial statements, there are a number of risks and uncertainties which could have a material impact on the execution of the Group's strategy. Risks are formally reviewed by the Board and appropriate processes and controls put in place to monitor and mitigate them. Key business risks and mitigations in place are set out as follows:

Technology risk
Technology risk is the risk that we will not be able to successfully develop and apply the Company's fuel cell technology to potential products or that our technology will be superceded by new technologies. Ceres' key focus is to deliver its technology for customers, as well as to continually improve the technology to maintain technological advantage. We monitor competitor activity regularly.

Intellectual Property protection risk
The Group continues to invest in the expansion and protection of its portfolio of intellectual property. However the Group's competitive advantage is at risk from unauthorised parties using the Group's technology in their own products. There are internal procedures and controls in place to capture and exploit all Intellectual Property ('IP') and to protect and prevent or control disclosure to third parties and partners. There is always a degree of uncertainty over the ability to register certain IP rights. IP insurance provides additional protection for the Group for agreement, pursuit and defence of IP terms and rights.

Key personnel dependence risk
There is a risk of disruption to operations and damage to the business due to key personnel leaving the business. To mitigate this, the Directors have put in place short-term incentive schemes and have granted share options to key personnel, which support their competitive remuneration packages and restrictive employment covenants already in place.

Operational risk
There is a risk that the Company's operations or its supply chain cannot manufacture to quality or to time or support delivery or validation of technology for customer or internal programmes. We closely monitor our manufacturing processes and work with suppliers to ensure their delivery to our required quality.

Commercial risk
There is a risk that our partners do not use our technology in their products. As stated previously our key technology focus is validating our technology for our customers, in addition we are increasing our pipeline of potential customers, mitigating against individual customers which may not wish to move forward.

Competitive and market risk
Future revenues are dependent on, amongst other factors, the development of markets, the impact on these markets of alternative technologies from competitors, technology obsolescence, fuel prices, feed-in tariffs and changing regulations.

Future funding risk
The Group is likely to be reliant on future funding to fully commercialise its technology.

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)
- Steve Callaghan (Senior Independent Director)
- Phil Caldwell (Chief Executive Officer) appointed 2 September 2013
- Richard Preston (Chief Financial Officer)
- Mark Selby (Chief Technology Officer) appointed 30 October 2014
- Mike Bretherton (Non-Executive Director) resigned 4 October 2013
- Mike Lloyd (Non-Executive Director)
- 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 772,537,841 ordinary shares of 1p each of the Company on 31 October 2014:

Investor	Number of 1p ordinary shares	Percentage
IP Group plc	179,558,822	23.24%
Richard Griffiths	172,080,310	22.27%
Lansdowne Partners	76,470,588	9.90%
Henderson Global Investors	63,179,231	8.18%
Sarasin & Partners LLP	41,018,332	5.31%

Policy and practice on payment of creditors
It is the Group's policy, for all suppliers, to agree payment terms in advance of the supply of goods and services and to adhere to those payment terms. Trade creditors of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 34 days (2013: 38 days). Trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 39 days (2013: 17 days).

Corporate Governance
The Directors recognise the importance of good corporate governance. The principles of how the UK Corporate Governance Code has been applied are in the Corporate Governance section of the Company's website (www.cerespower.com), which was last updated on 24 October 2014.

Statement of Directors' responsibilities
The Directors are responsible for preparing the annual report in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going concern
After having made appropriate enquiries and in light of the private placing which raised £20 million gross in July 2014, the Directors have a reasonable expectation that the Group and Company have adequate resources to progress their established strategy for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Directors' statement on disclosure of information to auditors
So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Richard Preston
Chief Financial Officer
7 November 2014

Independent Auditors' Report
to the members of Ceres Power Holdings plc

Report on the Group financial statements
Our opinion

In our opinion the financial statements, defined below:
- give a true and fair view of the state of the Group's affairs as at 30 June 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Group financial statements (the "financial statements"), which are prepared by Ceres Power Holdings plc, comprise:
- the Consolidated Statement of Financial Position as at 30 June 2014;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception
Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter
We have reported separately on the Company financial statements of Ceres Power Holdings plc for the year ended 30 June 2014.

Michael Jones (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
7 November 2014

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2014

	Note	2014 £'000	2013 £'000
Revenue	2	1,224	523
Cost of sales		(265)	(10)
Gross profit		959	513
Operating costs	3	(10,128)	(13,255)
Other operating income	3	581	1
Operating loss		(8,588)	(12,741)
Finance income	4	73	55
Loss before income tax	3	(8,515)	(12,686)
Income tax credit	7	1,122	1,311
Loss for the financial year and total comprehensive loss		(7,393)	(11,375)
Loss per £0.01 ordinary share expressed in pence per share:			
– basic and diluted	8	(1.38)p	(3.88)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 23 to 39 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 30 June 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,657	2,181
Other receivables	11	58	53
Total non-current assets		1,715	2,234
Current assets			
Trade and other receivables	11	1,219	454
Current tax receivable		1,166	1,044
Short-term investments	12	–	6,207
Cash and cash equivalents	12	7,699	9,230
Total current assets		10,084	16,935
Liabilities			
Current liabilities			
Trade and other payables	13	(1,143)	(1,089)
Provisions for other liabilities and charges	15	(242)	(261)
Total current liabilities		(1,385)	(1,350)
Net current assets		8,699	15,585
Non-current liabilities			
Accruals and deferred income	13	(1,175)	(1,918)
Provisions for other liabilities and charges	15	(1,166)	(1,293)
Total non-current liabilities		(2,341)	(3,211)
Net assets		8,073	14,608
Equity attributable to the owners of the Parent			
Share capital	16	5,369	8,817
Share premium account		72,907	72,906
Capital redemption reserve		3,449	–
Other reserve		7,463	7,463
Accumulated losses		(81,115)	(74,578)
Total equity		8,073	14,608

The notes on pages 23 to 39 are an integral part of these consolidated financial statements.

The financial statements on pages 19 to 39 were approved by the Board of Directors on 7 November 2014 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 2014

	Note	2014 £'000	2013 £'000
Cash flows from operating activities			
Cash used in operations	18	(8,252)	(10,016)
Income tax received		1,000	2,667
Net cash used in operating activities		(7,252)	(7,349)
Cash flows from investing activities			
Purchase of property, plant and equipment		(520)	(42)
Movement in short-term investments		6,207	(6,207)
Finance income received		75	57
Net cash generated from/(used in) investing activities		5,762	(6,192)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		2	12,591
Net cash generated from financing activities		2	12,591
Net decrease in cash and cash equivalents		(1,488)	(950)
Exchange (losses)/gains on cash and cash equivalents		(43)	2
		(1,531)	(948)
Cash and cash equivalents at beginning of year		9,230	10,178
Cash and cash equivalents at end of year	12	7,699	9,230

Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Accumulated losses £'000	Total £'000
At 1 July 2012		4,311	64,821	–	7,463	(63,617)	12,978
Comprehensive income							
Loss for the financial year		–	–	–	–	(11,375)	(11,375)
Total comprehensive loss		–	–	–	–	(11,375)	(11,375)
Transactions with owners							
Issue of shares, net of costs	16	4,506	8,085	–	–	–	12,591
Share-based payments charge		–	–	–	–	414	414
Total transactions with owners		4,506	8,085	–	–	414	13,005
At 30 June 2013		8,817	72,906	–	7,463	(74,578)	14,608
Comprehensive income							
Loss for the financial year		–	–	–	–	(7,393)	(7,393)
Total comprehensive loss		–	–	–	–	(7,393)	(7,393)
Transactions with owners							
Issue of shares, net of costs	16	1	1	–	–	–	2
Cancellation of deferred shares, net of costs		(3,449)	–	3,449	–	–	–
Share-based payments charge		–	–	–	–	856	856
Total transactions with owners		(3,448)	1	3,449	–	856	858
At 30 June 2014		5,369	72,907	3,449	7,463	(81,115)	8,073

1. Summary of significant accounting policies

The Company is incorporated and domiciled in the United Kingdom and is registered on the AIM market of the London Stock Exchange.

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

Basis of preparation

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

The Company has elected to prepare its entity financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and these are presented on pages 41 to 45.

The consolidated financial statements have been prepared on a historical cost basis except for certain items that have been measured at fair value as detailed in the individual accounting policies below.

Critical accounting estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Material estimates and assumptions are made in particular with regard to: providing for onerous leases and dilapidations; choosing the appropriate method with which to recognise grant income and development-related revenue (revenue is recognised over the development phase of each contract based on the costs incurred ('percentage of completion'); and recognising R&D tax credits. The financial impact of changes to these assumptions is as follows: if the onerous leases were partially sublet or the revenue contracts were 10% less complete or if 10% less tax credit was received, then the impact would be immaterial.

Basis of consolidation

The consolidated financial statements of Ceres Power Holdings plc include the results of the Company and its wholly-owned subsidiaries. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for acquisitions and the cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Intra-Group transactions, profits, losses and balances are eliminated in full on consolidation.

Capital risk management

The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure. Total capital, which is the Group's primary source of funding, is calculated as 'Total equity' as shown in the consolidated statement of financial position. The Group protects its capital by eliminating/hedging treasury risks that could expose the Group to the risk of material loss of capital (refer to note 14).

1. Summary of significant accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical 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 Comprehensive Income during the financial period in which they are incurred. The Directors annually consider the need to impair these assets.

Depreciation is calculated using the straight-line method to allocate the cost over the estimated useful economic lives as follows:

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

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets under construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their productive use. The category is temporary, pending completion of the assets and their transfer to the appropriate and permanent category of property, plant and equipment. As such, no depreciation is charged on assets under construction.

Cash and cash equivalents

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

Short-term investments

These include short-term bank deposits with original maturity greater than three months and less than or equal to twelve months.

Trade and other receivables

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

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Taxation

The tax credit represents the best estimate of tax due to the Group at the year end.

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Share-based payments

The Group has a number of employee and executive share option and incentive schemes under which it makes equity-settled share-based payments. The fair value at the date of grant of equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

Fair value is measured by use of the Black-Scholes and binomial models. The expected lives used in the models have been adjusted, when adjusted, based on the Directors' best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations.

1. Summary of significant accounting policies continued

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Company's functional and presentational currency. Transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Exchange differences are included in the Consolidated Statement of Comprehensive Income.

Pension scheme arrangements

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The pension costs charged represent contributions paid by the Group to individual pension plans and are charged to the Consolidated Statement of Comprehensive Income as they become payable.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, other sales taxes and after eliminating sales within the Group. Amounts received or receivable under development contracts are recognised as revenue when earned, as calculated on a percentage of completion basis, based on costs incurred to date versus total estimated costs over the period that the related work is performed, subject to certainty of receipt of cash, or when any specific conditions in agreements have been met. If a loss is expected in respect of a contract, the entire loss is recognised immediately in the income statement. All direct costs relating to these contracts are recorded as cost of sales.

Government grants

Grants are recognised on a case-by-case basis. Revenue grants are recognised in the Consolidated Statement of Comprehensive Income as other operating income. Capital grants are recognised in property, plant and equipment against the assets to which they relate (and are fully disclosed in note 9 to the financial statements) and are credited to the Consolidated Statement of Comprehensive Income on a straight-line basis over the expected lives of the related assets as a reduction to depreciation expense. For grants with no technical milestones, and where recovery is reasonable, the grant is recognised on an accruals basis in order to match the associated expenditure with the grant. For grants with technical milestones, these grants are held on the balance sheet as deferred income and are recognised only when the relevant milestone has been achieved and the associated cash has been received.

Research and development expenditure

Research costs are expensed as incurred. Development expenditure is capitalised when it can be separately measured and its future recoverability can be reasonably regarded as assured. Following initial recognition, the related asset is amortised over the period of expected future sales with impairment reviews being carried out at least annually. The asset is carried at cost less any accumulated amortisation and impairment losses.

The Group has not yet capitalised any development costs as the criteria set out in IAS 38, 'Intangible assets', have not been met.

Non-recurring operating costs

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

Operating leases

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

1. Summary of significant accounting policies continued

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses forward foreign exchange contracts to hedge against foreign currency denominated purchase commitments. The use of financial derivatives is governed by the Group's treasury policy, as approved by the Board. The Group does not use derivative financial instruments for speculative purposes. Details of financial instruments are shown in note 14.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Statement of Comprehensive Income as they arise.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Provisions have been made for future dilapidations costs on leased property and on onerous leases. These provisions are the Directors' best estimates as the actual costs and timing of future cash flows are dependent on future events and are updated periodically. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Details of the Group's provisions are set out in note 15.

Changes in accounting policy and disclosures

It is not expected that the implementation of any of the new standards or interpretations will have a significant impact on the Group's accounting or disclosures, with the exception of IFRS 15, 'Revenue from Contracts with Customers', which may impact on the timing of revenue being recognised in future periods.

2. Revenue and segmental information

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

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

The Group's revenue of £1,224,000 was derived wholly from services from one customer in the United Kingdom (£738,000), one customer in Asia (£304,000) and several other customers outside of Europe (2013: £523,000 was derived from one customer in the United Kingdom (£510,000) and one customer in Asia (£13,000)). All of the Group's non-current assets are located in the United Kingdom.

3. Loss before income tax

	2014 £'000	2013 £'000
Operating costs are split as follows:		
Research and development costs	7,138	7,190
Administrative expenses – recurring	2,990	2,997
	10,128	10,187
Administrative expenses – non-recurring restructuring related	–	3,068
	10,128	13,255
Loss before income tax is stated after charging/(crediting):		
Staff costs, including share-based payments charges (note 5)	4,953	5,886
Depreciation on property, plant and equipment (net of amortised grant contributions)	1,069	1,322
Restructuring – disposal of property, plant and equipment (net)	–	759
Restructuring – termination payments and provisions for onerous leases	–	2,309
Operating lease rentals payable – property, plant and machinery	281	466
Other operating income – grant income	(581)	(1)
Repairs expenditure on property, plant and equipment	110	88
Forward contract losses (note 14)	–	7
Net foreign exchange losses/(gains)	43	(2)
Services provided by the Group's auditors		
During the year the Group obtained the following services from the Group's auditors as detailed below:		
Fees payable to the Company's auditors for the audit of parent Company and consolidated financial statements	10	16
Fees payable to the Company's auditors for other services		
– the audit of the Company's subsidiaries	28	33
– other services relating to taxation	27	27
– other services	25	–
	90	76

4. Finance income

	2014 £'000	2013 £'000
Interest receivable on cash and short-term investments	73	55

5. Employees and Directors

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

	2014 Number	2013 Number
By activity:		
Servicing customers	4	–
Research and development	53	59
Administration	15	17
	72	76

	2014 £'000	2013 £'000
Staff costs (for the above persons) comprised:		
Wages and salaries, including compensation for loss of office	3,475	4,690
Social security costs	396	532
Other pension costs (note 6)	226	250
Share-based payments (note 17)	856	414
	4,953	5,886

5. Employees and Directors continued

	2014 £'000	2013 £'000
Directors' emoluments:		
Aggregate emoluments	458	568
Company contributions to defined contribution pension schemes	18	20
Compensation for loss of office	–	475
	476	1,063

	2014 £'000	2013 £'000
Highest paid Director:		
Aggregate emoluments	180	116
Compensation for loss of office	–	253
	180	369

Two Directors (2013: one Director) have retirement benefits accruing under defined contribution pension schemes.

Directors' emoluments for the year ended 30 June 2014

	Salary/fee £	Pension[10] £	Total £
Executive			
Phil Caldwell[1]	171,250	8,814	180,064
Richard Preston	141,375	9,328	150,703
Non-Executive			
Alan Aubrey	15,000	–	15,000
Steve Callaghan[2]	95,934	–	95,934
Mike Bretherton[3]	3,981	–	3,981
Robert Trezona[4]	15,000	–	15,000
Mike Lloyd	15,000	–	15,000
	457,540	18,142	475,682

Directors' emoluments for the year ended 30 June 2013

	Salary/fee £	Pension[10] £	Termination payment £	Total £
Executive				
Richard Preston[5]	40,250	3,220	–	43,470
Rex Vevers[6]	106,469	8,517	111,938	226,924
Dr Phil Whalen[6]	106,469	8,517	109,913	224,899
David Pummell[7]	115,705	–	253,366	369,071
Non-Executive				
Alan Aubrey[8]	7,962	–	–	7,962
Steve Callaghan[2]	77,112	–	–	77,112
Mike Bretherton[8]	7,962	–	–	7,962
Robert Trezona[4]	7,962	–	–	7,962
Mike Lloyd[9]	28,615	–	–	28,615
Dr Brian Count[7]	45,897	–	–	45,897
John Nicholas[7]	23,443	–	–	23,443
	567,846	20,254	475,217	1,063,317

1 Appointed to the Board on 2 September 2013.
2 Steve Callaghan was appointed to the Board on 18 December 2012. Fees totalling £79,595 (2013: £69,375) were paid to Steve Callaghan Services Limited, a company of which Steve Callaghan is a Director.
3 Resigned on 4 October 2013.
4 Appointed to the Board on 18 December 2012. His fees are paid to IP Group Ltd.
5 Appointed to the Board on 14 February 2013.
6 Resigned on 14 February 2013.
7 Resigned on 18 December 2012.
8 Appointed to the Board on 18 December 2012.
9 Appointed to the Board on 3 July 2012.
10 Pension contribution is based on 8% of gross salary and employer's National Insurance saved on employee pension contributions.

5. **Employees and Directors** continued

Directors' interests in share options

	At 1 July 2013 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2014 number	Exercise price	Exercise period
Phil Caldwell							
Options (unapproved)	–	2,000,000	–	–	2,000,000	£0.085	September 2014 – November 2023
Options (unapproved)	–	2,000,000	–	–	2,000,000	£0.085	September 2015 – November 2023
Options[1]	–	2,000,000	–	–	2,000,000	£0.085	November 2016 – November 2023
Options[1]	–	2,000,000	–	–	2,000,000	£0.085	November 2017 – November 2023
Options[1]	–	2,000,000	–	–	2,000,000	£0.085	November 2018 – November 2023
Options[1]	–	2,000,000	–	–	2,000,000	£0.085	November 2019 – November 2023
Sharesave options (approved)	–	143,312	–	–	143,312	£0.06	February – July 2017
	–	12,143,312	–	–	12,143,312		
Richard Preston							
Options (approved)	400,000	–	–	–	400,000	£0.01	January 2016 – January 2023
Options (approved)	400,000	–	–	–	400,000	£0.01	January 2017 – January 2023
Options (approved)	400,000	–	–	–	400,000	£0.01	January 2018 – January 2023
Options (approved)	400,000	–	–	–	400,000	£0.01	January 2019 – January 2023
Options (unapproved)	375,000	–	–	–	375,000	£0.099	April 2016 – April 2023
Options (unapproved)	375,000	–	–	–	375,000	£0.099	April 2017 – April 2023
Options (unapproved)	375,000	–	–	–	375,000	£0.099	April 2018 – April 2023
Options (unapproved)	375,000	–	–	–	375,000	£0.099	April 2019 – April 2023
Sharesave options (approved)	–	143,312	–	–	143,312	£0.06	February – July 2017
	3,100,000	143,312	–	–	3,243,312		
Steve Callaghan							
Options (unapproved)	1,500,000	–	–	–	1,500,000	£0.099	April 2016 – April 2023
	1,500,000	–	–	–	1,500,000		
Mike Lloyd							
Options (unapproved)	750,000	–	–	–	750,000	£0.01	December 2015 – December 2022
Options (unapproved)	170,000	–	–	–	170,000	£0.099	April 2016 – April 2023
	920,000	–	–	–	920,000		

1 A portion of these share options are EMI approved

All options outlined above are fully exercisable at the Director's discretion during the relevant exercise period.

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

5. Employees and Directors continued

The Directors also had the following interests in shares in the Company as at the date of the signing of this annual report: Steve Callaghan: 3,605,650 shares; Mike Lloyd: 783,088 shares; Phil Caldwell: 117,646 shares; Richard Preston: 222,645 shares, Rob Trezona: 124,544 shares; and Mark Selby: 25,325 shares. Alan Aubrey held an interest in IP Group plc, the parent company of IP2IPO Limited, a substantial shareholder of the Company.

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 and the Chief Technology Officer. The key management compensation is summarised in the following table:

	2014 £'000	2013 £'000
Salaries and other short-term employment benefits	489	514
Post-employment benefits	24	23
Termination benefits	–	475
Share-based payments	156	107
	669	1,119

6. Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension charge represents contributions payable by the Group to the funds and amounted to £226,000 (2013: £250,000). A total of £34,000 (2013: £24,000) was payable to the funds at the year end.

7. Income tax credit

	2014 £'000	2013 £'000
UK corporation tax – R&D tax credit	(1,000)	(1,044)
Adjustment in respect of prior periods – R&D tax credit	(122)	(267)
Income tax credit	(1,122)	(1,311)

No corporation tax liability has arisen during the year (2013: £nil) due to the losses incurred.

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

The tax result for the year is different from the standard rate of small profits UK corporation tax of 20% (2013: 20%). The differences are explained below:

	2014 £'000	2013 £'000
Loss before income tax	8,515	12,686
Loss before income tax multiplied by the UK tax rate of 20% (2013: 20%)	(1,703)	(2,537)
Effects of:		
Losses carried forward	529	980
Enhanced tax deductions for R&D expenditure	(910)	(1,141)
Expenses not deductible for tax purposes	170	339
Accelerated capital allowances and other timing differences	236	460
Adjustment in respect of prior periods – R&D tax credit	(122)	(267)
Difference between R&D tax credit and small company tax rates	678	855
Total income tax credit	(1,122)	(1,311)

8. Loss per share

Basic and diluted loss per £0.01 ordinary share of 1.38p for the financial year ended 30 June 2014 (2013: 3.88p) 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 2014 or in the previous year.

The loss for the financial year ended 30 June 2014 was £7,393,000 (2013: £11,375,000) and the weighted average number of £0.01 ordinary shares in issue during the year ended 30 June 2014 was 536,831,883 (2013: 292,793,498).

9. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost						
At 1 July 2012	2,988	7,401	1,023	143	50	11,605
Additions	–	45	–	(5)	6	46
Transfers	–	–	50	–	(50)	–
Disposals	(1,523)	(750)	–	–	–	(2,273)
At 30 June 2013	1,465	6,696	1,073	138	6	9,378
Additions	205	186	9	–	145	545
Transfers	–	6	–	–	(6)	–
At 30 June 2014	1,670	6,888	1,082	138	145	9,923
Accumulated depreciation						
At 1 July 2012	1,523	5,045	698	123	–	7,389
Charge for the year	305	1,197	168	13	–	1,683
Amortisation of grant contributions	(32)	(323)	(6)	–	–	(361)
Disposals	(1,208)	(306)	–	–	–	(1,514)
At 30 June 2013	588	5,613	860	136	–	7,197
Charge for the year	278	756	129	2	–	1,165
Amortisation of grant contributions	(31)	(65)	–	–	–	(96)
At 30 June 2014	835	6,304	989	138	–	8,266
Net book value						
At 30 June 2014	835	584	93	–	145	1,657
At 30 June 2013	877	1,083	213	2	6	2,181
At 30 June 2012	1,465	2,356	325	20	50	4,216

10. Subsidiary undertakings

Details of the Company's subsidiaries at 30 June 2014 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 Limited	England and Wales	£0.001 ordinary shares	100%[1]
Ceres Intellectual Property Company Limited	England and Wales	£1.00 ordinary share	100%[1]
Ceres Power Intermediate Holdings Limited	England and Wales	£0.01 ordinary shares	100%

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

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

11. Trade and other receivables

	2014 £'000	2013 £'000
Current:		
Other receivables	555	231
Prepayments and accrued income	664	223
	1,219	454
Non-current:		
Prepayments and accrued income	58	53
	58	53

There is no material difference between the fair value of other receivables and their carrying values and they are not overdue at 30 June 2014. There have been no provisions for impairment of receivables during the year (2013: £nil). The carrying amounts of the Group's trade and other receivables are all denominated in pounds sterling.

12. Cash and cash equivalents and short-term investments

	2014 £'000	2013 £'000
Cash at bank and in hand	982	576
Money market funds	6,717	8,654
Cash and cash equivalents	7,699	9,230
Short-term bank deposits greater than three months	–	6,207
	7,699	15,437

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

	Interest rate type	2014 £'000	2013 £'000
Interest rate risk profile of the Group's financial assets:			
Cash at bank and in hand	Floating	982	576
Money market funds	Floating	6,717	8,654
Short-term bank deposits greater than three months	Floating	–	6,207
		7,699	15,437

There are no short-term bank deposits at the year-end (2013: notice period of 95 days). Floating rate cash deposits, money market funds and other bank deposits earned interest based on relevant UK LIBID-related equivalents. The credit quality of financial assets has been assessed by reference to external credit ratings.

13. Trade and other payables

	2014 £'000	2013 £'000
Current:		
Trade payables	327	354
Taxation and social security	124	83
Other payables	49	36
Accruals and deferred income	643	616
	1,143	1,089
Non-current:		
Accruals and deferred income	1,175	1,918

14. Financial instruments

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

Fair values of financial assets and financial liabilities

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

Financial risk management

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

The principal risks addressed are as follows:

Credit risk

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

The Group typically places surplus funds into pooled money market funds and bank deposits with durations of up to 12 months. The Group's treasury policy restricts investments in short-term sterling money market funds to those which carry short-term credit ratings of at least two of AAAm (Standard & Poor's), Aaa/MR1+ (Moody's) and AAA V1+ (Fitch) and deposits with banks with minimum long-term rating of A/A-/A3 and short-term rating of F-1/A-2/P-2 for banks which the UK Government holds less than 25% ordinary equity.

The Group's customers are generally large multi-national companies and are consequentially not considered to add significantly to the Group's credit risk exposure.

Interest rate risk

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

The Group's finance income is sensitive to changes in interest rates. A change of 1% in interest rates would have impacted the finance income by £0.1 million in the year ended 30 June 2014 (2013: £0.1 million).

Liquidity risk

Cash flow forecasting is performed by the Group. This includes forecasting of the Group's liquidity requirements to ensure the Group has sufficient cash to meet its operational needs.

Foreign currency exposures

The Group seeks to minimise its exposure to fluctuations in exchange rates by taking out forward currency contracts to hedge against foreign currency denominated commitments, when known. At 30 June 2014, 100% (2013: 100%) of foreign currency commitments were either hedged by foreign currency contracts or covered by cash held. Fair value is based on the market price of comparable instruments at the balance sheet date.

The Group did not hold any forward currency contracts at the year end. The mark to market losses of the forward currency contracts held prior to year end in the Consolidated Statement of Comprehensive Income were nil (2013: losses of £7,000).

None of the Group's assets and liabilities were measured at fair value at 30 June 2014 or 30 June 2013.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

14. Financial instruments continued

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

	2014 £'000	2013 £'000
Foreign currency monetary assets:		
United States Dollar	460	107
Norwegian Kroner	21	–
Japanese Yen	18	–
Euro	9	40
	508	147

The Group has net Euro denominated trade payables of £5,000 (2013: £17,000) and US Dollar denominated trade payables of £nil (2013: £39,000).

The functional currency of the Company is pounds sterling.

15. Provisions for other liabilities and charges

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

Provisions for the year ended 30 June 2014

	Property dilapidations £'000	Onerous leases £'000	Total £'000
At 1 July 2013	560	994	1,554
Charged to the Consolidated Statement of Comprehensive Income	119	–	119
Utilised in the Consolidated Statement of Comprehensive Income	(22)	(243)	(265)
At 30 June 2014	657	751	1,408
Current	10	232	242
Non-Current	647	519	1,166
At 30 June 2014	657	751	1,408

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

Deferred taxation

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

	2014 £'000	2013 £'000
Tax effect of temporary differences because of:		
Difference between capital allowances and depreciation	(1,616)	(1,587)
Deductions relating to share options	(363)	(497)
Losses carried forward	(9,322)	(10,112)
Pensions	(5)	(6)
	(11,306)	(12,202)

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

16. Share capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
Allotted and fully paid				
At 1 July	536,799,123	8,817	86,215,662	4,311
Allotted under share option schemes	32,850	1	2,235,838	22
Allotted on cash placing & open offer	–	–	448,347,623	4,484
Transfer to capital redemption reserve	–[1]	(3,449)	–	–
Ordinary shares of £0.01 each at 30 June	536,831,973	5,369	536,799,123	8,817

1 86,215,662 £0.04 deferred shares were cancelled in the year. These deferred shares were not included in the number of ordinary shares disclosed in this table.

During the period the deferred shares of £0.04 each were cancelled with £3,448,626 being transferred to a capital redemption reserve and 32,850 ordinary shares of £0.01 each were issued on the exercise of employee share options for cash consideration of £1,642. (2013: On 18 December 2012 each existing ordinary share of £0.05 was sub-divided into one new ordinary share of £0.01 and one deferred share of £0.04. On that date the Company issued 330,000,000 ordinary shares of £0.01 each in a placing and open offer for cash consideration of £3,300,000. On 2 April 2013 the Company issued 118,347,623 ordinary shares of £0.01 each in a placing and open offer for cash consideration of £9,467,810 (before deducting issue costs of £208,050). Also 2,235,838 ordinary shares of £0.01 each were issued on the exercise of employee share options for cash consideration of £31,792.)

17. Share options

The total charge recognised in the year ended 30 June 2014 relating to employee share-based payments was £856,000 (2013: £414,000).

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

	2014 £'000	2013 £'000
a) 2004 Employees' share option scheme	794	280
b) 2010 Sharesave scheme	–	17
b) 2011 Sharesave scheme	38	42
b) 2014 Sharesave scheme	20	–
c) CHP Project Bonus Plan	–	–
d) Executive Directors' one-off award	4	75
	856	414

a) *Ceres Power Holdings Limited 2004 Employees' share option scheme*

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

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

	2014 Number ('000)	2014 Weighted average exercise price	2013 Number ('000)	2013 Weighted average exercise price
Outstanding at 1 July	46,715	£0.11	5,426	£0.94
Granted	23,220	£0.083	45,693	£0.03
Exercised	–	–	(2,000)	£0.01
Lapsed	(7,048)	£0.25	(2,404)	£0.72
Outstanding at 30 June	62,887	£0.09	46,715	£0.11
Exercisable	1,463	£2.06	3,400	£1.11

In 2013 the weighted average share price on the exercise date of options was £0.025.

17. Share options continued

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

Expiry date – 30 June	2014 Weighted average exercise price	2014 Number ('000)	2013 Weighted average exercise price	2013 Number ('000)
2015	£0.67	189	£0.67	189
2016	£1.89	1,012	£2.53	812
2017	£2.24	380	£2.18	380
2018	£2.23	45	£2.23	45
2019	£0.82	37	£0.82	37
2023	£0.02	38,150	£0.03	43,315
2024	£0.08	23,074	–	–

The options outstanding at the end of the year have a weighted average contractual life of 8.70 years (2013: 9.00 years).

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

b) *Ceres Power Holdings Sharesave scheme*

During the year, a fourth 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:

	2014 Number ('000)	2014 Weighted average exercise price	2013 Number ('000)	2013 Weighted average exercise price
Outstanding at 1 July	95	£0.47	460	£0.52
Granted	3,112	£0.06	–	–
Lapsed/cancelled	(76)	£0.49	(365)	£0.53
Outstanding at 30 June	3,131	£0.06	95	£0.47
Exercisable	19	£0.40	10	£1.12

The weighted average fair value of options granted in the year was £144,721 (2013: nil).

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

Expiry date – 30 June	2014 Actual and weighted average exercise price	2014 Number ('000)	2013 Actual and weighted average exercise price	2013 Number ('000)
2014	n/a	n/a	£0.64	30
2015	£0.40	19	£0.40	65
2018	£0.06	3,112	£0.40	–

The options outstanding at the end of the year have a weighted average contractual life of 3.07 years (2013: 1.08 years).

17. Share options continued

c) *CHP Project Bonus plan*

The CHP Project Bonus plan was a medium-term incentive scheme running from 2009 to 2012 under which a performance-related bonus of cash and nominal value share options was awarded to Executive Directors and senior managers. These share options, if not exercised, lapsed on 30 June 2013.

No options were granted in the year ended 30 June 2014 (2013: nil).

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

	2014		2013	
	Number ('000)	Actual and weighted average exercise price	Number ('000)	Actual and weighted average exercise price
Outstanding at 1 July	–	£0.00	445	£0.05
Granted	–	–	–	–
Exercised	–	–	(245)	£0.05
Lapsed	–	£0.00	(200)	£0.05
Outstanding at 30 June	–	n/a	–	–
Exercisable	–	n/a	–	–

In 2013 the weighted average share price on the day of exercise for options was £0.095.

d) *Executive Directors' one-off award*

All 'one-off' options remain outstanding and unexercisable at 30 June 2014. No options were granted, exercised or lapsed in the year or the previous year.

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

	2014		2013	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2018	£2.00	1,688	£2.00	1,688
2019	£2.00	213	£2.00	213

The options outstanding at the end of the year have a weighted average contractual life of 4.57 years (2013: 5.57 years).

Assumptions

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

	2004 Scheme 2014	Sharesave scheme 2014	2004 Scheme 2013
Grant date	17 Sep 13 – 9 May 14	23 Dec 13	27 Jul 2012
Share price at date of grant (£)	0.06 – 0.087	0.079	0.025 – 0.099
Exercise price (£)	0.06 – 0.087	0.063	0.01 – 0.099
Expected volatility (%)	62%	62%	70%
Expected option life (years)	Up to 7 years	3.5 years	Up to 5 years
Average risk-free interest rate (%)	2.4%	2.4%	2.3%
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 it was admitted to AIM. 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.

18. Cash used in operations

	2014 £'000	2013 £'000
Loss before income tax	(8,515)	(12,686)
Adjustments for:		
Other finance income	(73)	(55)
Depreciation of property, plant and equipment (net of amortised grant contributions)	1,069	1,322
Disposal of property, plant and equipment	–	759
Share-based payments charge	856	414
Operating cash flows before movements in working capital	(6,663)	(10,246)
(Increase)/decrease in trade and other receivables	(773)	163
Decrease in trade and other payables	(670)	(861)
(Decrease)/increase in provisions	(146)	928
(Increase)/decrease in working capital	(1,589)	230
Cash used in operations	(8,252)	(10,016)

19. Operating lease commitments

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

	2014 Land and buildings £'000	2014 Other £'000	2013 Land and buildings £'000	2013 Other £'000
No later than one year	462	20	378	19
Later than one year and no later than five years	1,121	15	524	15
	1,583	35	902	34

The property leases have an average minimum term of 3.3 years (2013: 3.4 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The office equipment leases have an average term of 1.3 years (2013: 1.6 years).

20. Contingent liabilities

£705,000 (2013: £705,000) of grants received, or an element thereof, may require repayment if the Group generates revenue (net of expenses and reasonable overheads) from the patent created from the grant. In such case, the Group may be liable to pay back the grant at a rate of 5% of the net revenue generated in any one year. The Directors of the Group believe it is unlikely that any of the grants received will need to be repaid in the foreseeable future.

21. Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements amounts to £544,000 as at 30 June 2014 (2013: £93,000), in respect of the acquisition of property, plant and equipment.

22. Related party transactions

The Group's related parties are its Directors, Steve Callaghan Services Limited, ORA (Guernsey) Ltd which held 28.21% of ordinary shares at 30 June 2013 and disposed of its holding during the year, Richard Griffiths who held 25.12% at 30 June 2014, and IP Group plc, through IP2IPO Limited, which held 24.69% of ordinary shares at 30 June 2014 (2013: 24.69%).

ORA (Guernsey) Ltd appointed Mike Bretherton as a Non-Executive Director who served during the year until he resigned on 4 October 2013, and IP Group appointed Alan Aubrey as Chairman and Robert Trezona as a Non-Executive Director both of whom served throughout the year. Compensation paid to the Group's Directors is disclosed in note 5. Transactions with IP Group plc during the year amounted to £16,330 (2013: £29,770) comprising primarily of recruitment services, and there was an outstanding balance due of £5,000 at 30 June 2014 (2013: £4,000). The outstanding balance with IP Group plc was due 30 days after the invoice date to be settled for cash. There were no other related party transactions in the year or the previous year.

23. Post balance sheet event

During July 2014 the Company completed a private placing which raised £20 million gross through the issue of 235,705,868 ordinary shares.

Independent Auditors’ Report
to the members of Ceres Power Holdings plc

Report on the Company financial statements

Our opinion

In our opinion the Company financial statements, defined below:

- give a true and fair view of the state of the Company’s affairs as at 30 June 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Company financial statements (the “financial statements”), which are prepared by Ceres Power Holdings plc, comprise:

- the Company Balance Sheet as at 30 June 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors’ remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors’ responsibilities set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the Group financial statements of Ceres Power Holdings plc for the year ended 30 June 2014.

Michael Jones (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
7 November 2014

Company Balance Sheet
as at 30 June 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Investments	4	37,398	6,097
Current assets			
Debtors: amounts falling due after more than one year	5	6,174	1,672
Debtors: amounts falling due within one year	5	54	32
Short-term investments		–	6,207
Cash at bank and in hand		6,838	8,835
		13,066	16,746
Creditors: amounts falling due within one year	6	(135)	(109)
Net current assets		12,931	16,637
Total assets less current liabilities		50,329	22,734
Creditors: amounts falling due after more than one year	7	(9,971)	–
Net assets		40,358	22,734
Capital and reserves			
Called up share capital	9	5,369	8,817
Share premium account	10	72,907	72,906
Capital redemption reserve	10	3,449	–
Profit and loss account	10	(41,367)	(58,989)
Total shareholders' funds	11	40,358	22,734

The financial statements on pages 41 to 45 were approved by the Board of Directors on 7 November 2014 and were signed on its behalf by:

Phil Caldwell
Chief Executive Officer

Richard Preston
Chief Financial Officer

Ceres Power Holdings plc
Registered Number: 5174075

Financial Statements

1. Accounting policies

These separate financial statements of the Company have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been reviewed by the Board of Directors in accordance with Financial Reporting Standard ("FRS") 18, 'Accounting policies', and which have been applied consistently except where noted, is set out below.

Fixed asset investments

The investment in Ceres Power Ltd was accounted for under merger accounting principles and was shown at the nominal value of shares issued as consideration for the undertaking less any amount written off to reflect a permanent diminution in value. The investment in Ceres Intellectual Property Company Ltd was stated at cost less any amount written off to reflect a permanent diminution in value. During the year both investments were transferred to Ceres Power Intermediate Holdings Ltd at fair value and the investment in Ceres Power Intermediate Holdings Ltd will be held at cost less any amount written off to reflect a permanent diminution in value. The Directors annually consider the need to impair these assets.

Short-term investments

Current asset investments comprise money market funds and bank deposits that are not repayable on demand.

Amounts owed by Group undertakings

Amounts owed by Group undertakings are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts that are made when the full amount is no longer considered receivable. A provision for impairment of amounts owed by Group undertakings is established based on estimated recoverable amounts.

Deferred taxation

The Company applies FRS 19, 'Deferred tax', which requires provision to be made in respect of timing differences between the treatment of certain items for accounting and tax purposes. Deferred tax assets are recognised only to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

Share-based payments

Share options

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 at the date of grant of equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

The fair value of employee share options is calculated using a Black-Scholes or binomial model. In accordance with FRS 20, 'Share-based payment', the resulting cost is charged to the profit and loss account over the vesting periods of the plans. The value of the charge is adjusted to reflect the expected and actual levels of options vesting. FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006 and to all later grants.

Options are granted both to employees of the Company and to employees of the Group. All share-based compensation related to subsidiary employees has been recharged to the subsidiary undertaking by way of a capital contribution to the subsidiary. This capital contribution for the current year has increased investment value by £811,000 (2013: £343,000) with the corresponding credit posted to reserves.

Pension scheme arrangements

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The pension costs charged represent contributions paid by the Company to individual pension plans and are charged to the profit and loss account as they become payable.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account as incurred.

Cash flow statement

Under FRS1 (Revised 1996), 'Cash flow statements', the Company is exempt from the requirement to produce a cash flow statement.

Related party transactions

The Company has taken advantage of the exemption available to parent companies under FRS 8, 'Related Party Disclosures', not to disclose transactions and balances with wholly owned subsidiaries. Refer to note 22 of the Consolidated Financial Statements for details of related party transactions in the year.

2. Profit/(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 profit of £16,766,000 (2013: loss of £6,831,000), which is stated after charging £10,000 (2013: £16,000) for remuneration receivable by the Company's auditors for the auditing of the financial statements. The profit for the year includes a £17.2 million profit for the sale of directly held assets and investments to Ceres Power Intermediate Holdings Ltd, a 100% held subsidiary, which is not distributable to Shareholders. The loss for the prior year includes a provision of £5.5 million against amounts owing to the Company by Ceres Power Ltd.

3. Employees and Directors

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

	2014 Number	2013 Number
By activity:		
Administration	1	1

The only employee of the Company during the year was also a Director and highest paid Director of the Company.

	2014 £'000	2013 £'000
Staff costs (for the above persons):		
Wages and salaries, including compensation for loss of office	113	377
Social security costs	15	53
Share-based payments charge	45	–
Other pension costs	5	–
	178	430

Costs of Executive Directors which have been borne by subsidiary companies have not been charged back to the Parent. A total of £nil (2013: £nil) was payable in respect of pension contributions by the Company at the year end.

For further information on Directors' emoluments, see note 5 to the consolidated financial statements.

4. Fixed asset investments

In subsidiary companies:

	2014 £'000	2013 £'000
Cost and net book value:		
At 1 July	6,097	5,754
Capital contributions arising from FRS 20 share-based payment charge	811	343
Disposal of investments to Ceres Power Intermediate Holdings Ltd	(6,551)	–
Transfer of assets of the Company to Ceres Power Intermediate Holdings Ltd at fair value	37,041	–
At 30 June	37,398	6,097

The capital contributions arising from the FRS 20 share-based payment charge are due to the Company granting share options to the employees of Ceres Power Limited.

The Company's investments comprise interests in Group undertakings, 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 Limited	England and Wales	£0.001 ordinary shares	100%[1]
Ceres Intellectual Property Company Limited	England and Wales	£1.00 ordinary share	100%[1]
Ceres Power Intermediate Holdings Limited	England and Wales	£0.01 ordinary share(s)	100%

The principal activity of Ceres Power Ltd is the development and commercialisation of the Group's fuel cell technology. The principal activity of Ceres Intellectual Property Company Ltd is the administration of registered intellectual property developed within the Group. The principal activity of Ceres Power Intermediate Holdings Ltd is as a holding company to the other Group companies and to manage the Group's cash, cash equivalents and short term investments. The results of Ceres Power Ltd, Ceres Intellectual Property Company Ltd and Ceres Power Intermediate Holdings Ltd are included within the consolidated financial statements. The Directors believe that the carrying value of investments is supported by their underlying net assets, or the net present value of projected future cash flows.

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

5. Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Other debtors	22	7
Prepayments and accrued income	32	25
	54	32
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	6,174	1,672
	6,174	1,672

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 2014, a provision of £59,316,000 (2013: £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 £65,138,000 (2013: £59,316,000) are subordinated to all other creditors of Ceres Power Ltd.

6. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	36	14
Taxation and social security	6	8
Accruals and deferred income	93	87
	135	109

7. Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Amounts owed to Group undertakings	9,971	–
	9,971	–

8. Deferred taxation

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

	2014 £'000	2013 £'000
Tax effect of timing differences because of:		
Deductions relating to share options	–	(11)
Losses carried forward	(796)	(819)
	(796)	(830)

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.

9. Called-up share capital

	2014		2013	
	Number	£'000	Number	£'000
Allotted and fully paid				
Ordinary shares of £0.01 each	536,831,973	5,369	536,799,123	8,817

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

10. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 July 2013	72,906	–	(58,989)
Premium on shares issued on exercise of share options	1	–	–
Cancellation of deferred shares, net of sales	–	3,449	–
Profit for the financial year	–	–	16,766
Share-based payments charge	–	–	856
At 30 June 2014	72,907	3,449	(41,367)

11. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit/(loss) for the financial year	16,766	(6,831)
Proceeds of issue of ordinary share capital	2	12,799
Share issue costs	–	(208)
Share-based payments charge	856	414
Net change in shareholders' funds	17,624	6,174
Opening shareholders' funds	22,734	16,560
Closing shareholders' funds	40,358	22,734

12. Post balance sheet event

During July 2014 the Company completed a private placing which raised £20 million gross through the issue of 235,705,868 ordinary shares.

Directors and Advisors

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

Registered number
5174075

Company secretary
Bruce Girvan

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

Japan Office
Ceres Power ITEC T05
Floor 3, Building Number 4
Kyoto Research Park
Awatacho 93
Chudoji
Shimogyouku
Kyoto City
Japan
T 600-8815

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Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street
Crawley
West Sussex
RH10 1BG

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

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

Nominated advisor (NOMAD)
Nplus1 Singer Advisory LLP
One Bartholomew Lane
London
EC2N 2AX

Brokers
Nplus1 Singer Advisory LLP
One Bartholomew Lane
London
EC2V 2AX

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

Notes

Notes

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Matt Leete	portraits pages 8, 10, 14 & 15
James Johnson	page 3

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CeresPower

www.cerespower.com

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