CeresPower

Powered by Ceres

Ceres Power Holdings plc Annual Report 2013








Who we are

Ceres Power ("Ceres") is a leading developer of low cost, compact, metal-supported fuel cell technology for clean, efficient, cost-effective, distributed generation products that can help address the key global energy challenges:

- Increasing energy efficiency
- Reducing CO_2 emissions
- Increasing energy security

International mass market opportunities exist for cost-effective energy products that can address these global market drivers while also meeting practical requirements such as the ability to run on readily available fuels like Natural Gas or LPG, and be robust to real world operating conditions.

Ceres Power's unique compact fuel cell technology can meet these requirements to power homes, business and infrastructure more efficiently than today's solutions.

The Ceres fuel cell stacks and Fuel Cell Modules ("FCMs"), supported by our world class manufacturing and systems engineering capability, provide an excellent platform to enable our partners to create a range of products for distributed generation and low carbon power applications. These include:

- Combined Heat and Power ("CHP") products for homes, operating on mains natural gas or packaged fuels
- Portable and stationary products providing flexible power as alternatives to generators and batteries, operating on packaged fuels including LPG, propane and butane
- Products providing auxiliary power in transport applications

Ceres was founded in 2001 to commercialise the unique core materials science technology developed at Imperial College during the 1990s. In November 2004, it went public on the AIM market of the London Stock Exchange.

In 2012 Ceres changed its strategy to focus on licensing its technology rather than selling complete CHP products. Today, the Group directly employs approximately 65 people at its development and manufacturing headquarters in Horsham in the UK.

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Highlights

During the reporting period:

- Restructured the business to reduce recurring operating costs by 44% to £10.2 million
- Implemented new business strategy of working with global consumer durable product manufacturers or 'Original Equipment Manufacturers' ("OEMs") with strong balance sheets
- Successful targeting of OEM relationships in Japan and South Korea
- New Board and Leadership Team appointed
- Substantial progress made with the robustness of Ceres unique low cost fuel cell technology
- Increase in Fuel Cell Module ("FCM") gross efficiency to > 50%
- Intellectual property portfolio further extended at cell, stack and FCM levels
- £15.4 million in net cash and short-term cash investments as at 30 June 2013

After period end:

- New CEO appointed, Philip Caldwell, commenced employment on 2 September 2013
- Commercial Agreement signed with Korea's largest boiler manufacturer, KD Navien, in landmark deal in support of new strategy
- Commercial traction in Japan with a number of global OEMs in technology validation and test activities
- Collaboration Agreement signed with the University of Connecticut to showcase Ceres' technology and facilitate access to US OEMs and the Department of Energy programmes to drive product development in the US

Business Opportunity

The wider picture

Global energy challenges have been well understood for some time; however recent events have increased the need for clean and efficient distributed power generation. World energy demand is predicted to rise by 25% (IEA, 2013) over the next decade yet the infrastructure to provide a growing population with the power they need is struggling to meet this growth. Events such as the Fukishima disaster have put more pressure on existing infrastructure, not only in Japan, but also in countries such as Germany where a change of energy policy has resulted in a renewed focus on distributed generation and renewable or cleaner solutions. Discoveries of shale gas reserves in the US closely followed by the rest of the world are extending the use of natural gas as a fuel for the foreseeable future but do not address the underlying issues of how to reduce CO_2 emissions unless new technologies are adopted to generate and distribute power more efficiently.

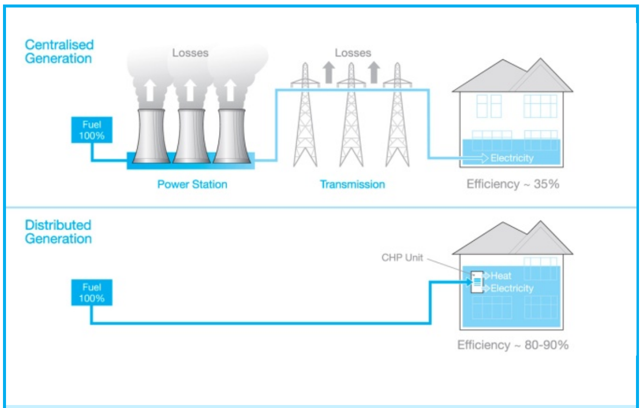
Fuel cells are one of the technologies which can provide cleaner power solutions for a range of market applications such as distributed generation through micro-CHP, backup or primary power for telecoms and transportation. After many years of development we are now seeing widespread commercialisation of fuel cell products, particularly in the Japanese market where sales are being led by global OEMs such as Panasonic, Toshiba and Toyota. Sales of residential micro-CHP units in Japan under the government backed Ene-Farm programme reached 28,000 in 2012 and are continuing to grow. In addition, the South Korean government has committed to subsidising its One Million Green Homes Project for 2020, which is capable of stimulating a similar market for fuel cell technology to that seen in Japan. Whist Japan and Korea lead the way in developing the fuel cell market, developments in other regions are accelerating. In Germany, the government is supporting field trials of micro-CHP units under its Callux programme and has set a binding CHP target of 25% co-generated electricity in power production by 2020. In the US large scale fuel cell deployments are being backed by bank financing programmes resulting in MWs of installed capacity for applications which provide highly reliable and efficient power to growing energy consumers such as data centres operated by some of the world's biggest consumer electronics and technology companies. A number of studies for stationary power fuel cell products have suggested that the market size could exceed US$10 billion by 2025.

Whilst the potential of fuel cell technology has been demonstrated through successful commercial products sold often with government support through subsidies and feed-in tariffs, the global OEMs still face the major challenge to widespread adoption: of significantly reducing costs while achieving operational robustness and flexibility. Ceres Power technology offers a step change to the existing high temperature solid oxide fuel cell ("SOFC") technology by providing a lower cost, robust solution that enables its commercial partners, through joint product development and effective technology transfer, to produce the next generation of clean power products with Ceres' unique proprietary technology at its core.

What we do

Ceres Power has developed a technology platform that is capable of being mass manufactured using its patented unique metal-supported SOFC technology designed to operate on natural gas and subsequently on a range of other fuels including LPG.

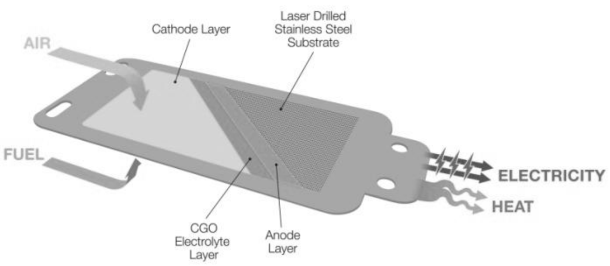
Ceres Power's fuel cell stack is a metal-supported solid state electro-chemical device which is the core of the Fuel Cell Module ("FCM") which generates electricity and heat directly from reformed fuel and air. Unlike the combustion process in an engine-driven generator, this solid state process is highly efficient, environmentally friendly and quiet. The Ceres stacks and FCMs will form the core of a range of distributed generation products designed with the potential to become the new standard for energy provision in millions of homes and thousands of commercial and industrial applications around the world. The Group's initial commercial focus is on the South Korean and Japanese markets, for compact residential Combined Heat and Power ("CHP") products that replace conventional residential boilers and also produce the majority of a typical home's electricity needs. However the Ceres technology can be applied to other applications and markets.



A typical home uses electricity generated by a central power station and transmitted through the electricity grid network and uses a gas boiler to meet its heating and hot water needs. Centralised generation wastes a significant proportion of the energy it uses, through heat losses in the power station and transmission and distribution losses. A CHP product installed in a home and generating electricity at the point of use (so-called distributed generation) avoids these energy losses, capturing the heat for use in domestic hot water and heating in the home. By creating electricity at the point of use in the home, overall efficiency of fossil fuel use can be improved from around 35% for centralised generation to up to 90% for residential CHP. This increase in energy efficiency delivers significant reductions in carbon emissions.

Our technology

The patented Ceres fuel cell design comprises thin electrochemical layers deposited onto a porous stainless steel supporting substrate. The cell operates in the temperature range of 500–600°C which is substantially lower than the temperature at which conventional SOFC materials can operate, typically 750–1000°C. The inherently lower operating temperature of Ceres' unique SOFC technology and the metal-supported design enables the use of proven cost-effective materials and manufacturing processes and a fuel cell stack design that is robust and resistant to thermal and real-world operating cycles.



The Group continues to develop its world class manufacturing and systems engineering capability to supply initial volumes of its high value core fuel cell technology to its partners and, at a later stage, to offer high volume manufacture under license at various global locations to meet our OEM partners' needs.

Our commercial proposition

Ceres Power has extensive and valuable intellectual property rights and know-how in three core areas: the fuel cell stack, the FCM and fuel cell manufacturing, which together will enable our commercial partners to develop and manufacture low carbon power products under license. The Group's first platform for licensing into the low carbon appliance market is a 1kW stack or FCM to be integrated into wall mounted residential fuel cell CHP products. Such products will be designed to replace conventional household boilers, saving the customer around 25% of their annual total energy costs and reducing the home's CO_2 emissions. By exploiting its significant fuel cell system engineering experience, Ceres can support and accelerate OEMs and other system integrators to evaluate and develop new low carbon products for residential and other markets. This unique application support capability enables the Group to catalyse uptake of its technology and encourage economies of scale and standardisation across different product platforms.

Ceres Power already has a technical and commercial partnership agreement with KDN Navien, South Korea's largest boiler manufacturer, for the incorporation of its technology into a CHP product and is actively looking to create similar partnerships in Japan, the US and Europe. In Japan, assessment of the technology is being carried out with a number of potential OEM partners. In addition, Ceres Power retains its longstanding partnerships with a range of established corporations such as British Gas and Itho-Daalderop with well-established direct channels to millions of customers in the UK, Benelux and Ireland. New products and market opportunities also exist in the longer term beyond residential CHP, including fuel cell water heaters for the US market, tri-generation, remote industrial power and auxiliary power for transport applications.

Chairman's Statement

The last year has seen the Group make substantial progress against its new strategy in both commercial and technical respects following its successful restructuring and refinancing at the end of 2012.

Driven by our technical successes and cost leadership position Ceres is now gaining significant commercial traction and I believe it has truly global potential.

Introduction

Since assuming the chair at the end of December 2012, there have been significant changes in the business. The technology team has been reconfigured to support our new strategy based on core technology only, with product development implemented by our OEM partners. These partners can bring multiple products to market through their depth of skills and expertise in systems integration, and their balance sheet strength. The commercial team set out to attract OEMs with the vision to build products with Ceres technology embedded within them and we have made significant progress on all fronts. Before reporting on this, I would like to thank the previous Chairman, Brian Count, and his Executive Board for their professionalism and dedication to handing over control of the business to the newly appointed executive team and supporting that team in resizing the business. I would specifically like to single out Rex Vevers, former CFO, and Phil Whalen, formerly the CTO, for individual praise. I should also like to extend my personal thanks to Steve Callaghan, one of our Non-Executive Directors, who implemented the restructure program and supported the business and leadership team through the second half of the year. His contribution was significant and his many years of working with turnaround situations were invaluable to the Group. I am extremely pleased to welcome Phil Caldwell, the new CEO, to Ceres, who I refer to later in more detail.

I would now like to turn my attention to progress that has been made and the work still in progress at Ceres whilst outlining our continued strategy for the financial year 2013-14 and beyond.

Business strategy and market overview

In contrast to the previous strategy of aspiring to become a product company, Ceres now focuses only on core technology at cell, stack and Fuel Cell Module ("FCM") level with accompanying cell manufacturing skills necessary to scale the business. We seek to engage OEMs with strong balance sheets, systems and product engineering skills in depth, and access to global markets. Our key areas of geographic focus remain South Korea, whose government have supported up to 80% subsidies for micro-CHP domestic installations in conjunction with a One Million Green Homes Project by 2020 initiative, and Japan, where over 28,000 micro combined heat and power ("micro-CHP") units were sold in 2012. We are also targeting the US, where Intermediate Temperature SOFC has recently received positive Governmental support, and parts of Western Europe, including Germany where their government has made significant and positive statements in support of Green Power and where subsidies for micro-CHP are noteworthy.

I am particularly pleased with the recently announced Ceres deal with KD Navien, South Korea's largest boiler manufacturer. This is a landmark deal and clearly demonstrates that the new strategy has found favour with OEMs. There has also been early commercial traction in Japan which bodes extremely well for the future, and we look forward to working more closely with Japanese partners going forward. We will strive to conclude more significant commercial deals in our target geographies in the coming year.

In addition to micro-CHP applications, we also consider our core technology to be suitable for other vertical applications and will explore commercial partnerships in new markets in the coming year.

Fund raise and change of advisors

On 18 December 2012, shareholders approved a placing and open offer to raise £3.3 million (before expenses) which provided the minimum level of funding required to undertake the business restructure, and to establish the commercial and technology strategy for the business moving forward. On 28 March 2013, shareholders approved a placing and open offer to raise £9.5 million (before expenses) which provides funding for the first stages of the revised strategy and new business model. The Group held £15.4 million in net cash and short-term cash investments as at 30 June 2013 and, as previously noted in our interim results, the Board anticipates that further funding will be required in future to fully commercialise the technology. However, we do expect that successful commercial engagements will also contribute to funding the business in the coming financial year.

During the period Ceres also appointed Nplus1 Singer as its nominated advisor and DAC Beachcroft as its solicitors. For completeness, I can also report that after the period end the Group also appointed Tavistock as its financial PR agency.

Technology progress

Progress has been impressive and I leave it to the Chief Executive to provide details of this in his report. Through the remainder of 2013 I expect the technical programmes to continue to deliver to our roadmap.

People

Ceres has an excellent team which, having been subjected to the stresses associated with a >60% reduction in workforce during 2012, have worked tirelessly during the year, particularly since December, to deliver strong technical and commercial progress. I salute their endeavour, endurance and sheer passion shown during this year of restructure, refocus and re-engagement around the new Group strategy. Following the restructuring phase all employees were granted share options as both retention and incentivisation measures and all key personnel continue to remain in post.

We have in Philip Caldwell, our new CEO, a highly commercial business leader with ten years' experience of the fuel cell sector. Phil was previously Corporate Development Director at Intelligent Energy, a sizeable company which specialises in the development of PEM fuel cell systems. He has a strong track record of securing OEM partners, and executing licence deals and agreements with sector leading global companies across automotive, stationary power and consumer electronic applications. In particular he was instrumental in establishing a joint venture with Suzuki Motor Corporation which enabled local manufacture of fuel cells under license in Japan.

I also note that Mike Bretherton, who has been Non-Executive Director since December 2012, will step down from the Board on 4 October 2013 following his recent relocation to Guernsey. We wish him well in the future.

Summary

The Board of Directors has implemented a business strategy based on the technology at the very core of the Group's capability, and is of the opinion that Ceres cell, stack and FCM technology has the potential to become the global standard for fuel cells for its target markets. In due course, the Board is confident that it will deliver excellent shareholder value through engineering development, licence, supply and royalty revenues. The technical and commercial advances over the past 12 months have further reinforced Ceres' position as a unique low cost, efficient and durable technology platform capable of operating in 'real world' conditions in multiple vertical and geographic markets.

We believe the current strategy and approach to be in the very best interests of our shareholders.

Alan Aubrey
Chairman
30 September 2013

Chief Executive Officer's Review

I am pleased to report on the substantial commercial and technical progress made towards our strategy over the past 12 months

Introduction

Having only been in the office of the Chief Executive for a matter of weeks, I am happy to report that over the last year Ceres has maintained its market position as the only low cost commercially viable Intermediate Temperature SOFC provider. The Group has made substantial technical and commercial progress, and I am delighted to be in post. Under the guidance of Steve Callaghan, a member of our Board and turnaround specialist, the Group's new strategy deployed post-restructure in January 2013 has gained significant commercial traction and our technology claims are being validated by several OEMs.

Commercial Update

With KD Navien ("KDN") we have secured the first stage of a long-term partnership funded by KDN where they will collaborate with us with the intention to develop and commercialise a low cost natural gas fuel cell micro-CHP product for the residential and commercial mass market in South Korea, as well as other strategic markets. Over a 12 month period from July 2013, we will provide KDN with our technology to allow them to evaluate its design and operating performance. Additionally over the period, KD Navien and Ceres will begin the design phase for a new 1kW micro-CHP product by leveraging each company's strengths, developing a product commercialisation plan and agreeing the commercial structures for licensing and development for the next phases of the programme.

In Japan we have early stage evaluation of our technology with a number of OEMs which are currently assessing performance and application for a number of different market opportunities. In the US we have entered into a partnership with the University of Connecticut in order to demonstrate the potential of our core technology to US based OEMs.

This commercial progress has been successful only due to the technical progress made under the continued leadership of the Technical Director, Dr Mark Selby, and his team. We have made significant progress around stabilising processes and production techniques to deliver robustness, opening the road to commercialisation for the Group and its partners.

Technology progress report

The progress made in the technology over the recent period has been excellent in a number of areas and the capability of the technology to be truly disruptive remains in evidence. In addition, in due course, I believe the technology may be viable for a wider number of higher power generation applications and we shall be evaluating this opportunity over the coming year.

Cell and stack development has continued to progress with key improvements demonstrated in robustness and sustained development of highly repeatable volume manufacturing processes. A key area of development has been our 'robust anode' concept. This allows us to have the unique capability of withstanding harsh real life conditions of unplanned stops. This is a key enabler for developing robust, low cost fuel cell products with our customers.

Steady state durability, thermal cycling capability and the ability to withstand harsh emergency stops are the key metrics that are important to our product development partners in their own technology evaluations and we are continuing to demonstrate this in our partner programmes. In accelerated thermal cycling and RedOx/Emergency stop laboratory tests in the harshest possible operating conditions, we have demonstrated around twice the requirement for a consumer micro-CHP product based on this technology. Accelerated testing in these metrics is a good indication of the potential for long life products. In addition, we continue to progress steady state durability on tests that incorporate the latest developments of the technology.

We have made rapid progress in Fuel Cell Module ("FCM") development in the last year, improving efficiency to >50% Gross Electrical Efficiency LHV (Lower

Heating Value). These developments in efficiency improve potential savings for domestic micro-CHP containing the Ceres technology, based on a conservative UK real use case scenario including the current feed-in tariff. This allows an expected payback period for the consumer of less than five years, based on detailed projected product costs.

The combination of our fuel cells' intermediate operating temperature of c.600°C, fuel reforming process and low cost metals presents a unique set of engineering challenges and opportunities. Our deep technical understanding in this area, and the intellectual property that results, presents a great opportunity for us to help accelerate our partners' commercialisation plans for our technology.

Across all areas of the technology we continue to generate and protect our intellectual property with the primary goal of accelerating the volume uptake of the core cell technology and subsidy-free fuel cell products. This has already resulted in (and will continue to result in) numerous patent filings which strengthen our position and protect our competitive advantage.

The various technology evaluation engagements, which began in early 2013, continue to generate significant activity within the technology team. To support this new aspect of our business, we have recruited a small number of key individuals. In 2014 customer funded activity will be a major work-stream for us. In parallel to our ongoing customer programmes, we continue to progress our roadmap for the Ceres Technology Platform to meet our customers' long-term commercial needs.

Dr Mark Selby
Director of Technology

Dr Selby has been with Ceres Power since 2006 and has led the technology team since February 2013. He has deep understanding of systems engineering and previously has been responsible for all aspects of Product Development activity. Prior to joining Ceres Power, he was a Senior Engineer at Ricardo UK Limited. He has degrees in Electronics, Dynamics and Control Systems awarded by the University of Leeds.

Dr Subhasish Mukerjee
Director of Cell and Stack Development

Dr. Mukerjee joined the Company in February 2012. He is responsible for all aspects of the development of cell and stack technology. He has extensive experience in fuel cells having previously worked at Delphi Corporation as SOFC Technology Leader. He holds numerous SOFC patents and has published widely on fuel cell technology. He gained his PhD at Yale University.

Manufacturing and operations update

We have consolidated our business and manufacturing operations to our Horsham site, allowing development cells and stacks to be produced within a controlled environment. Our focus on real-world volume manufacturing has been a core part of generating customer traction, as many of the organisations we are engaged with have world class track records and experience of quality-driven manufacturing environments.

Manufacturing quality, repeatability and stability have been the focus of the Manufacturing Team over the past 12 months. As a result of this and of process and materials development, overall cell yield has continued to improve to up to 80%. This continuing focus on the manufacturing processes is an essential capability to enable the scale-up of successful volume manufacturing to meet our partners' needs.

Medium-term roadmap

Following the restructure at the end of 2012 the Ceres Board agreed a medium-term roadmap to enable it to meet its strategic goals, as discussed below.

Commercial

The goal over the next five years is to target early stage commercial deals in addition to developing existing relationships, with the aim of translating these into major development programmes and license agreements with OEM partners. Our unique technology will enable our customers and partners to be market leaders in low cost distributed power generation and will position the Group to set the global standard for fuel cells in our chosen markets. These early stage commercial agreements are designed to enable partners to develop and trial products based on the Group's core technology in micro-CHP and other markets.

Ceres is targeting partners with the balance sheet strength and skills to develop product beyond the FCM module and who are able to fully integrate our technology into products. We also expect our partners to be market leaders in their domestic markets with significant international reach. The Group will take the opportunity to leverage developments beyond the FCM, which were completed under the old strategy, to accelerate the go-to-market time for new partners.

The Group recognises the importance of its existing contracts, particularly those with British Gas in the UK and Itho-Daalderop in the Netherlands. Although Ceres' initial OEM product partners are likely to launch product in their own countries first, these existing contracts could be important beachheads into Europe for them and other potential partners.

Manufacturing

Our manufacturing capability and IP are valuable assets to the Ceres business. The manufacturing capacity at our plant in Horsham is sufficient for our current needs. In response to anticipated customer and internal demand, the business would expect to increase this manufacturing capacity four-fold on the same site over the next few years by increasing the number of shifts and with a limited targeted amount of capital expenditure, in response to customer and internal demand.

In parallel with manufacturing cells and stacks and assembling FCMs in-house, we will continue to industrialise and stabilise the manufacturing processes with the current aim to invest in a larger scale pilot plant in time. This will act as a blueprint to enable future partners to mass manufacture under license and will service anticipated initial higher volume demand. The Group would not expect to make any significant financial commitments in this financial year and we will target a location where significant grants are available to contribute towards capital expenditure.

Technology

Ceres will continue to industrialise and make continual improvements to its core fuel cell and FCM technology. Improvements to the Ceres Technology Platform will be carefully targeted. The business is focused on developing 1kW stacks and FCMs for natural gas, although, with the right level of partner funding, it could also be scaled and utilise alternative fuels for other applications. The FCM developed to date and the deep in-house system expertise has great value and can accelerate our partners' route to market.

In addition to its core technology offering, the Group will offer its partners application services and micro-CHP product-related IP which we developed before the change of strategy, which will also accelerate take-up.

Financial

As a result of the restructuring and change in strategy in the year, recurring operating costs were reduced by £7.9m from £18.1m in 2012 to £10.2m in 2013. Over the same period the Group's average headcount fell from 155 in 2012 to 76 and currently stands at approximately 65.

During the year Calor Gas and Ceres agreed to end their agreement to develop and supply an LPG-fuelled product for sale in the UK market. As a result £0.5m of deferred revenue, being the unamortised portion of up-front milestone payments relating to Calor Gas, was released to the Income Statement without any cash impact. This was the primary reason the revenue for the year increased to £0.5m (2012: £0.2m). Deferred income of £1.8m relating to the British Gas and Bord Gais Eireann development and supply contracts (2012: £1.8m) remains on the balance sheet.

An income tax credit of £1.3m (2012: £3m) has been recorded in the year, consisting of a £1.0m estimated tax recovery in respect of the current financial year and an additional £0.3m received in respect of the prior year.

The loss for the financial year attributable to shareholders reduced from £14.9m to £11.4m due to reduced expenditure. The average number of shares in issue increased from 86.2m to 292.8m which was the significant contributor to the reduction in loss per ordinary share of 3.88p (2012: 17.28p).

During the year the Group's net cash used in operations reduced to £7.3m (2012: £15.4m) reflecting the reduced operating expenditure, a favourable working capital movement and the disposal of property, plant and machinery in the year. Current equity-free cash burn is forecast to remain steady and be around £9m in the financial year ending 30 June 2014.

People

The great progress being made in the development of our technology is testament to the talent, robust entrepreneurial spirit and commitment of our employees. We are fortunate in having a united team which works collaboratively across the range of disciplines with knowledge, dedication and passion to deliver great results with every activity we undertake.

We are committed to providing opportunities for our employees to succeed, encourage their innovative thinking and enhance their professional abilities through a range of development opportunities.
I extend the Board's sincere thanks to every one of our team for their personal and collective contribution, and its recognition and appreciation of the ongoing support they receive from their families as they help us pursue

our Group's mission. Our success is absolutely a team effort.

Summary

During the past 12 months Ceres has undertaken a significant change in direction with regard to its go-to-market strategy, choosing core technology focus over product. Product development is now part of the Group strategy only in conjunction with our OEM and system integration partners. Commercially we have shown that we can attract and transact with world class product organisations and we shall continue to do so. Technically we have continued to meet and in some cases exceed the standards set by ourselves in the core technology programmes at cell, stack and FCM. We can demonstrate appropriate levels of efficiency, robustness and manufacturing quality in support of real-world product development programmes for mass market applications. The Group continues to receive validation by OEM partners and other third parties that the core technology is achieving its design goals which underline our belief in the cost leadership potential for this technology. I would like to thank my executive management team for the hard work, pragmatism and tenacity over the past year. Their leadership has anchored Ceres and put us in an extremely strong position for the future.

Phil Caldwell
Chief Executive
30 September 2013

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 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 a 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 was responsible for leading commercial and strategic business development activities, including securing OEM partners, executing licence deals and development agreements in the Far East. Prior to joining Intelligent Energy, Phil was responsible for business development for electrochemical technology within ICI. He has a Masters degree in Chemical Engineering from Imperial College, London, holds an MBA and is a Chartered Engineer.

Richard Preston – Finance Director

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.

Steve Callaghan – Non-Executive Director

Steve joined Ceres Power in December 2012. He is a turnaround specialist in the technology sector. Before he joined the Company he was Executive Vice President at Torex Retail Holdings owned by Cerberus Private Equity and General Atlantic. Prior to Torex Steve was CEO of MMI Research Limited, the precision geo-location and cell phone intercept business, CEO of Framfab AB, Europe's largest web design and technology consulting business and CEO of Card Clear plc. He served as an Army officer in the Brigade of Gurkhas and Royal Signals until 1989 and has a degree in Electrical Engineering.

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 Group Manufacturing Director, President of Rolls Royce Gas Turbines Operations, Technical Director of GEC Large Machines and Managing Director of Alstom Transport. Mike is currently Chairman of Magnomatics, a venture capital-backed technology company, specialising in the development of innovative magnetic transmission drives for applications including wind turbines and hybrid vehicles. Mike is also a Non-Executive Director of the Office of Rail Regulation and an advisor to Unipart and Cobham plc. 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 2013

The Directors present their report and the audited financial statements for the year ended 30 June 2013.

Principal activities
During the year the Group restructured and changed its strategy from the development and commercial exploitation of microgeneration products based on the Group's solid oxide fuel cell technology, to the development and commercialisation of its core fuel cell and fuel cell module technology.

Review of business and future developments
Significant developments and operating activities of the Group, as well as the future strategy, business environment and prospects for the Group are discussed in detail in the Chairman's Statement and the Chief Executive Officer's Review on pages 4 to 9.

In addition to the Group's priorities as set out in the Chief Executive Officer's Review, the Group considers its Key Performance Indicators ("KPIs") to be revenue and net cash and financial assets measured against predetermined targets. The Directors are very pleased with the progress made in delivering the Group's key priorities since the restructuring in December 2012 when measured against their targets, as noted in the Chairman's Statement and the Chief Executive Officer's Review.

Results and dividends
The loss for the financial year was £11,375,000 (2012: £14,900,000). The net cash used in operating activities during the year was £7,349,000 (2012: £15,408,000). At 30 June 2013 the Group had net cash and short-term investments of £15,437,000 (2012: £10,178,000).

The Directors do not recommend the payment of a dividend (2012: £nil).

Research and development
During the year, the Group incurred expenditure of £7,200,000 (2012: £13,205,000) on research and development, all of which was written off to the Consolidated Statement of Comprehensive Income. The Chief Executive Officer's Review reports on progress during the year.

Charitable and political contributions
The Group made no charitable or political contributions during the year (2012: £nil).

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 are set out as follows:

Future funding risk
The future funding needs of the business are noted on page 5 of the Chairman's Statement.

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

Technology risk
Uncertainty still exists regarding the successful development and application of the Company's fuel cell and fuel cell module technology to potential products.

Intellectual Property protection risk
The Group continues to invest in the expansion and protection of its portfolio of intellectual property. The Group's competitive advantage is at risk of unauthorised parties using the Group's technology in their own products. Internal procedures and controls are therefore in place to capture all Intellectual Property ('IP') and then to 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 agreement, pursuit and defence of IP terms and rights.

Key personnel dependence risk
The Directors have put in place short-term incentive schemes for key personnel and granted share options to all employees during the year. These support the existing competitive remuneration packages and restrictive employment covenants already in place. These are aimed at reducing the risk of disruption to operations and damage to the business due to key personnel leaving the business.

Global economic risk
Although there have been improvements in the global economy since 2010, there is continued uncertainty around the restructuring of European sovereign debt, which could adversely impact the global economy. The Group is at risk to increased cost and delays through exposure to the default of suppliers if economic conditions do not continue to improve. The Directors continue to closely monitor this risk.

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) appointed 18 December 2012
Philip Caldwell (Chief Executive Officer) appointed 2 September 2013
Richard Preston (Finance Director) appointed 14 February 2013
Steve Callaghan (Non-Executive Director) appointed 18 December 2012
Mike Bretherton (Non-Executive Director) appointed 18 December 2012 – retiring 4 October 2013
Mike Lloyd (Non-Executive Director) appointed 3 July 2012
Robert Trezona (Non-Executive Director) appointed 18 December 2012
Dr Brian Count (Non-Executive Chairman) resigned 18 December 2012
David Pummell (Chief Executive Officer) resigned 18 December 2012
Rex Vevers (Finance Director) resigned 14 February 2013
Dr Phil Whalen (Technology Director) resigned 14 February 2013
John Nicholas (Non-Executive Director) resigned 18 December 2012

Substantial shareholders

The Company has been notified of the following holdings of 3% or more of the 536,831,973 ordinary shares of 1p each of the Company on 27 September 2013:

Investor	Number of ordinary shares	Percentage
ORA (Guernsey) Limited	151,353,358	28.21%
IP Group plc	132,500,000	24.69%
Sarasin & Partners LLP	34,929,061	6.51%
Henderson Global Investors	33,825,000	6.30%
Ali Mortazavi	25,000,000	4.66%

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 38 days (2012: 45 days). Trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 17 days (2012: 12 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 30 September 2013.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements 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 the Group 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, 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
Finance Director
30 September 2013

Independent Auditors' Report

to the Members of Ceres Power Holdings plc

We have audited the Group financial statements of Ceres Power Holdings plc for the year ended 30 June 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 13 the Directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of Ceres Power Holdings plc for the year ended 30 June 2013.

Rosemary Shapland
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
30 September 2013

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2013

	Note	2013 £'000	2012 £'000
Revenue	2	**523**	226
Operating costs	3	**(13,265)**	(18,480)
Other operating income	3	**1**	182
Operating loss		**(12,741)**	(18,072)
Finance Income	4	**55**	165
Loss before income tax	3	**(12,686)**	(17,907)
Income tax credit	7	**1,311**	3,007
Loss for the financial year and total comprehensive loss		**(11,375)**	(14,900)
Loss per £0.01 ordinary share expressed in pence per share:			
– basic and diluted	8	**(3.88)p**	(17.28)p

The notes on pages 20 to 37 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet
as at 30 June 2013

	Note	2013 £'000	2012 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	2,181	4,216
Other receivables	11	53	81
Total non-current assets		2,234	4,297
Current assets			
Trade and other receivables	11	454	583
Derivative financial instruments	14	–	7
Current tax receivable		1,044	2,400
Short-term investments	12	6,207	–
Cash and cash equivalents	12	9,230	10,178
Total current assets		16,935	13,168
Liabilities			
Current liabilities			
Trade and other payables	13	(1,350)	(1,768)
Total current liabilities		(1,350)	(1,768)
Net current assets		15,585	11,400
Non-current liabilities			
Accruals and deferred income	13	(1,918)	(2,354)
Provisions for other liabilities and charges	15	(1,293)	(365)
Total non-current liabilities		(3,211)	(2,719)
Net assets		14,608	12,978
Equity			
Share capital	16	8,817	4,311
Share premium account		72,906	64,821
Other reserve		7,463	7,463
Profit and loss account (deficit)		(74,578)	(63,617)
Total equity		14,608	12,978

The notes on pages 20 to 37 are an integral part of these consolidated financial statements.

The financial statements on pages 16 to 37 were approved by the Board of Directors on 30 September 2013 and were signed on its behalf by:

Philip Caldwell
Chief Executive Officer

Richard Preston
Finance Director

Ceres Power Holdings plc
Registered Number: 5174075

Consolidated Cash Flow Statement

for the year ended 30 June 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Cash used in operations	18	**(10,016)**	(17,515)
Income tax received		**2,667**	2,107
Net cash used in operating activities		**(7,349)**	(15,408)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(42)**	(1,335)
Movement in short-term investments		**(6,207)**	8,000
Finance income received		**57**	238
Net cash (used in)/generated from investing activities		**(6,192)**	6,903
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**12,591**	2
Net cash generated from financing activities		**12,591**	2
Net decrease in cash and cash equivalents		**(950)**	(8,503)
Exchange gains/(losses) on cash and cash equivalents		**2**	(6)
		(948)	(8,509)
Cash and cash equivalents at beginning of year		**10,178**	18,687
Cash and cash equivalents at end of year	12	**9,230**	10,178

Consolidated Statement of Changes in Equity

for the year ended 30 June 2013

	Note	Share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2011		4,309	64,821	7,463	(49,185)	27,408
Comprehensive income						
Loss for the financial year		–	–	–	(14,900)	(14,900)
Total comprehensive loss		–	–	–	(14,900)	(14,900)
Transactions with owners						
Issue of shares, net of costs	16	2	–	–	–	2
Share-based payments charge		–	–	–	468	468
Total transactions with owners		2	–	–	468	470
At 30 June 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**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2013

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 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 39 to 43.

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; choosing the appropriate method with which to recognise 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.

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 of the subsidiary. 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 Limited have been consolidated under merger accounting rules. The financial statements of Ceres Intellectual Property Company Limited 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 balance sheet. The Group protects its capital by eliminating/hedging treasury risks that could expose the Group to the risk of material loss of capital (refer to note 14).

Property, plant and equipment

Property, plant and equipment are stated at 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.

Depreciation is calculated using the straight-line method to allocate the cost over the estimated useful 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 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 12 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, based on the Directors' best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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.

In addition, a stakeholder pension scheme is also available to employees.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, other sales taxes and after eliminating sales within the Group. 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 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. All costs relating to these development contracts are recorded as research and development expenditure. As revenue represents contributions towards costs incurred, no amounts have been allocated to 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 reduced depreciation expense. For grants with no technical milestones, and where recovery is assured, the grant is recognised on an accruals basis in order to match the associated expenditure with the grant. For grants with technical milestones, grants 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.

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.

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 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. 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
(a) New and amended standards adopted by the Group: The following IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 July 2013 that would be expected to have a material impact on the Group are set out below:

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

(b) New standards and interpretations not yet adopted: A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU. The group will also consider the impact of the remaining phases of IFRS 9 *when completed by the Board.*

2. Revenue and segmental information

For management purposes, the Group is organised into one operating segment, which is the development and commercialisation of its core fuel cell and fuel cell module 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 Finance Director, and the Director of Technology. The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being the development and commercialisation of its core fuel cell and fuel cell module technology. The Chief Executive Officer, the Finance Director, and the Director of Technology 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 £523,000 (2012: £226,000) was derived from one customer in the United Kingdom (£510,000) and one customer in Asia (£13,000) (2012: one customer in the United Kingdom). All of the Group's non-current assets are located in the United Kingdom.

3. Loss before income tax

	2013 £'000	2012 £'000
Operating costs are split as follows:		
Research and development costs	**7,200**	13,205
Administrative expenses - recurring	**2,997**	4,888
	10,197	18,093
Administrative expenses – non-recurring restructuring related	**3,068**	387
	13,265	18,480

	2013 £'000	2012 £'000
Loss before income tax is stated after charging/(crediting):		
Staff costs, including share-based payments charges (note 5)	**5,886**	8,999
Depreciation on property, plant and equipment (net of amortised grant contributions)	**1,322**	1,560
Restructuring – disposal of property, plant and equipment (net)	**759**	–
Restructuring – termination payments and provisions for onerous leases	**2,309**	387
Operating lease rentals payable – property, plant and machinery	**466**	456
Other operating income – grant income	**(1)**	(182)
Repairs expenditure on property, plant and equipment	**88**	226
Forward contract losses	**7**	22
Net foreign exchange (gains)/losses	**(2)**	6

Services provided by the Group's auditor

During the year the Group obtained the following services from the Group's auditor as detailed below:

	2013 £'000	2012 £'000
Fees payable to the Company's auditor for the audit of parent Company and consolidated financial statements	**16**	24
Fees payable to the Company's auditor for other services		
– the audit of the Company's subsidiaries	**33**	30
– other services pursuant to legislation	**–**	4
– other services relating to taxation	**27**	36
	76	94

4. Finance income

	2013 £'000	2012 £'000
Interest receivable on net cash and short-term investments	**55**	165

5. Employees and Directors

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

	2013 Number	2012 Number
By activity:		
Research and development	**59**	122
Administration	**17**	33
	76	155

	2013 £'000	2012 £'000
Staff costs (for the above persons) comprised:		
Wages and salaries, including compensation for loss of office	**4,690**	7,293
Social security costs	**532**	838
Other pension costs (note 6)	**250**	400
Share-based payments (note 17)	**414**	468
	5,886	8,999

	2013 £'000	2012 £'000
Directors' emoluments:		
Aggregate emoluments	**568**	756
Company contributions to defined contribution pension schemes	**20**	27
Compensation for loss of office	**475**	–
	1,063	783

	2013 £'000	2012 £'000
Highest paid Director:		
Aggregate emoluments	**116**	206
Compensation for loss of office	**253**	–
	369	206

One Director (2012: two Directors) have retirement benefits accruing under defined contribution pension schemes.

Directors' emoluments for the year ended 30 June 2013

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

Directors' emoluments for the year ended 30 June 2012

	Salary/fee £	Pension[1] £	Total £
Executive			
David Pummell	206,371	–	**206,371**
Rex Vevers	170,350	13,628	**183,978**
Dr Phil Whalen	170,350	13,628	**183,978**
Non-Executive			
Dr Brian Count	100,000	–	**100,000**
Sir David Brown[8]	33,333	–	**33,333**
John Nicholas	45,000	–	**45,000**
Alan Wood[8]	30,000	–	**30,000**
	755,404	27,256	**782,660**

1 Pension contribution is based on 8% of gross salary and employer's National Insurance saved on employee pension contributions.
2 Steve Callaghan was appointed to the Board on 18 December 2012. Fees totalling £69,375 (2012: £nil) were paid to Steve Callaghan Services Limited, a company of which Steve Callaghan is a Director.
3 Appointed to the Board on 14 February 2013.
4 Resigned on 14 February 2013.
5 Resigned on 18 December 2012.
6 Appointed to the Board on 18 December 2012.
7 Appointed to the Board on 3 July 2012.
8 Resigned on 29 February 2012.
9 Appointed to the Board on 18 December 2012. His fees are paid to IP Group Ltd.

Directors' interests in share options

	At 1 July 2012 number	Granted number	Exercised	Lapsed/ Surrendered number	At 30 June 2013 number[5]	Exercise price	Exercise period
Steve Callaghan							
Options (unapproved)	–	2,000,000	(2,000,000)	–	–	£0.01	
Options (unapproved)	–	1,500,000	–	–	1,500,000	£0.099	April 2016–April 2023
	–	3,500,000	(2,000,000)	–	1,500,000		
Richard Preston							
Options (approved)	65,000	–	–	(65,000)	–	£1.65	
Sharesave Options (approved)	5,648	–	–	(5,648)	–	£0.81	
Sharesave Options (approved)	11,281	–	–	(11,281)	–	£0.40	
Options (unapproved)[4]	44,035	–	(44,035)	–	–	£0.05	
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
	125,964	3,100,000	(44,035)	(81,929)	3,100,000		
Rex Vevers							
Options (approved)	46,510	–	–	–	46,510	£2.15	September 2006–September 2016
Options (unapproved)	228,490	–	–	–	228,490	£2.15	September 2006–September 2016
Options (unapproved)[1]	159,375	–	–	–	159,375	£2.00	December 2010–December 2018
Options (unapproved)[2]	239,063	–	–	–	239,063	£2.00	December 2011–December 2018
Options (unapproved)[3]	239,062	–	–	–	239,062	£2.00	December 2012–December 2018
Sharesave options (approved)	5,648	–	–	(5,648)	–	£0.81	
Options (unapproved)[4]	23,518	–	–	(23,518)	–	£0.05	
Sharesave options (approved)	11,281	–	–	(11,281)	–	£0.40	July 2014–December 2014
	952,947	–	–	(40,447)	912,500		
Dr Phil Whalen							
Options (unapproved)[1]	53,125	–	–	–	53,125	£2.00	September 2011–August 2019
Options (unapproved)[2]	79,688	–	–	–	79,688	£2.00	September 2012–August 2019
Options (unapproved)[3]	79,687	–	–	–	79,687	£2.00	September 2013–August 2019
Sharesave options (approved)	11,281	–	–	(11,281)	–	£0.40	
	223,781	–	–	(11,281)	212,500		
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 One-off options, exercisable if the share price is greater than or equal to £4 over 20 consecutive trading days at some point in the exercise period.
2 One-off options, exercisable if the share price is greater than or equal to £5 over 20 consecutive trading days at some point in the exercise period.
3 One-off options, exercisable if the share price is greater than or equal to £6 over 20 consecutive trading days at some point in the exercise period.
4 CHP Project Bonus Plan deferred share options.
5 Or date of resignation, if earlier.

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

Key management compensation

The Directors are of the opinion that the key management of the Group were the Executive Directors of Ceres Power Holdings plc up until 14 February 2013, and from that date were the Chief Executive Officer, the Finance Director and the Director of Technology. The key management compensation is summarised in the following table:

	2013 £'000	2012 £'000
Salaries and other short-term employment benefits	514	547
Post-employment benefits	23	27
Termination benefits	475	–
Share-based payments	107	144
	1,119	718

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 £250,000 (2012: £400,000). A total of £24,000 (2012: £39,000) was payable to the funds at the year end.

7. Income tax credit

	2013 £'000	2012 £'000
UK corporation tax – R&D tax credit	(1,044)	(2,400)
Adjustment in respect of prior periods – R&D tax credit	(267)	(607)
Income tax credit	(1,311)	(3,007)

No corporation tax liability has arisen during the year (2012: £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% (2012: 20%). The differences are explained below:

	2013 £'000	2012 £'000
Loss before income tax	12,686	(17,907)
Loss before income tax multiplied by the UK tax rate of 20% (2012: 20%)	(2,537)	(3,581)
Effects of:		
Losses carried forward	980	988
Enhanced tax deductions for R&D expenditure	(1,141)	(2,282)
Expenses not deductible for tax purposes	339	154
Accelerated capital allowances and other timing differences	460	309
Adjustment in respect of prior periods – R&D tax credit	(267)	(607)
Difference between R&D tax credit and small company tax rates	855	2,012
Total income tax credit	(1,311)	(3,007)

8. Loss per share

Basic and diluted loss per £0.01 ordinary share are 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 2013 or in the previous year.

The loss for the financial year ended 30 June 2013 was £11,375,000 (2012: £14,900,000) and the weighted average number of £0.01 (2012: £0.05) ordinary shares in issue during the year ended 30 June 2013 was 292,793,498 (2012: 86,202,251).

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 2011	2,646	6,637	761	140	280	10,464
Additions	253	602	233	3	50	1,141
Transfers	89	162	29	–	(280)	–
At 30 June 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
Accumulated depreciation						
At 1 July 2011	1,182	3,992	553	102	–	5,829
Charge for the year	373	1,332	151	21	–	1,877
Amortisation of grant contributions	(32)	(279)	(6)	–	–	(317)
At 30 June 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
Net book value						
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
At 30 June 2011	1,464	2,645	208	38	280	4,635

10. Subsidiary undertakings

Details of the Company's subsidiaries at 30 June 2013 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%
Ceres Intellectual Property Company Limited	England and Wales	£1.00 ordinary share	100%

The principal activity of Ceres Power Limited is the development and commercialisation of its core fuel cell and fuel cell module technology. The principal activity of Ceres Intellectual Property Company Limited is the administration of registered intellectual property developed within the Group. The results of Ceres Power Limited and Ceres Intellectual Property Company Limited are included within these consolidated financial statements.

11. Trade and other receivables

	2013 £'000	2012 £'000
Current:		
Other receivables	231	301
Prepayments and accrued income	223	282
	454	583
Non-current:		
Prepayments and accrued income	53	81
	507	664

There is no difference between the fair value of trade and other receivables and their carrying values and they are not overdue at 30 June 2013. There have been no provisions for impairment of receivables during the year (2012: £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

	2013 £'000	2012 £'000
Cash at bank and in hand	576	716
Money market funds	8,654	9,460
Short-term bank deposits < three months	–	2
Cash and cash equivalents	9,230	10,178
Short-term bank deposits > three months	6,207	–
	15,437	10,178

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

	Interest rate type	2013 £'000	2012 £'000
Interest rate risk profile of the Group's financial assets:			
Cash at bank and in hand	Floating	576	716
Money market funds	Floating	8,654	9,460
Short-term bank deposits < three months	Floating	–	2
Short-term bank deposits > three months	Floating	6,207	–
		15,437	10,178

The short-term bank deposit > three months has a notice period of 95 days (2012: fixed terms of between nine and 12 months and earned interest between 1.25% and 2.00%). Floating rate cash deposits, money market funds and other bank deposits earned interest based on relevant UK LIBID-related equivalents. The credit quality of financial assets has been assessed by reference to external credit ratings.

13. Trade and other payables

	2013 £'000	2012 £'000
Current:		
Trade payables	354	527
Taxation and social security	83	197
Other payables	36	46
Accruals and deferred income	877	998
	1,350	1,768
Non-current:		
Accruals and deferred income	1,918	2,354

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 foreign currency exchange rates and interest 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. The Group's primary objective to manage credit risk 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.

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 (2012: £0.1 million) in the year ended 30 June 2013.

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 2013, 100% (2012: 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 does 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 £7,000 (2012: losses of £22,000).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2013.

	Level 2 2013 £'000	Level 2 2012 £'000
Financial assets at fair value through profit or loss:		
Derivatives used for hedging	–	7

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.

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.

	2013 £'000	2012 £'000
Foreign currency monetary assets:		
United States dollar	**107**	157
Euro	**40**	142
	147	299

The Group has net euro denominated trade payables of £17,000 (2012: £48,000) and US dollar denominated trade payables of £39,000 (2012: £60,000).

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 2013

	Property Dilapidations £'000	Onerous Leases £'000	Total £'000
At 1 July	365	–	365
Charged to the Consolidated Statement of Comprehensive Income	195	733	928
At 30 June	**560**	**733**	**1,293**

The dilapidation provision recognised is being built up to match 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 after the date that the company expects these properties to have no further use.

Provisions for the year ended 30 June 2012

	Property Dilapidations £'000	Onerous Leases £'000	Total £'000
At 1 July	228	–	228
Charged to the Consolidated Statement of Comprehensive Income	137	–	137
At 30 June	**365**	–	**365**

Deferred taxation

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

	2013 £'000	2012 £'000
Tax effect of temporary differences because of:		
Difference between capital allowances and depreciation	**(1,587)**	(1,057)
Deductions relating to share options	**(497)**	–
Losses carried forward	**(10,112)**	(9,397)
Pensions	**(6)**	–
	(12,202)	(10,454)

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

	2013		2012	
	Number	£'000	Number	£'000
Allotted and fully paid				
At 1 July	86,215,662	4,311	86,177,614	4,309
Allotted under share option schemes	2,235,838	22	38,048	2
Allotted on cash placing & open offer	448,347,623	4,484	–	–
Ordinary shares of £0.01 each at 30 June (2012 £0.05)	536,799,123	8,817	86,215,662	4,311

On 18 December 2012 each existing ordinary share of £0.05 was sub-divided into 1 new ordinary share of £0.01 and 1 deferred share of £0.04. All shares issued from 18 December 2012 were new ordinary shares of £0.01. The new ordinary shares of £0.01 have the same rights and benefits as the original ordinary shares of £0.05. The deferred shares of £0.04 are not listed and it is intended that all the deferred shares will be surrendered for no value and/or cancelled in due course.

On 18 December 2012 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 (2012: the Company issued 38,048 £0.05 ordinary shares on exercise of employee share options for consideration of £1,902).

17. Share options

The total charge recognised in the year ended 30 June 2013 relating to employee share-based payments was £414,000 (2012: £468,000).

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.

	2013 £'000	2012 £'000
a) 2004 Employees' share option scheme	280	5
b) Executive Directors' one-off award	75	216
c) 2009 Sharesave scheme	–	27
d) CHP Project Bonus plan	–	167
c) 2010 Sharesave scheme	17	16
c) 2011 Sharesave scheme	42	37
	414	468

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 three 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:

	2013		2012	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	**5,426**	**£0.94**	5,782	£0.94
Granted	**45,693**	**£0.03**	–	–
Exercised	**(2,000)**	**£0.01**	–	–
Lapsed	**(2,404)**	**£0.72**	(356)	£0.89
Outstanding at 30 June	**46,715**	**£0.10**	5,426	£0.94
Exercisable	**3,400**	**£1.11**	5,426	£0.94

The weighted average share price on the exercise date of options was £0.025 (2012: none exercised).

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

	2013		2012	
Expiry date – 30 June	Weighted average exercise price	Number ('000)	Weighted average exercise price	Number ('000)
2014	£0.39	1,937	£0.41	1,938
2015	£0.67	189	£0.73	220
2016	£2.53	812	£2.42	895
2017	£2.18	380	£2.24	420
2018	£2.23	45	£2.02	155
2019	£0.82	37	£0.96	249
2020	–	–	£1.07	5
2023	£0.03	43,315	–	–

The options outstanding at the end of the year have a weighted average contractual life of 9.00 years (2012: 2.21 years).

b) Executive Directors' one-off award

All 'one-off' options remain outstanding and unexercisable at 30 June 2013. 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:

	2013		2012	
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 5.57 years (2012: 6.57 years).

c) Ceres Power Holdings Sharesave scheme
No HMRC-approved savings-related share option schemes were implemented during the year or the previous year.

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

	2013		2012	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at 1 July	460	£0.52	740	£0.51
Lapsed/cancelled	(365)	£0.53	(280)	£0.50
Outstanding at 30 June	95	£0.47	460	£0.52
Exercisable	10	£1.12	108	£0.81

No options were granted in the year or the previous year.

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

	2013		2012	
Expiry date – 30 June	Actual and weighted average exercise price	Number ('000)	Actual and weighted average exercise price	Number ('000)
2014	**£0.64**	**30**	£1.12	15
2015	**£0.40**	**65**	£0.40	288

The options outstanding at the end of the year have a weighted average contractual life of 1.08 years (2012: 1.70 years).

d) 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 2013 (2012: 236,000).

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

	2013		2012	
	Number ('000)	Actual and weighted average exercise price	Number ('000)	Actual and weighted average exercise price
Outstanding at 1 July	**445**	**£0.05**	323	£0.05
Granted	–	–	236	£0.05
Exercised	**(245)**	**£0.05**	(38)	£0.05
Lapsed	**(200)**	**£0.05**	(76)	£0.05
Outstanding at 30 June	–	–	445	£0.05
Exercisable	–	–	59	£0.05

The weighted average fair value of options granted in 2012 was £57,057. The weighted average share price on the day of exercise of options was £0.095 (2012: none exercised).

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 Share Scheme 2013	CHP Project Bonus plan 2012
Grant date	18 Dec 12–2 Apr 13	27 July 2011
Share price at date of grant (£)	0.025–0.099	0.29
Exercise price (£)	0.01–0.099	0.05
Expected volatility (%)	70	65
Expected option life (years)	Up to 5 years	1.0
Average risk-free interest rate (%)	2.3%	3.5
Expected dividend yield	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

	2013 £'000	2012 £'000
Loss before income tax	**(12,686)**	(17,907)
Adjustments for:		
Other finance income	(55)	(165)
Depreciation of property, plant and equipment (net of amortised grant contributions)	1,322	1,560
Disposal of property, plant and equipment	759	–
Share-based payments charge	414	468
Operating cash flows before movements in working capital	**(10,246)**	(16,044)
Decrease in trade and other receivables	163	307
Decrease in trade and other payables	(861)	(1,915)
Increase in provisions	928	137
Decrease/(Increase) in working capital	230	(1,471)
Cash used in operations	**(10,016)**	(17,515)

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:

	2013 Land and buildings and Other £'000	2012 Land and buildings and Other £'000
No later than one year	397	461
Later than one year and no later than five years	539	907
Later than five years	–	40
	936	1,408

The property leases have an average minimum term of 3.4 years (2012: 4.4 years). The rentals are fixed for the lease terms subject to periodic rent reviews. The office equipment leases have an average term of 1.6 years (2012: 2.5 years).

20. Contingent liabilities

During the year, the Group recognised grant income in respect of research and development activities of £1,000 (2012: £182,000) as other operating income (see note 3), in accordance with the Group's accounting policy. The Directors consider that there is a contingent liability only in respect of grants received in the 12 months prior to the balance sheet date. The repayment of grants received prior to this is considered of remote likelihood, as grants may be required to be repaid if the Group does not meet subsequent reporting requirements as specified in the grant offer letters. In addition £705,000 (2012: £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 £93,000 as at 30 June 2013 (2012: £4,000), 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 (2012: none), and IP Group Limited which held 24.69% of ordinary shares at 30 June 2013 (2012: none). ORA (Guernsey) Ltd. has appointed Mike Bretherton as a Non-Executive Director and IP Group has appointed Alan Aubrey as Chairman and Robert Trezona as a Non-Executive Director. Compensation paid to the Group's Directors is disclosed in note 5. Transactions with IP Group Limited during the year amounted to £29,770 (2012: £nil) comprising primarily of legal and recruitment services, and there was an outstanding balance due of £4,000 at 30 June 2013 (2012: £nil). The outstanding balance with IP Group Limited 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.

Independent Auditors' Report

to the Members of Ceres Power Holdings plc

We have audited the parent Company financial statements of Ceres Power Holdings plc for the year ended 30 June 2013 which comprise the Company Balance Sheet and the related notes. 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').

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 13 the Directors are responsible for the preparation of the parent Company 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 parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

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 parent 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2013;
- 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Ceres Power Holdings plc for the year ended 30 June 2013.

Rosemary Shapland
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
30 September 2013

Company Balance Sheet
as at 30 June 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	4	6,097	5,754
Current assets			
Debtors: amounts falling due after more than one year	5	1,672	1,435
Debtors: amounts falling due within one year	5	32	26
Short-term investments		6,207	2
Cash at bank and in hand		8,835	9,667
		16,746	11,130
Creditors: amounts falling due within one year	6	(109)	(324)
Net current assets		16,637	10,806
Total assets less current liabilities		22,734	16,560
Net assets		22,734	16,560
Capital and reserves			
Called up share capital	8	8,817	4,311
Share premium account	9	72,906	64,821
Profit and loss account	9	(58,989)	(52,572)
Total shareholders' funds	10	22,734	16,560

The financial statements on pages 39 to 43 were approved by the Board of Directors on 30 September 2013 and were signed on its behalf by:

Philip Caldwell
Chief Executive Officer

Richard Preston
Finance Director

Ceres Power Holdings plc
Registered Number: 5174075

Notes to the Company Financial Statements

for the year ended 30 June 2013

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 Limited is accounted for under merger accounting principles and is 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 Limited is stated at cost less any amount written off to reflect a permanent diminution in value.

Current asset 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 £343,000 (2012: £375,000) 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.

In addition, a stakeholder pension scheme is also available to employees.

Research and development expenditure

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

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.

2. Loss for the year

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its profit and loss account. The Company's result for the year was a loss of £6,831,000 (2012: £15,584,000), which is stated after charging £16,000 (2012: £15,000) for remuneration receivable by the Company's auditors for the auditing of the financial statements. The loss for the year includes a provision of £5.5 million provision against amounts owing to the Company by Ceres Power Limited (2012: £15 million).

3. Employees and Directors

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

	2013 Number	2012 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.

	2013 £'000	2012 £'000
Staff costs (for the above persons):		
Wages and salaries, including compensation for loss of office	**377**	207
Social security costs	**53**	33
	430	240

A total of £nil (2012: £nil) was payable in respect of pension contributions by the Company at the year end.

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

4. Fixed asset investments

In subsidiary companies:

	2013 £'000	2012 £'000
Cost and net book value:		
At 1 July	**5,754**	5,379
Capital contributions arising from FRS 20 share-based payment charge	**343**	375
At 30 June	**6,097**	5,754

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%
Ceres Intellectual Property Company Limited	England and Wales	£1.00 ordinary share	100%

The principal activity of Ceres Power Limited is the development and commercialisation of its core fuel cell and fuel cell module technology. The principal activity of Ceres Intellectual Property Company Limited is the administration of registered intellectual property developed within the Group. The results of Ceres Power Limited and Ceres Intellectual Property Company Limited 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.

5. Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Other debtors	7	13
Prepayments and accrued income	25	13
	32	26
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	1,672	1,435
	1,704	1,461

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 2013, a provision of £59,316,000 (2012: £53,861,000) has been made against the inter-company loan to Ceres Power Limited, reflecting management's best estimate of the recoverable amount.

A subordination agreement exists between the Company and Ceres Power Limited. Amounts owed by Ceres Power Limited to the Company of £59,316,000 (2012: £53,861,000) are subordinated to all other creditors of Ceres Power Limited.

6. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	14	13
Taxation and social security	8	37
Other creditors	–	1
Accruals and deferred income	87	273
	109	324

7. Deferred Taxation

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

	2013 £'000	2012 £'000
Tax effect of timing differences because of:		
Deductions relating to share options	(11)	–
Losses carried forward	(819)	(700)
	(830)	(700)

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

8. Called up share capital

	2013		2012	
	Number	£'000	Number	£'000
Allotted and fully paid				
Ordinary shares of £0.01 each (2012: £0.05)	536,799,123	8,817	86,215,662	4,311

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.

9. Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 July 2012	64,821	(52,572)
Premium on shares issued:		
New shares issued on cash placing (net)	8,076	–
Exercise of share options	9	–
Loss for the financial year	–	(6,831)
Share-based payments charge	–	414
At 30 June 2013	**72,906**	**(58,989)**

10. Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Loss for the financial year	**(6,831)**	(15,584)
Proceeds of issue of ordinary share capital	**12,799**	2
Share issue costs	**(208)**	–
Share-based payments charge	**414**	468
Net change in shareholders' funds	**6,174**	(15,114)
Opening shareholders' funds	**16,560**	31,674
Closing shareholders' funds	**22,734**	16,560

Directors and Advisors

Directors of Ceres Power Holdings plc
Alan Aubrey (Non-Executive Chairman)
Phil Caldwell (Chief Executive Officer)
Richard Preston (Finance Director)
Steve Callaghan (Non-Executive Director)
Mike Bretherton (Non-Executive Director)
Mike Lloyd (Non-Executive Director)
Robert Trezona (Non-Executive Director)

Registered number
5174075

Company secretary
Bruce Girvan

Registered office
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