

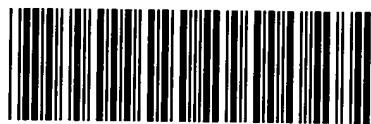
Registered number 3958217

Intelligent Energy Limited

Report and Financial Statements

30 September 2015

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COMPANIES HOUSE

Intelligent Energy Limited

Officers and professional advisers

DIRECTORS

Dr H Winand
J Maguire
Dr M Lawson-
Statham

SECRETARY

N Heard

AUDITOR

KPMG LLP
St Nicholas House
Park Row
Nottingham
NG1 6FQ

BANKERS

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SOLICITORS

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REGISTERED OFFICE

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Charnwood Building
Holywell Park
Ashby Road
Loughborough
LE11 3GB

Intelligent Energy Limited

Strategic report

The Directors present their strategic report on the Company for the year ended 30 September 2015.

Review of business and future developments

Revenue for the year was £6.3 million (2014: £8.7 million). The year-on-year decrease in revenue mainly reflects the phasing of joint development agreements in the year within the motive business.

The Company has three external facing divisions that focus on three distinct and growing global mass markets: Consumer Electronics ("CE"), Distributed Power & Generation ("DP&G"), Motive; and one internal facing division "Platform Support".

The Directors use adjusted EBITDA which is measured as Earnings before Interest, Tax, Depreciation, Amortisation and the IFRS 2 share-based payment charge. On this measure, adjusted EBITDA for the year was a loss of £45.3 million (2014: loss of £38.9 million). The movement in adjusted EBITDA reflected the impact of lower revenue and planned higher operating costs, to support the activities of the operating divisions of Motive, CE and DP&G.

The loss for the year was £40.1 million (2014: loss of £35.9 million). The movement compared to the prior year reflecting the adjusted EBITDA reported above offset by a lower IFRS 2 share-based payment charge and a higher income tax credit.

The cash balance, together with the balance of short term deposits, at 30 September 2015 was £26.5 million (2014: £87.6 million).

It has been a very important and challenging year for Intelligent Energy. The Company has world class fuel cell technology that puts it at the forefront of changing energy markets, and the focus is commercialising that technology across the three target end markets.

The most important step forward in commercialising the Company's technology during the year was the signing of a ten year, £1.2billion agreement with GTL in September 2015 by the Company's fellow subsidiary undertaking Essential Energy. This transaction will be closed as soon as the Conditions Precedent have been cleared and this is expected to happen shortly. Through this agreement, efficient and economical energy will be provided to over 27,400, telecom towers in India. This was a landmark transaction both for the Intelligent Energy Group and the fuel cell industry more generally. While the revenues and costs related to DP&G in India are reported within other Group Companies, the core fuel cell related technology development continues to be supported by the Company through its Platform Support division. Deployment of this technology to other Group companies is expected to generate future revenue for the Company.

Progress within CE continues to be made on accelerating our technology roadmap to the stage where it will be embedded within our partners' products. Entry into this market place commenced through the launch of the Upp product in Apple's UK retail stores in November 2014. Sales volumes were however disappointing, reflecting manufacturing issues with the metal hydride fuel cartridges and limited market traction. Upp1 did deliver its objectives of technology validation and understanding consumer fuel cell consumption behaviour. This is in the context of the journey to selling embedded fuel cell design technology which is considered to represent the core value propositions for CE. This journey continued in April 2015 when the Company acquired important intellectual property assets from Société Bic (S.A.) ('BIC'). The integration of this acquisition continues to remain on track and already the benefits are being seen with regard to some of the work the Company is undertaking with its partners and OEMs.

Intelligent Energy Limited

Strategic report (continued)

For the Motive division, through the year there has been a great deal of industry news flow which all points toward the increased adoption of hydrogen fuel cells. This is very encouraging, and the Company continues to work closely with a number of the major car manufacturers.

During the second half of the year, the Company signed a new joint development agreement with an Asian Vehicle Manufacturer. This was followed toward the end of the year with an extension of an existing joint development agreement with an existing Asian car maker. These are important steps forward, which validate the strength of the Company's technology.

Going concern

The Company meets its day-to-day working capital requirements through its cash resources. The current position of the Company and its development plans result in cash consumption for the foreseeable future.

As detailed above the business has plans for significant expansion. The cash balance at the year end of £26.5m is not sufficient to allow the Company to implement its business plan without additional funding. The Group intends to raise additional funds through a two tier process. Both transactions are consistent with the Group's objective of protecting existing shareholders. Firstly, this involves a proposed issue of a convertible instrument to industrial partners. Secondly, there is significant value in aspects of the Group's DP&G Indian operations and therefore Jefferies, the investment bank, has been appointed to assist the Group in realising some of this value to finance its current and future growth plans. As a result the Board have sufficient reason to believe that additional funding will be forthcoming within the required time frame to support the planned expansion of the business.

The Board have also carefully considered the Company's position in the event that the additional financing to fund the planned expansion is not forthcoming. In that scenario, the Board is satisfied that they retain sufficient discretion over costs linked to expansion plans, and the ability to manage the business in a way which allows it to fulfil its appropriate commitments and settle its obligations as they fall due.

The Company had net current liabilities of £173.4 million at the reporting date reflecting amounts payable to its parent undertaking Intelligent Energy Holdings plc of £213.8 million. However the Directors have received confirmation from Intelligent Energy Holdings plc that it will continue to provide financial support to the Company for the foreseeable future to ensure it can pay its debts as they fall due.

Business KPIs

The Board has assessed that the following financial Key Performance Indicators (KPIs) are the most effective measures of progress towards achieving the Company's strategies and as such towards fulfilling the Company's objectives.

1. Revenue
2. Adjusted EBITDA
3. Cash and Liquidity

Commentary on the Company's performance against these KPIs is detailing in the review of the business above.

Financial risk management

The directors constantly monitor the risks and uncertainties facing the Company with particular reference to the exposure to foreign currency risk, liquidity risk and credit risk,

Intelligent Energy Limited

with suitable policies and procedures in place to mitigate against these risk where appropriate and feasible. The Company's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the

Strategic report (continued)

Company's operations. The Company has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations. During the year forward contracts have been used to manage foreign exchange risk.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are:

Principal risk description	Risk management
The Company is developing complex innovative technology products which require further technical development and investment in infrastructure, along with significant adoption by customers. Material markets for fuel cell technology may never develop, or develop more slowly than the Company anticipates. In addition, fuel cells may never be competitive as other competing technologies or direct competitors continue to evolve.	<p>The Company has dedicated Project Managers who control, monitor and manage identified work packages to meet predefined delivery criteria, or escalate material issues internally.</p> <p>The Company has protected budget and resources for critical projects to ensure competitive advantage and increase the likelihood of the technology meeting the desired performance criteria and cost within the relevant timeframe to satisfy likely markets.</p>
The Company is currently reliant on a small number of customers with various contractual obligations; failure to meet these commitments could result in penalties, contracts not being renewed, or termination of existing contracts.	<p>The Company has divisional business development teams to attract and retain both new and existing business, thereby reducing the reliance on a small number of customers.</p> <p>Contractual commitments are closely monitored internally to underpin delivery and identify corrective action, if appropriate.</p> <p>Due diligence processes are carried out where appropriate and prior to entering into agreements with new customers.</p> <p>The Company seeks to maximise revenue opportunities by seeking to enter into long term commercial arrangements with multiple sources of value.</p>
The Company is dependent on a variety of third party providers both in the manufacture of its products and the supporting operations.	<p>The Company partners with industry-leading or specialist companies and has in place a detailed internal process to manage its key partners which includes the Company's employees being heavily involved in the set up phase with the contract manufacturers.</p> <p>During the negotiation of commercial agreements, a balanced approach to apportioning risk is sought.</p> <p>The Company seeks to develop long term relations with its key suppliers in order to develop quality manufacturing systems, which are flexible and scalable.</p>

Intelligent Energy Limited

Strategic report (continued)

Principal risk description	Risk management
<p>The Company is dependent on proprietary technology underpinned by intellectual property ("IP") and may not be able to obtain, maintain, defend or enforce those IP rights. The Company may also be exposed to litigation in the future in respect of IP infringement or product liability claims.</p>	<p>Intelligent Energy identifies and registers its IP where appropriate to aid enforcement of its rights and protects and challenges infringement, where appropriate. It also looks to regularly extend its proprietary knowledge through acquisition with continued on-going research activities.</p> <p>IP boundaries and ownership is an integral part of the contracts which the Company enters into at all levels in the business.</p> <p>As part of a new employee's induction, IP training is given which emphasises the importance and relevance of IP to the Company's activities.</p> <p>The Company has specialist in house IP capability that oversees all IP activity including the management of external IP service providers.</p> <p>An IT security framework and roadmap is in place which highlights the highest cyber risks. The roadmap is being implemented with priority on highest risk items. As new cyber risks develop the roadmap and priorities adjust accordingly.</p>
<p>The level of growth in the Company means further funding will be required.</p> <p>The Company's longer term liquidity and capital requirements are difficult to predict. This depends on numerous factors, including the success of the Company's products, the Company's R&D activities, relationships with third-party business partners and the impact of competing technologies and market developments. Furthermore, the Company's business plan must account for differing revenue generating activities and capital investment programmes across its three divisions, whilst also seeking to ensure that the Company has the capability to respond to strategic opportunities that may arise in target markets.</p>	<p>The Company regularly forecasts its future cash flow requirements and monitors the level of future financial commitments.</p> <p>The Company engages with Banks and Investors from around the world to diversify potential sources of future investment.</p> <p>The Company will seek to recover all technology development costs from its partners when entering into a Joint Development Agreement.</p> <p>The Group has modelled alternative business scenarios if there are significant delays in raising additional funds.</p>
<p>The Company depends on key personnel and the failure to retain or attract suitably qualified employees could limit the growth.</p>	<p>The Company maintains regular contact with recruitment bodies to understand trends in the labour market and regularly monitors staff turnover.</p>

Approved by the Board of Directors and signed on behalf of the Board by



J Maguire

Director

27 November 2014

Intelligent Energy Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2015.

Results and dividends

The loss for the year, after taxation, amounted to £40.1 million (2014: loss of £35.9 million). The directors do not recommend the payment of a dividend (2014: *£nil*).

Principal activity

Intelligent Energy Limited ("The Company") is a wholly owned subsidiary company of Intelligent Energy Holdings plc. The Company continues to make great strides in research and development, reinforcing its position as one of the world's leading innovators in clean fuel cell power technologies.

The Company is engaged in the development of energy generating platforms using fuel cell and remote monitoring technology which is either sold and enhanced under joint development agreements with industrial partners or deployed directly in a business-to-business model using contract manufacturers.

Future developments

Future developments in the Company's business are set out in the strategic report.

Political donations

No political donations were made during the year (2014: *£nil*).

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

Dr H Winand
J Maguire
M Lawson-Statham

Directors' liabilities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Contracts

There were no contracts of significant substance during or at the end of the financial period in which a director was materially interested.

Intelligent Energy Limited

Directors' report (continued)

Research and development

The Company makes significant investment into research and development activities to develop PEM fuel cells and PEM fuel cell systems. Significant progress continues to be made in all these areas thus reducing risks associated with these technologies as the Company accrues knowledge and operating experience. Research and development expenditure in the year was £18.7 million (2014: £20.1 million).

Financial risk management

Foreign currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. To manage foreign exchange risk arising from future commercial transactions the Company uses forward contracts to hedge anticipated cash flows in each major foreign currency.

Liquidity risk

The Company meets its day-to-day working capital requirements through its cash resources. The current position of the Company and its development plans result in cash consumption for the foreseeable future. Funding comes from the parent company, Intelligent Energy Holdings plc. The remainder of the Company's funding comes from the cash flow it generates from customer contracts. As detailed in Note 1 the Group intends to raise additional funds and the Directors have received confirmation from Intelligent Energy Holdings plc that it will continue to provide financial support to the Company for the foreseeable future to ensure it can pay its debts as they fall due.

Credit risk

Credit risk arises in respect of amounts receivable from customers and amounts on deposit with banks. Credit risk in respect of customers is limited because of the nature of the Company's customers, primarily large corporations and governmental bodies. Credit risk in respect of banks is managed by limiting deposits to banks with strong credit ratings and limiting the amount on deposit with a single counterparty.

Employees

The Company attaches significant importance to good employee relations, employee engagement and employee development. We recognise our responsibilities for the fair treatment and equality of opportunity for all current and future employees in accordance with legislation applicable to the territories within which the business operates.

As part of its 'Staying Informed' communications plan the Company has a range of communications mechanisms to ensure employees remain up to date on business issues. Monthly 'Breakfast Meetings' are held at the main facility in Loughborough, UK, where different departments and individuals provide updates on current initiatives and projects to the rest of the business.

The Company is committed to promoting equality and diversity and eliminating discrimination in all aspects of its employment and business. Our aim is to develop an environment that is free from discrimination where all individuals are able to freely contribute their skills and are encouraged to develop to their full potential.

In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

Intelligent Energy Limited

Directors' report (continued)

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP therefore continues in office.

Branches outside the UK

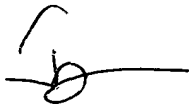
The Company has established a French branch during the year as part of the development work with the French Alternative Energies and Atomic Energy Commission in Grenoble.

Directors' statement as to disclosure of information to auditor

The directors who were members of the Board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board of Directors and signed on behalf of the Board by



J Maguire

Director

27 November 2015

Intelligent Energy Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 Company and of the profit or loss of the Company 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Intelligent Energy Limited

We have audited the financial statements of Intelligent Energy Limited for the year ended 30 September 2015 set out on pages 11 to 43. 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.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 2015 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Anthony Hambleton (Senior Statutory Auditor)

for and on behalf of KPMG LLP

Statutory Auditor

St Nicholas House, Park Row, Nottingham, NG1 6FQ

27 November 2015

Intelligent Energy Limited

Income statement

For the year ended 30 September 2015

	<i>Note</i>	2015 £m	2014 £m
Revenue	5	6.3	8.7
Cost of sales		(5.5)	(5.2)
Gross profit		0.8	3.5
Research and development expenses		(18.7)	(20.1)
Operation and administration costs		(34.2)	(30.5)
Operating loss	6	(52.1)	(47.1)
Finance income		0.5	0.3
Finance cost		(0.4)	-
Loss on ordinary activities before tax		(52.0)	(46.8)
Income tax credit	9	11.9	10.9
Loss for the year attributable to the ordinary equity holders of the Company		(40.1)	(35.9)

All of the activities of the Company are classed as continuing. The Company has no items of other comprehensive income other than the results for the year as set out above.

The accompanying notes are an integral part of the financial statements.

Intelligent Energy Limited

Statement of financial position at 30 September 2015

	Note	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment	10	6.7	6.7
Intangible assets	11	19.5	4.6
Investment in subsidiary undertakings	12	-	-
Deferred tax asset	9	21.9	16.3
Tax receivable	9	0.4	-
		48.5	27.6
Current assets			
Inventories	13	6.1	4.1
Trade and other receivables	14	12.8	13.1
Current tax receivable	9	4.2	3.4
Short term deposits	15	3.5	42.8
Cash at bank	16	23.0	44.8
		49.6	108.2
Total assets		98.1	135.8
Current liabilities			
Trade and other payables	17	(222.9)	(225.6)
Derivative financial instrument		(0.1)	-
		(223.0)	(225.6)
Non current liabilities			
Provisions	18	(3.0)	-
Total liabilities		(226.0)	-
Net liabilities		(127.9)	(89.8)
Equity			
Share capital	19	1.6	1.6
Share premium	20	19.7	19.7
Other reserves	20	18.1	16.1
Retained earnings		(167.3)	(127.2)
Total deficit attributable to the ordinary equity holders of the Company		(127.9)	(89.8)

The accompanying notes are an integral part of the financial statements. The financial statements on pages 11 to 43 were approved on by the Board of Directors on 27 November 2015 and signed on its behalf by:


John Maguire
Director

Registered number: 3958217

Intelligent Energy Limited

Statement of changes in equity For the year ended 30 September 2015

	Share Capital £m	Share premium £m	Retained earnings £m	Other Reserves £m	Total £m
At 1 October 2013	1.6	19.7	(91.3)	10.9	(59.1)
Share based payments	-	-	-	5.2	5.2
Loss for the year	-	-	(35.9)	-	(35.9)
At 30 September 2014	1.6	19.7	(127.2)	16.1	(89.8)
Share based payments	-	-	-	2.0	2.0
Loss for the year	-	-	(40.1)	-	(40.1)
At 30 September 2015	1.6	19.7	(167.3)	18.1	(127.9)

Intelligent Energy Limited

Statement of cash flows for the year ended 30 September 2015

	Note	2015 £m	2014 £m
Operating activities			
Loss before tax		(52.0)	(46.8)
Net finance income		(0.1)	(0.3)
		<hr/>	<hr/>
Operating loss		(52.1)	(47.1)
Adjustment for:			
Depreciation of property, plant and equipment	10	3.1	2.3
Amortisation of intangible assets	11	1.7	0.7
Share based payments	21	2.0	5.2
Working capital adjustments:			
Increase in inventories		(2.0)	(2.6)
Decrease/(increase) in trade and other receivables		0.5	(6.8)
(Decrease)/increase in trade and other payables		(2.7)	107.0
Tax credit received		5.1	3.8
		<hr/>	<hr/>
Net cash flow from operating activities		(44.4)	62.5
		<hr/>	<hr/>
Investing activities			
Interest received		0.4	0.3
Sale/(purchase) of short term deposits		39.3	(42.8)
Payments to acquire property, plant and equipment	10	(3.1)	(3.8)
Payments to acquire intangible assets		(14.0)	(2.4)
		<hr/>	<hr/>
Net cash flow from investing activities		22.6	(48.7)
		<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents		(21.8)	13.8
Cash and cash equivalents at beginning of period		44.8	31.0
		<hr/>	<hr/>
Cash and cash equivalents at year end	16	23.0	44.8
		<hr/>	<hr/>

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

1. Authorisation of financial statements

The financial statements of Intelligent Energy Limited (the "Company") for the year ended 30 September 2015 were authorised for issue by the board of directors on 27 November 2015 and the statement of financial position was signed on the board's behalf by John Maguire. Intelligent Energy Limited is a limited company incorporated and domiciled in England and Wales.

The Company's financial statements have been prepared under a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 30 September 2015 and applied in accordance with the Companies Act 2006.

Going concern

The Company's business activities together with factors likely to affect its future development are set out in the strategic report. The Company meets its day-to-day working capital requirements through its cash resources. The current position of the Company and its development plans result in cash consumption for the foreseeable future.

As detailed above the business has plans for significant expansion. The cash balance at the year end of £26.5m is not sufficient to allow the Company to implement its business plan without additional funding. The Group intends to raise additional funds through a two tier process. Both transactions are consistent with the Group's objective of protecting existing shareholders. Firstly, this involves a proposed issue of a convertible instrument to industrial partners. Secondly, there is significant value in aspects of the Group's DP&G Indian operations and therefore Jefferies, the investment bank, has been appointed to assist the Group in realising some of this value to finance its current and future growth plans. As a result the Board have sufficient reason to believe that additional funding will be forthcoming within the required time frame to support the planned expansion of the business.

The Board have also carefully considered the Company's position in the event that the additional financing to fund the planned expansion is not forthcoming. In that scenario, the Board is satisfied that they retain sufficient discretion over costs linked to expansion plans, and the ability to manage the business in a way which allows it to fulfil its appropriate commitments and settle its obligations as they fall due.

The Company had net current liabilities of £173.4 million at the reporting date reflecting amounts payable to its parent undertaking Intelligent Energy Holdings plc of £213.8 million. However the Directors have received confirmation from Intelligent Energy Holdings plc that it will continue to provide financial support to the Company for the foreseeable future to ensure it can pay its debts as they fall due.

2. Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2015 and have, unless stated otherwise, been applied consistently to all periods presented in these financial statements. The Company financial statements have been prepared on a historical cost basis, except where measurement of a balance at fair value is required, as explained below.

The financial statements are presented in Sterling and all values are rounded to

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

the nearest one hundred thousand pounds except when otherwise indicated.

3. Significant accounting estimates and assumptions *(continued)*

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

Key sources of estimation uncertainty

Contract revenues

The Company measures revenues on provision of engineering services contracts using the stage of completion method, to ascertain the appropriate revenue to recognise during a contract. Estimating the stage of completion is measured by reference to the contract costs incurred as a percentage of total estimated cost.

Share-based payments

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 21.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Development costs

Development costs are capitalised in accordance with the accounting policy in note 4. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. The Directors have specifically assessed the position of the development of the 305 modular fuel cell systems deployed to India during the financial year with reference to the timing of a first commercial customer order. During the year the Company received orders from its fellow group undertaking, Essential Energy, for 305 modular fuel cell systems to be deployed on the telecom tower sites where energy management services are being provided. This is considered to be the first commercial customer order for the product and therefore development costs of the 305 modular fuel cell systems have been recognised within intangible assets. The carrying amount of capitalised development costs at the end of the year is £2.0 million (2014: £nil).

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

3. Significant accounting estimates and assumptions *(continued)*

Key sources of estimation uncertainty (continued)

Deferred tax assets

The recognition of deferred tax assets relating to the carry forward of unused tax losses and unused tax credits requires the assessment of the extent to which it is probable that future taxable profits will be available against which the unused tax losses and tax credits can be utilised. Given the history of tax losses of the Company, it is required that there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised. This requires judgement on the part of the directors.

The directors have therefore assessed whether, in their opinion, the recovery of the deferred tax assets is probable, and whether convincing evidence exists to justify this assessment. This assessment is based on the forecasts for the business, which are in turn based in part on known advances in the commercial viability of the Company. These forecasts indicate sufficient future UK taxable profits to utilise the accumulated tax losses. Accordingly the directors have concluded that the utilisation of the accumulated tax losses is both probable and supported by convincing evidence.

4. Accounting policies

The accounting policies which follow set out the significant policies which apply in preparing the financial statements for the year ended 30 September 2015.

Consolidation

The Company is a wholly owned subsidiary company of Intelligent Energy Holdings plc. The Company is exempt, under s400 of the Companies Act 2006, from the obligation to prepare consolidated financial statements as the Company is a wholly owned subsidiary undertaking of a parent Company incorporated in the EU, which prepares consolidated financial statements. As such, these financial statements present information about the Company as an individual undertaking and not about its group.

Revenue recognition

The Company generates revenue principally through the sale of hydrogen fuel cell and hydrogen generation products (sale of goods), consultancy for technology and product development (provision of engineering services) and the sale of access to our intellectual property. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and receivable revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sale taxes or duty. The following criteria must also be met before revenue is recognised:

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

4. Accounting policies (continued)

Revenue recognition (continued)

Provision of engineering services

Consultancy for technology and product advancement revenue is recognised by reference to the stage of completion. Stage of completion is measured by reference to the cost of labour hours and materials incurred to date as a percentage of total estimated costs of labour hours and materials for each contract. Past experience has shown costs incurred to be the best measure of progress. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

When contracts are extended or combined the total consideration received is merged, and the revenue recognised over the full revised contract.

Access to intellectual property

Where elements of contract revenue can be separately identifiable, these revenues are spread across the substantive delivery period for these elements. Where multiple element contracts are entered into and the constituent parts do not stand alone, all revenues are spread over the contract.

Sale of goods

Fuel cell and hydrogen generation product revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of goods.

Public body funded work

Project work is undertaken for public bodies where such work is of benefit to the Company's ongoing research and development activities. The Company measures revenues on such contracts using the stage of completion method, to ascertain the appropriate revenue to recognise during a contract. The stage of completion is measured by reference to the cost incurred as a percentage of total estimated cost.

Intangible assets

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives as follows:

- patents: 15 to 20 years
- development expenditure: 5 to 15 years
- software: 3 to 5 years

Amortisation commences when the asset is fully constructed and operational with no amortisation charged on assets under the course of construction.

Patents

Patents have been granted on intellectual property rights for a period of 15 to 20 years by the relevant government agencies in countries where patents are applied for. Each patent application is carried at cost less accumulated

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

amortisation and accumulated impairment losses.

4. Accounting policies (continued)

Intangible assets (continued)

Patents (continued)

The carrying values of patents are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Patent renewal fees are taken to the income statement in the year in which they are incurred.

Development costs

Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred (research costs are expensed as incurred).

Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after all the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed; and
- the correlation between development costs and future revenues has been established.

Development expenditure for a new product which represents an entry into a new market is only recognised as an intangible asset from after the date that a first commercial customer order is received as in the opinion of the Directors it is not until this time that commercial viability is established.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales.

Research and development costs recognised as an expense in the income statement have been disclosed separately below gross profit, as these costs are not directly related to sales activity.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

4. Accounting policies (*continued*)

Property, plant and equipment (*continued*)

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life to its residual value, as follows:

- Plant, machinery and equipment – 3 and 5 years
- Office equipment, fixtures and fittings – 3 years

Depreciation commences when the asset is fully constructed and operational with no depreciation charged on assets under the course of construction.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at re-valued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

4. Accounting policies (*continued*)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- Raw materials and goods for resale: purchase cost on a first-in, first-out basis
- Work in progress and finished goods: cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Obsolete and defective inventory is impaired to its estimated recoverable amount.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at discounted cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being less than likely.

Trade and other payables

Trade and other payables are stated at cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

Cash and cash equivalents and short term deposits

Cash and cash equivalents includes cash in hand, deposits held with banks and other short term highly liquid investments with original maturities of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents defined above, net of outstanding bank overdrafts.

The Company considers all bank deposits with original maturity dates of greater than three months and maturing in less than one year to be short term deposits.

Financial assets

The classification of financial assets depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. "Accounts receivable", "cash and cash equivalents" and "short term deposits" are classified as "Loans and receivables".

Loans and receivables are measured initially at fair value and then subsequently measured at amortised cost.

Interest income is recognised as it accrues using the effective interest rate basis.

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

4. Accounting policies (*continued*)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

De-recognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Share capital

Ordinary shares are classed as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share-based payments

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002 that had not vested before 1 October 2005, is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model, further details of which are given in note 21.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Notes to the annual financial statements

30 September 2015

4 Accounting policies *(continued)*

Share-based payments *(continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Equity instruments

A contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument.

Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

Interest income

Interest income is recognised as it accrues using the effective interest rate basis.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date. Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions: where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

4 Accounting policies (continued)

Income taxes (continued)

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date. Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Research and development tax credit

Claims for tax credits in respect of research and development expenditure incurred are recognised when amounts due can be estimated with a high level of certainty.

Finance Bill 2013 research and development expenditure credit

The Company is claiming research and development expenditure credits on qualifying costs under the legislation in the Finance Bill 2013. The credit is recognised in cost of sales in the period in which the related costs for which the credit is intended to compensate are incurred.

Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Investment in subsidiaries

The Company recognises its investments in subsidiaries at cost. The investment is reviewed on an annual basis to determine whether the carrying amount is recoverable.

Pensions and other post retirement benefits

The Company operates a Defined Contribution scheme. This is a pension scheme that has an agreed contribution rate from the employee and employer. Contributions are known and agreed in advance. The scheme consists of a grouping of individual pension contracts. Each employee owns their own contract, which benefits from the discount available to the Company, in which they can plan and save towards an optimum pension income in their retirement.

Provisions

Provision for contingent consideration is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured as the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the annual financial statements

30 September 2015

4 Accounting policies *(continued)*

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted by the Company

The following standards and amendments are applicable to the Company and have been adopted as they are mandatory for the year ending 30 September 2015:

- IFRS 12 Disclosure of Interests in Other Entities: This is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated "structured entities". Disclosures are presented in note 12 of these financial statements. This standard is required to be adopted with IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements, which have no impact on the financial statements.
- Amendments to IAS 36 Impairment of assets and recoverable amount disclosures for non-financial assets: The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The adoption of this amendment has had no significant impact.
- Amendment to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of this amendment has had no significant impact.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 October 2014 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company except the following set out below:

- IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not subsequently recycled to profit and loss.

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

4 Accounting policies (continued)

Changes in accounting policy and disclosures (continued)

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted subject to EU endorsement. The Company is yet to assess the full impact of IFRS 9.

- IFRS 15, Revenue from contracts with customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

5. Revenue

	2015 £m	2014 £m
Provision of engineering services	5.9	8.6
Sale of goods	0.4	0.1
	<hr/>	<hr/>
	6.3	8.7
	<hr/>	<hr/>

The activity of the Company is the commercialisation of fuel cell and hydrogen generation technology. The Company generates revenues principally through the sale of hydrogen fuel cell and hydrogen generation products (sale of goods), consultancy for technology and product advancement (provision of engineering services) and the sale of access to its intellectual property.

The aggregate amount of cost of sales incurred amounts to £5.5 million (2014: £5.2 million) with gross profits amounting to £0.8 million (2014: £3.5 million). Amounts of advances are included in deferred revenue below. There are no retentions in respect of rendering of services.

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

	2015 £m	2014 £m
Deferred revenue		
At 1 October	1.3	1.0
Increase in deferred revenue during the year	0.2	0.3
	<hr/>	<hr/>
At 30 September	1.5	1.3
	<hr/>	<hr/>

Deferred revenue refers to customer prepayments received on long term projects. It is included in trade and other payables (note 17).

	2015 £m	2014 £m
Accrued revenue		
At 1 October	0.9	1.6
Decrease in accrued revenue during the year	-	(0.7)
	<hr/>	<hr/>
At 30 September	0.9	0.9
	<hr/>	<hr/>

Accrued revenues relates to payments not yet received on long term projects. It is included in trade and other receivables (note 14).

6. Expenses by nature

The operating loss is stated after charging/(crediting):

	2015 £m	2014 £m
Staff costs (note 8)	25.1	25.5
Depreciation and amortisation	4.8	3.0
Costs of inventories recognised as an expense	2.9	2.5
Legal and professional costs	2.5	1.3
Operating lease charge	1.5	0.9
Inventory write-down	1.5	1.6
Capitalised staff costs	(1.7)	(0.3)
Research and development expenditure credit	(0.4)	(0.7)
	<hr/>	<hr/>

7. Auditor's remuneration

	2015 £000	2014 £000
Audit of financial statements	52	50
	<hr/>	<hr/>

The Company is not required to disclose separately information about fees for non-audit services provided to the Company because the consolidated financial statements of the Company's parent, Intelligent Energy Holdings plc, disclose such fees on a consolidated basis.

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

8. Employees and directors emoluments

(a) Staff costs

	2015 £m	2014 £m
Wages and salaries	20.2	16.8
Share-based payments (see note 21)	2.0	5.2
Social security costs	2.3	2.8
Pension	0.6	0.7
	25.1	25.5

The monthly average number of employees, including directors during the year was as follows:

	2015 Number	2014 Number
Research and development	100	104
Operations and application engineering	175	160
Corporate and commercial	82	55
	357	319

(b) Directors' emoluments

	2015 £000	2014 £000
Aggregate emoluments	828	719
Company contributions to money purchase pension schemes	23	5

Three directors (2014: three directors) are entitled to receive shares in the parent company, Intelligent Energy Holdings plc, under long term incentive schemes. Three directors (2014: three director) are accruing benefits under a company money purchase pension scheme.

The amounts in respect of the highest paid director are as follows:

	2015 £000	2014 £000
Aggregate emoluments	407	266
Company contributions to money purchase pension schemes	10	1

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

9. Income tax

(a) Tax credit in the income statement

UK income tax	2015 £m	2014 £m
<i>Current income tax</i>		
Research and development tax credit in respect of current year	(4.7)	(3.4)
Research and development tax credit in respect of prior years	(1.6)	(0.3)
Total current income tax	(6.3)	(3.7)
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(6.8)	(7.1)
Adjustments to prior years	1.2	(0.1)
Total deferred tax	(5.6)	(7.2)
Income tax credit reported in the income statement	(11.9)	(10.9)

(b) Factors affecting current tax charge

The tax assessed on the loss before tax for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20.5% (2014: 22%). The differences are reconciled below:

	2015 £m	2014 £m
Loss before tax	(52.0)	(46.8)
Loss before tax multiplied by standard rate of corporation tax in the UK of 20.5% (2014: 22%)	(10.7)	(10.3)
Expenses not deductible for tax purposes	0.7	0.7
Research and development enhanced super deduction net of research and development tax credit in respect of current year	(1.8)	(0.7)
Adjustment in respect of prior years	(0.4)	(0.5)
Current year losses net of recognition of tax effect of previously unrecognised tax losses	0.3	(0.1)
	(11.9)	(10.9)

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

9. Income tax (continued)

(c) Deferred tax

Deferred tax assets are attributable to the following:

	2015 £m	2014 £m
Accelerated capital allowances	(1.3)	(1.2)
Tax losses carried forward	22.6	16.7
Other timing differences	0.6	0.8
	<hr/>	<hr/>
Deferred tax asset	21.9	16.3
	<hr/>	<hr/>

Movement in deferred tax balances during the year:

	Balance at beginning of year £m	Recognised in income statement £m	Recognised in equity £m	Balance at end of year £m
2015				
Accelerated capital allowances	(1.2)	(0.1)	-	(1.3)
Tax losses carried forward	16.7	5.9	-	22.6
Other timing differences	0.8	(0.2)	-	0.6
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred tax asset/(liability)	16.3	5.6	-	21.9
	<hr/>	<hr/>	<hr/>	<hr/>
2014				
Accelerated capital allowances	(0.7)	(0.5)	-	(1.2)
Tax losses carried forward	9.8	6.9	-	16.7
Other timing differences	-	0.8	-	0.8
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred tax asset	9.1	7.2	-	16.3
	<hr/>	<hr/>	<hr/>	<hr/>

There are no temporary differences associated with unremitted earnings of subsidiaries.

(d) Factors which may affect future tax charges

The trading losses referred to above will be available for offset against future profits of the same trade, assuming there is no major change in the trade's nature or conduct. The Company will continue to claim research and development tax relief where it is eligible to do so. Future tax charges will be affected by government changes to the standard rate of corporation tax in the UK.

Intelligent Energy Limited

Notes to the annual financial statements

30 September 2015

9. Income tax (continued)

On 8 July 2015 the Chancellor announced that the rate of corporation tax will decrease to 19% from 1 April 2017 and to 18% from 1 April 2010. As these tax rates were not substantively enacted at the statement of financial position date, the rate reduction is not yet reflected in these financial statements in accordance with IAS 12. Deferred tax assets and liabilities at 30 September 2014 and 30 September 2015 have been recognised at the 20% tax rate.

The future rate change to 18% is estimated to give rise to a reduction in the Company's deferred tax asset of £2.2 million during the next financial year, with the full amount being charged to the income statement. The actual impact will be dependent on the Company's deferred tax position at that time.

10. Property, plant and equipment

	Plant, machinery and equipment £m	Office equipment, fixtures and fittings £m	Total £m
Cost:			
At 1 October 2013	9.6	1.6	11.2
Additions	3.6	0.2	3.8
At 30 September 2014	13.2	1.8	15.0
Additions	2.9	0.2	3.1
At 30 September 2015	16.1	2.0	18.1
Depreciation:			
At 1 October 2013	5.1	0.9	6.0
Depreciation charge for the year	1.9	0.4	2.3
At 30 September 2014	7.0	1.3	8.3
Depreciation charge for the year	2.7	0.4	3.1
At 30 September 2015	9.7	1.7	11.4
Net book value:			
At 30 September 2015	6.4	0.3	6.7
At 30 September 2014	6.2	0.5	6.7
At 30 September 2013	4.5	0.7	5.2

The cost of plant, machinery and equipment at 30 September 2015 includes £2.6 million (2014: £1.4 million) of assets in the course of construction.

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

11. Intangible assets

	Development Costs £m	Patents £m	Software £m	Total £m
Cost:				
At 1 October 2013	-	2.4	2.3	4.7
Additions	-	1.6	0.8	2.4
At 30 September 2014	-	4.0	3.1	7.1
Additions	2.0	13.6	1.0	16.6
At 30 September 2015	2.0	17.6	4.1	23.7
Amortisation:				
At 1 October 2013	-	0.8	1.0	1.8
Amortisation charge for the year	-	0.2	0.5	0.7
At 30 September 2014	-	1.0	1.5	2.5
Amortisation charge for the year	-	0.8	0.9	1.7
At 30 September 2015	-	1.8	2.4	4.2
Net book value:				
At 30 September 2015	2.0	15.8	1.7	19.5
At 30 September 2014	-	3.0	1.6	4.6
At 30 September 2013	-	1.6	1.3	2.9

The cost of software at 30 September 2015 includes £nil (2014: £0.8 million) of assets in the course of construction.

Intelligent Energy Limited

Notes to the annual financial statements 30 September 2015

12. Investment in subsidiary undertakings

	Investments £m
Cost:	
At 1 October 2013, 30 September 2014 and 30 September 2015	12.2
Provision:	
At 1 October 2013, 30 September 2014 and 30 September 2015	(12.2)
Net book value:	
At 30 September 2015	-
At 30 September 2014	-

Details of investments at 30 September 2015 in which the Company holds 20% or more of the nominal value of ordinary share capital are as follows:

Subsidiary	Country of Incorporation	Proportion of voting rights and shares held	Nature of business
Advanced Power Sources Ltd	England and Wales	100%	Dormant
Intelligent Energy Inc	USA	100%	Fuel processing system development and partnering activities in the US including marketing IE fuel cell power systems in the USA.
Intelligent Energy (Proprietary) Ltd	South Africa	100%	Dormant
MESOfuel Inc	New Mexico, USA	100%	Dormant

13. Inventories

	2015 £m	2014 £m
Raw materials	3.0	3.2
Finished goods	3.1	0.9
	6.1	4.1

The difference between purchase price or production cost of inventories and their replacement cost is not material. The cost of inventories recognised as an expense and included in the income statement amounted to £2.9 million (2014: £2.5 million). The Company recognised an inventory write down of £1.5 million within research and development costs (2014: £1.6 million).

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14. Trade and other receivables

	2015 £m	2014 £m
Trade receivables	1.7	0.9
Less: Provision for impairment	(-)	(0.1)
Trade receivables (net)	1.7	0.8
Amounts due from group undertakings	8.5	7.5
Other debtors	0.9	0.7
Prepayments and accrued income	1.7	4.1
	12.8	13.1

Trade receivables are denominated in sterling, are non-interest bearing and are generally on 30 to 90 days' terms.

The Company's credit risk is predominantly with major multinational original equipment manufacturing companies, based in Europe and Japan. Concentration of credit risk arises from major customers in Europe and Japan and from a significant amount of cash funds that are placed with a number of the major UK clearing banks. The Company only places cash deposits with banks with investment credit rating in accordance with the Company's treasury policy. The Company seeks to diversify exposure such as concentration with funds on deposit with an individual bank at any time not exceeding a predetermined amount.

The carrying amount of the financial assets represents the maximum credit exposure.

As at 30 September, the analysis of trade receivables that were past due, but not impaired is as follows:

	Total £m	Neither past due nor impaired £m	<30 days £m	30-60 days £m
2015	1.7	1.4	-	0.3
2014	0.8	0.5	0.3	-

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to historical information relating to counterparty default rates.

As at 30 September the aged analysis of trade receivables impaired is as follows

	Total £m	< 6 months £000	Over 6 months £000
2015	-	-	-
2014	0.1	-	0.1

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14. Trade and other receivables (continued)

The movement on the provision for impairment of trade receivables is as follows:

	2015 £m	2014 £m
At 1 October	0.1	-
Provision for receivables utilisation	(0.1)	0.1
At 30 September	-	0.1

The carrying value of the Company's trade and other receivables of £12.8 million are all denominated in UK Pounds (2014: £13.1 million in UK Pounds)

15. Short term deposits

	2015 £m	2014 £m
Short term bank deposits	3.5	42.8

The effective interest rate on short term deposits at the year end was 0.45% (2014: 0.87%) and these deposits have an average maturity of 92 days (2014: 146 days). Short term bank deposits include restricted bank deposits of £3.5 million at 30 September 2015 (2014: £nil), held as security in relation to trading activities of a fellow group undertaking in India and is pledged until the maturity of the associated contract in December 2015.

16. Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	23.0	44.8

Cash at bank earns interest at floating rates based on bank deposit rates. Deposits are made for varying periods dependent on the immediate cash requirements of the Company. The Company only deposits cash surpluses with major banks in line with the Company's treasury policy.

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17. Trade and other payables

	2015 £m	2014 £m
Trade payables	1.1	4.2
Amounts owed to the parent undertaking	213.8	214.6
Amounts owed to other group undertakings	0.6	0.4
Accruals and deferred income	7.4	6.4
	<u>222.9</u>	<u>225.6</u>

Amounts owed to the parent undertaking arise from financing and are repayable on demand. Amounts owed to other group undertakings arise as a result of trading, and are repayable on demand.

18. Provisions

	Contingent consideration £m
At 1 October 2014	-
Arising on BIC asset acquisition	2.7
Unwinding of discount	0.4
Exchange difference	(0.1)
	<u>3.0</u>
At 30 September 2015	

Contingent consideration is payable in relation to the assets acquired from Soci t  Bic (S.A.) ('BIC') as detailed in note 24. The liability is payable in US Dollars and has been re-measured using the exchange rate at 30 September 2015 and discount rate of 14.6%.

19. Issued share capital

	2015 £m	2014 £m
<i>Issued, called up and fully paid</i>		
32,421,048 Ordinary shares of 5p each	1.6	1.6
	<u>1.6</u>	<u>1.6</u>

Holders of the ordinary shares are entitled to receive dividends and other distributions and to attend and vote at any general meeting.

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20. Reserves

Share premium

The balance classified as share premium relates to the total net proceeds less nominal value of shares on issue of the Company's equity share capital.

Other reserves

The balance classified as other reserves mainly relates to a merger reserve created on the acquisition of Advanced Power Sources Limited. The balance of other reserves also contains the amounts relating to share based payments.

21. Share-based payment plans

An expense of £2.0 million (2014: £5.2 million), wholly relating to equity-settled share-based payment transactions, was recognised during the year.

The Company's parent undertaking, Intelligent Energy Holdings plc, has issued a number of share based payment plans to the Company's employees including share options and share awards as described below.

2001 and 2009 Share Option Schemes

The exercise price of the options are fixed and determined on the date of the grant. The option holders have the option to purchase ordinary shares at the option price between the exercise dates. The fair value of the options is estimated at the grant date using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is varied. The schemes are settled by Intelligent Energy Holdings plc by issuing options in its ordinary shares and is therefore an equity-settled share based payment. There are no cash settlement alternatives.

The 2009 Share Option Scheme is subject to specific performance criteria.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, the share options during the year in relation to the 2001 and 2009 Share Option Schemes:

	2015 No.	2015 WAEP Pence	2014 No.	2014 WAEP pence
Outstanding at 1 October	2,970,600	92	3,725,379	96
Exercised during the year	(212,552)	80	(146,865)	92
Expired during the year	(2,445,548)	88	(607,914)	115
Outstanding at 30 September	312,500	133	2,970,600	92
Exercisable at 30 September	312,500	133	2,970,600	92

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21 Share based payment plans *(continued)*

At 30 September 2015, the weighted average remaining contractual life outstanding for the 2001 and 2009 schemes' share options is 0.98 years (2014: 1.28 years). The weighted average share price at the date of exercise was 89p. There were no options granted during the current or prior year. The range of exercise prices for options outstanding at the end of the year was 80p to 150p (2014: 80p to 150p).

The Company has taken advantage of the exemption in IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only to those equity-settled awards granted after 7 November 2002.

The following inputs were used in a Black-Scholes model to estimate the value of the options at grant date for the 2001 and 2009 share-based payment plans:

Dividend yield (%)	-
Expected volatility (%)	40%
Risk-free interest rate (%)	0.77%
Expected life of option (years)	2 to 8.5
Weighted average share price (£)	1.00
Model used:	<u>Black-Scholes</u>

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

2013 Management Incentive Plan

The Company's parent undertaking Intelligent Energy Holdings plc (IEH plc) introduced the HM Revenue & Customs approved 2013 Management Incentive Plan ('MIP') during the prior year.

The purpose of the MIP is to provide participants with an opportunity to participate directly in the growth of the value of the Intelligent Energy Group by receiving the MIP award. This allows the participants to share in a pool of value, "the MIP Pool", which is linked to the growth in the value of IEH plc's shares. Participants receive shares and share options if IEH plc is sold, taken over or is floated on a stock exchange ('Exit Event').

Awards were granted to employees under the MIP on 7 March 2014. The admission to the London Stock Exchange in July 2014 was an Exit Event under the conditions of the MIP. The size of the MIP Pool was determined by reference to 16% of the difference between the Offer Price of £3.40 and £2.30.

Intelligent Energy Limited

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21 Share based payment plans *(continued)*

Each participants share of the MIP Pool was converted into the number of shares determined by reference to the Offer Price with the MIP Award vesting as follows:

- One third on the date that the IEH plc's shares are floated on the stock exchange;
- One third on the first anniversary of the date of flotation; and
- One third on the second anniversary of the date of flotation.

During the prior year 750,000 share options were granted and 922,338 shares were awarded to the MIP scheme participants who are employees of the Company.

MIP Share options

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, the share options during the year in relation to employees of the Company who are participants of the MIP:

	2015 No.	2015 WAEP Pence	2014 No.	2014 WAEP Pence
Outstanding at 1 October	750,000	100	-	-
Granted during the year	-	-	750,000	100
Forfeited	(160,000)	100	-	-
Outstanding at 30 September	590,000	100	750,000	100
Exercisable at 30 September	250,000	100	250,000	100

One third of the granted share options (250,000 options) vested on 9 July 2014 on listing of IEH plc on the London Stock Exchange. 170,000 of the remaining options vested on 9 July 2015 but are yet to be delivered to participants. The third tranche of 170,000 share options which are outstanding at 30 September 2015 will vest on the second anniversary of IEH plc listing on the London Stock Exchange.

At 30 September 2015, the weighted average remaining contractual life for the MIP share options outstanding is 8.42 years (2014: 9.42 years). The weighted average fair value of options granted during the prior year, under the MIP, determined by the Monte-Carlo valuation model was 110p per option.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The MIP scheme is equity-settled and the fair value is measured at the grant date.

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21 Share based payment plans *(continued)*

MIP Share awards

The following table illustrates the number (No.) and weighted average fair value (WAFV) at grant date of shares awarded during the year in relation to employees of the Company who are participants of the MIP:

	2015 NO.	2015 WAFV Pence	2014 No.	2014 WAFV Pence
At 1 October	3,644,566	104	-	-
Awarded during the year	-	-	4,566,904	104
Forfeited	(290,924)	104	-	-
Vested	(1,810,898)	-	(922,338)	104
At 30 September	1,542,744	104	3,644,566	104

Share awards were granted on 7 March 2014. On admission of IEH plc to the London Stock Exchange on 9 July 2014 the first tranche of the share award vested with the MIP participants. Part of the first tranche of the share award was modified by IEH plc issuing a reduced number of 922,338 shares to employees of the Company and IEH plc settled a number of share awards in cash instead of facilitating sales of Ordinary Shares under the award.

1,810,898 of the share awards vested on 9 July 2015 but are yet to be delivered to participants. The third tranche of 1,542,744 share awards which are outstanding at 30 September 2015 will vest on the second anniversary of IEH plc listing on the London Stock Exchange and will be equity settled.

The following inputs were used in a Monte-Carlo model to estimate the value of the options and share awards at grant date for the MIP share-based payment plans:

Dividend yield (%)	-
Grant date	7 March 2014
Expected volatility (%)	39.24%
Risk-free interest rate (%)	1.09%
Expected life of option (years)	3
Share price at grant date (£)	2.50
Model used:	Monte Carlo Algorithm

Sharesave plan

A sharesave plan was implemented during the year eligible to all UK employees. Employees participate by making monthly saving contributions over a period of three year, linked to the grant of an option over the Company's shares with an option price at a 20% discount to the market value of the share at grant. 508,679 options were granted under the scheme during the year.

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21 Share based payment plans (continued)

Deferred bonus plan

A deferred bonus plan was implemented during the year. The bonus earned will be delivered in the form of a nil-cost share option award, vesting after a period of two years. Share options under this plan in respect of performance during the current year are granted subsequent to the year end. Therefore at 30 September 2015 there no options have been granted.

22. Commitments and contingencies

Operating lease commitments – Company as lessee

The Company has entered into commercial leases on several properties, a motor vehicle and items of office and laboratory equipment. These leases have an average duration of between less than 1 year and 3 years. The property leases all contain an option for renewal, with such options being exercisable before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 September are as follows:

	2015 £m	2014 £m
Within one year	1.4	1.3
After one year but not more than five years	4.2	4.6
After five years	-	0.3
	<hr/> 5.6	<hr/> 6.2

23. Related-party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 30 September with other related parties, are as follows:

	Sales to related party £000	Purchases from related party £000	Amount owed by related party £000	Amount owed to related party £000
Parent –				
Intelligent Energy Holdings plc				
2015	-	-	-	213.8
2014	-	-	-	214.6
Subsidiaries and related companies				
- Intelligent Energy Holdings (Singapore) Ltd				
- Intelligent Energy Inc				
- Intelligent Energy India Private Ltd				
- Intelligent Energy Japan Limited				
- IE CHP (UK & Eire) Ltd				
- Aquapurum Water Private Ltd				
2015	0.3	3.9	8.6	0.6
2014	-	2.7	7.5	0.4

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Purchases from related parties are for labour and materials supplied to Intelligent Energy Limited by Intelligent Energy Inc, Intelligent Energy Japan Limited and IE India Private Ltd. Sales to related parties are for fuel cells supplied to Essential Energy.

Key management compensation

Key management personnel are deemed to be the directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	2015	2014
	£000	£000
Short term employee benefits	828	719
Post-employment benefits	23	5
Share-based payments	3,047	2,585
Total	3,898	3,309

24. Asset acquisition

On 27 February 2015, the Company entered into a contract to acquire portable fuel cell and disposable fuel cartridge assets and IP from Société Bic (S.A.) ('BIC'). The acquisition complements and extends the Company's existing technology and manufacturing capability for embedding the Company's technology in portable consumer electronic devices.

The acquisition completed on 2 April 2015 with the payment of US\$13 million and a further US\$2 million paid following completion of transition services. Contingent consideration is payable on a potential earn out up to \$7 million. The following table summarises the consideration payable and the assets acquired.

Consideration	£m
Cash (US\$15 million)	10.1
Contingent consideration (fair value of US\$3.94 million)	2.7
Total consideration	12.8
Transaction costs	0.2
Total acquisition cost	13.0
Recognised amounts of assets acquired	
Property, plant and equipment	0.6
Patents	12.4
Assets acquired	13.0

The contingent consideration arrangement requires the Company to pay the former owners an amount based on the quantity of future product sales up to a maximum undiscounted amount of US\$7 million.

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The potential undiscounted amount of all future payments that the Company could be required to make under this acquisition agreement is between US\$nil and US\$7 million.

The fair value of the contingent consideration arrangement at the time of the acquisition of £2.7 million was estimated by discounting the amount potentially payable using a discount rate of 16.3% based on the forecast future revenue from relevant product sales.

25. Ultimate controlling party

The ultimate controlling party and immediate parent of the Company is Intelligent Energy Holdings plc which owns 100% of the ordinary shares in Intelligent Energy Limited. Copies of the financial statements of Intelligent Energy Holdings plc are available from Companies House.