



It's clean
It's versatile
It's the future

2023 Annual Report



Welcome

It's clean, it's versatile it's the future

Our passion for hydrogen as a clean energy source for the future led us to seek an alternative to PEM electrolyzers, which presented adoption challenges. We learned that membrane-free water electrolysis was the cleanest method to produce hydrogen. This approach would reduce environmental impact and offer a more affordable and robust technology.

Our purpose

To reduce the creation of harmful emissions by participating in the growth of the hydrogen economy.

Our vision

To be the leading developer and manufacturer of green hydrogen technologies.

Our values

We value an open, authentic, and inclusive work culture that encourages employee expression and fosters trust, respect, and creativity.

Achievements

- ▶ Successful completion of the Programme Logic Control functional test of the MFE110.
- ▶ Demonstrably capable of successfully producing separated hydrogen and oxygen gases at scale utilising the Company's differentiated technology.
- ▶ 10-year licensing agreement with Fabrum Solutions Ltd, with non-exclusive rights to manufacture and sell membrane-free electrolyzers in New Zealand and Australia.
- ▶ Awarded three ISO certifications recognising CPH2's commitment to the highest standards of health and safety, sustainability and quality management measures within our organisation.

Net Loss after tax

£4.1m

(2022: £3.4m)

Cash and term deposits

£8.5m

(2022: £15.3m)

Net Assets

£21.0m

(2022: £25.1m)

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The outlook for green hydrogen is truly remarkable. CPH2 is advancing towards our strategic goal of achieving 4GW of annual production by the end of 2030 and holds a unique position in the market to meet the increasing demand for reliable, affordable, and sustainable fuel.

Jon Duffy

Chief Executive Officer



Find out more on our website

<https://www.cph2.com/>

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Chairman's Statement

Leading the future of hydrogen

I am delighted to present the Annual Report of Clean Power Hydrogen plc ("CPH2" or the "Company") for the year ended 31 December 2023.

The past 12 months have formed a year that encapsulated significant progress and challenges for CPH2. Our technology, which remains at the heart of what we do, was a key focus as we continued to progress the commercial roll out of our ground-breaking Membrane-Free Electrolyser™ ("MFE"). This focused approach to getting our technology right has put us in a strong position as we enter 2024 and look to target the growing hydrogen market with our unique product.

As we completed CPH2's first full year as a listed entity, what drives us remains the belief that green hydrogen is a significant solution to reducing carbon intensity across a multitude of industries including the transport sector. It is fair to say that the global focus on this has not abated during the year and importantly from a UK Government perspective, there is strong support for our operations. Indeed, this support was felt recently as we had the pleasure of hosting political leaders including Minister for Energy Efficiency and Green Finance, Lord Callanan, and the Rt Hon Edward Miliband, Labour MP for Doncaster North and Shadow Secretary of State for Energy Security and Net Zero.

The green hydrogen market, a truly emerging economy in itself, has battled its own headwinds in the past year. While the IEA pointed to the potential annual low-emission hydrogen production of 38 million tonnes in 2030 being 50% above its 2022 estimate, only 4% of this potential production has taken final investment decision ("FID"). Practical challenges with green hydrogen projects have been widely reported due to technology not being fully robust prior to site deployment, electrolyser reliability and performance issues, as well as commissioning challenges. It is times like these that Government support is crucial in getting projects moving and it has been encouraging to see the US Hydrogen Production Tax Credit, the EU Important Projects of Common European Interest and the UK Low Carbon Hydrogen Business Model address this to some extent.

The strategic position of CPH2 and its technology in the hugely exciting hydrogen market is also a reason to be positive. Our patented and containerised technology offers a mobile and licensable solution that can fit within a huge range of industry solutions. As we sit at the edge of commercialisation, we remain very optimistic of our future and ability to grow into this nascent market.



We retain a strong, active and engaged Board sharing a passion for CPH2 to reach its full potential within the hydrogen economy.



Board and Senior Management

In completing our first full year as a listed Company, I take this opportunity to recognise and thank my fellow Directors for their work over the year. We retain a strong, active and engaged Board, collectively sharing a passion for CPH2 to reach its full potential within the hydrogen economy. With this, our focus on Environmental, Social and Governance (“ESG”) has been of particular importance and we continue to work closely with local communities, educational establishments and charities.

Our Senior Management Team has been strengthened during the period, notably in early 2023 we appointed Chief Technology Officer (“CTO”), Paul Cassidy, whose extensive chemical engineering and licensing knowledge has been a significant catalyst in the successful development of CPH2’s Membrane Free Electrolyser during the year. We continue to take the governance of our Company extremely seriously and strive to improve with every challenge and opportunity that arises.

Outlook

While the past year has been one of good progress, we have also experienced challenges around commercialising our technology. As many who have followed the sector will understand, the complexities of commercialising unique and innovative design are vast but it is encouraging to see that significant progress has been made. The revamped engineering team (see page 6) has injected experience and professionalism into the Company, transforming the quality of engineering output. The levels at which the team have tirelessly worked at overcoming challenges, successfully progressing CPH2’s MFE electrolyser in the year have been truly impressive.

As we look to the future, I know that CPH2 sits in an extremely strong position, poised to realise the significant value within the Company. As we continue on our path to commercialisation and beyond, I would like to thank everyone for their efforts in the past year and to our shareholders who have supported us throughout the period.

Christopher Train
Chair

18 April 2024

Our sustainability framework

Place Environment

CPH2 considers the end-of-life and decommissioning of its MFE technology from the outset. Our focus on component selection and innovative design principles to minimise waste and landfill mean that 98% of materials used are recyclable or reusable, a testament to our commitment to sustainability and drive for resource efficiency.

[Read more on page 14](#)

People Social

We are committed to developing the hydrogen economy in Doncaster and beyond. In close collaboration with local education providers we invest in future skills for the energy transition. We offer apprenticeships and work placements to support the next generation and to increase employment prospects in the region.

[Read more on page 14](#)

Polices & procedures Governance

Establishing responsible business practices is crucial to our long-term success. CPH2 is committed to high standards of governance and compliance, demonstrated by our 2015 quality management (ISO9001), environment (ISO14001), and health and safety standard (ISO45001) accreditation.

[Read more on page 18](#)



Chief Executive's Review

Informing today, transforming for tomorrow

The past year has seen significant progress both operationally and technically for CPH2. Our key focus has been on developing our technology for commercialisation in a safe and scalable manner.

Technology

The catalyst for strong progress and advances on the technology during the year has undoubtedly been the revamped engineering team. During the year the engineering function has been rebuilt into a stronger, more experienced and professional team. This approach has led to a substantial improvement and a methodical approach to identifying solutions to the challenges faced. This has proved to be transformational for our progress on the technology path, and I am continually encouraged and more confident in our path forwards as a result. Refer to Technology Review on page 6.

Throughout the period, there has been extensive testing of the electrolyser units. In November 2023, we successfully ran our development unit, the MFE110, producing separated hydrogen and oxygen gases at its expected capacity, proving the IP-protected technology works at scale. The MFE110 contains 125kW stacks, the same sized stacks which will be used for the MFE220, our commercial 1MW containerised system. As we reported, however, we ceased the full Factory Acceptance Testing ("FAT") when it became apparent that we needed to upgrade the control mechanism and the venting procedures.

Since then, we have been working in conjunction with various third-party experts (including Lagan MEICA Limited and Ceph Controls Limited) and registered bodies to ensure that we not only have a successful FAT on the MFE110 but that we also build in all necessary controls and designs into our commercial flagship product, the MFE220.

While we had originally hoped for a successful FAT at the start of Q2 2024, we now expect this to be completed within the next three months. I am both cognisant and sympathetic to our stakeholders who have been awaiting the FAT, however I firmly believe that our methodical and focused approach to getting our technology right means that we are extremely well positioned to push forward in a meaningful way once commercialisation is achieved.

In the latter stages of 2023, we began work on getting our two proprietary technology components, the stacks and the cryogenic heat exchanger, CE marked. We anticipate these being certified by the end of Q2 2024. We continue to ensure that our technology is protected by both patents and Intellectual Property ("IP"), applying for new patents in multiple jurisdictions.

We are committed to developing a safe, sustainable product and our priority going forward continues to be delivering our MFE technology, reaching commercialisation.

Operational

Earlier in the year, we were awarded three ISO certifications for Occupational Health and Safety (ISO 45001), Environmental Management Systems (ISO 14001), and Quality Management Systems (ISO 9001). The certificates prove our dedication to upholding the highest standards of health and safety, sustainability, and quality management measures in the business.

Commercial update

We are in a strong position commercially, with the Company's pipeline and order book expected to grow further following the successful commercialisation of our technology. We continue to work in tandem with our licence partners and customers. Through our differentiated commercial strategy we are aiming for 3GW of annual production through licensing and 1GW of production through manufacturing at CPH2 facilities. Our unique and patented technology allows us to expand production quickly, utilising partners, with limited capital outlay through such deals.

During the reporting period, CPH2 achieved a significant milestone by entering into a ten-year licensing agreement with Fabrum, an energy company specialising in cryogenics. Under this strategic agreement, Fabrum gains rights to manufacture MFEs at their facility in Christchurch, New Zealand. Additionally, the licensing deal extends to a non-exclusive sales licence for both Australia and New Zealand. Fabrum can market and distribute these electrolysers in these regions, contributing to the adoption of green hydrogen technology.

Fabrum will manufacture electrolysers either in response to CPH2 orders or independently for their own sales. This adaptability ensures efficient production and timely delivery to meet market demands.



“
2024 will be a truly transformational year for CPH2 as we look to commercialise our technology.”

CPH2 also has a licensing agreement with KCA Deutag for the manufacture of MFE units in their Bad Bentheim facility in Germany. They will produce for orders from CPH2 as well as their own customers. Following the initial two-year period, they will also be able to manufacture in Oman, and sell exclusively to certain countries in the Middle East up to 2GW over a ten-year period. They will also manufacture and sell, on a non-exclusive basis, to their customers in Germany, Scotland, Denmark, and Azerbaijan up to 150MW per annum.

We are in advanced discussions with a number of potential partners for both new licences and orders.

People

Our people remain central to the future success of the business. During the year we have focused on growing our engineering and production capabilities under the excellent guidance of Paul Cassidy, who joined in March 2023 as CTO, and Arash Selahi, COO. There is a strong emphasis on promoting a positive health and safety culture at every level of the organisation, with a strong emphasis on open communication and engagement. During 2023 there was 0.5 days in lost time incidents. We are at the cutting edge of green hydrogen production and are proud of the expertise and knowledge we hold within the business backed up by a culture of innovation, passion, inclusiveness, and sincerity.

Market

The outlook for green hydrogen remains exceptionally promising, with an estimated \$1.7 trillion in global investments into electrolyzers over the next 27 years¹. Global warming and energy security are still two of the most pressing issues we face, and with the need to reach net-zero targets becoming ever-closer, our technology is well positioned alongside the wider sector to help reach these goals.

The global consulting business, McKinsey and Company, predict that clean hydrogen demand could reach 585 million tonnes per annum by 2050. This is testament to why getting our technology right now is far more important than ever.

CPH2 occupies a distinctive position to meet the growing demand for reliable, affordable, and sustainable fuel and we are committed to making a positive impact to benefit all. Our strategic aim is to have 4GW of annual production by the end of 2030. Our patented technology means we can licence our production to third parties. Of the 4GW, we expect 1GW will be manufactured by CPH2 and 3GW will be manufactured under licence.

Outlook

2024 will be a truly transformational year for CPH2 as we look to commercialise our technology. The upcoming FAT of the MFE110, has become an important milestone for our stakeholders. Following this, the focus will shift to the completion of the MFE220 orders already under contract. Once we have demonstrated that our MFE technology operates effectively, we will look to commercialise our technology, building the customer order book and focusing on scaling production. That is when our dual model of production and licensing will start to prove itself. We will only scale at a pace that is truly sustainable.

Looking to this year, 2024 will be about building solid foundations to include supply, engineering, production, finance, sales and marketing. The long-term possibilities for CPH2 are too significant to risk on short-term expediency. To put McKinsey's demand projection of 585 million tonnes of clean hydrogen annually into context – that is the equivalent of over 3.5 million 1MW electrolyzers.

I would like to thank our incredible team at CPH2 for their hard work, dedication and enthusiasm over the past year and look forward to a positive year ahead. I would also like to thank our shareholders for supporting our vision to improve the world we live in and make tangible steps towards net-zero.

Jon Duffy
Chief Executive Officer

18 April 2024

¹ Goldman Sachs, “Carbonomics”, 2022

Technology Review

Tackling global challenges with our technology, skills and insights

Introduction

Technologically, we have made extensive progress throughout the period, overseen by Paul Cassidy, who joined as CTO in March 2023. Paul's wealth of knowledge and track record of scaling up technologies from the laboratory to implementation at a commercial scale has been an asset to the CPH2 team and by challenging the previously held collective understanding of the technology, this has led to critical assessment and improvements in many areas. The appointment of Paul has seen CPH2 build a stronger, more experienced engineering team with excellent industry experience and professional standards, accelerating our internal engineering procedures, commissioning processes and safety standards.

A diversity of new experience and new ideas within our engineering team has led to new R&D innovations and opportunities for efficiencies, enhancing our technology pathway. Throughout the period, we have improved the product design programme with a better understanding of levels of safety. The revamped team also identified potential issues and bottlenecks in relation to the balance of plant which the Company was not previously aware of, all of which have been or are being resolved. By encouraging innovative and collaborative thinking, we have created a stronger, more robust electrolyser design which underscores our confidence in the technology and the potential of its future.

Progress during the year

Tangible progress has been made throughout the year, with our entire MFE110 system successfully running from September to November 2023, producing separated hydrogen and oxygen gases. The MFE110 contains 125kW stacks, the same sized stacks that will be used for the MFE220. The efficient operation of these stacks has inspired further opportunities for improvements to the balance of plant design to support higher performance for the stacks and ultimately more output.

The ongoing commissioning process has given extensive operability and design feedback which has led to the redesign of some components. This process has been conducted in a methodical way and gives us confidence in our ability to fully commercialise the MFE.

Although the November 2023 operation proved that the technology route is sound and confirmed the design of key equipment, the level of manual intervention by the operators was greater than a commercial product could sustain, which is intended to operate autonomously. After the testing, a work programme was undertaken to revisit the control system to minimise manual intervention and improve the automated shutdown functions.

Post period end, we completed the functional test of the control programme for the MFE110. This control programme is installed in the Programmable Logic Controller ("PLC") which automatically operates the MFE110 and controls elements such as start-up, normal operation, shutdown, and emergency shutdown. The revision of the control programme, and particularly the safety shutdown programme logic, has addressed the issue which originally caused the pausing of the MFE110 FAT in November 2023, and successful completion of the logic control has allowed the Company to progress to the final stages towards FAT test of the MFE110.

During the year a work programme was undertaken to improve the quality and repeatability of stack manufacture through adjusting the manufacturing method. This has resulted in fewer quality failures and greater repeatability in achieving essential quality parameters. This has been conducted alongside a programme to gain CE certification for the stacks.

In regards to developments in safety, the Hazard and Operability Study ("HAZOP") and Layer of Protection Analysis ("LOPA") has been revisited by independent party and implemented findings.

The implemented changes to the control system of the electrolyser described above ensures compliance with international functional safety standards IEC-61508 and IEC-61511.

A siting study and consequence analysis for the electrolyser has been conducted by an independent third party and the findings have been incorporated into CPH2 safety guidelines.

On the MFE220, the design of the system is being finalised and orders have been placed for remaining equipment. A new container layout has been developed for the MFE220 to assist with improved operability, access and ease of shipping.

The design of cryogenic heat exchanger has been optimised for the MFE220 to improve thermal performance, mechanical robustness, and consistency in manufacture. A CE marking process of the cryogenic heat exchanger component is also being undertaken.

Outlook

Technology is at the heart of what we do. We are striving to deliver the unique Membrane-Free Electrolyser™ which produces green hydrogen in a simple, safe, and sustainable manner, and at any scale. Looking ahead, our focus is on completing the MFE110 FAT proving our ability to deliver a robust, industry-ready commercial product. The MFE110 FAT is a component level demonstration of the MFE220 commercial product which will be delivered to our first customer within the next twelve months.

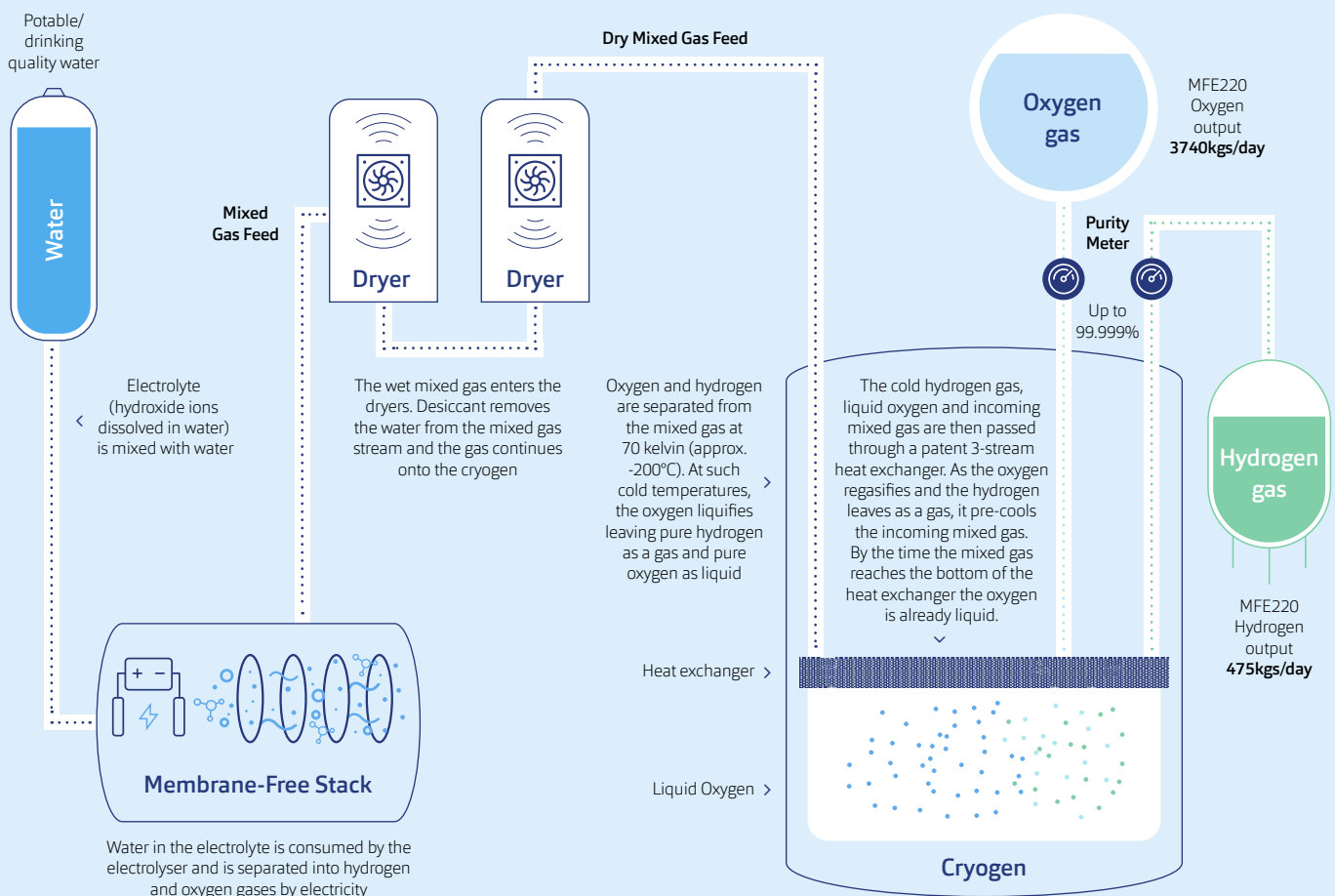
Upon commercialisation of our MFE technology, we will continue to invest in R&D, enhancing the operational efficiencies of CPH2 technology through updates to key stacks and cryogenic heat exchanger components. We will continue to invest in R&D related to safety and progress engineering through roll out of build packs for our licensees.

Our Technology

The technology combines our Membrane-Free Electrolyser™ (MFE) with cryogenic separation to deliver pure hydrogen and pure oxygen as separate gases.

The system is simple, safe and sustainable. Made from readily available, reusable, or recyclable materials, and does not require precious metals such as Palladium or Platinum for membranes or powerful catalysts.

The technology is scalable for a wide variety of applications, and when supplied by renewable electricity, the technology delivers green hydrogen. It's these attributes that make the CPH2 solution the most cost-effective alternative to PEM electrolyzers.



Simple

Simple to build, simple to operate and simple to maintain. It wasn't easy to achieve and has required a huge amount of engineering effort, stubbornness and many years of development.

Safe

Our Membrane-Free Electrolysers™ are safe to operate and do not need to be in clean rooms, they can be situated in a standard production facility.

Sustainable

Not just in the renewable energy powering our efficient systems, but in the selection of widely available components, standard metals, and polymers that we specify for our equipment.

Market Overview

Strong outlook for the nascent hydrogen industry

The outlook for the green hydrogen industry remains strong, with future projections of green hydrogen demand expecting to reach up to 585 million tons per year in global demand by 2050, with scenarios depending on the global response towards achieving net zero. Green hydrogen demand is expected to grow substantially in all scenarios including if the world falls behind in achieving net zero by 2050.

Government support is key for this growth, and we are encouraged by the increasing and tangible support demonstrated for the hydrogen industry. In the UK, the Hydrogen Allocation Rounds, focused on establishing UK hydrogen production, have the ambition of supporting 1GW of hydrogen across three rounds, with successful projects for the first round announced in December 2023. The UK Government has also committed £960m to the Green Industries Growth Accelerator with the aim of supporting UK industries in the supply chain for clean energy, including hydrogen.

This support is replicated, if not more advanced, across the world with the US Government's Inflation Reduction Act of 2022 which has provided strong stimulus to the industry there, the EU's longstanding support for the hydrogen economy and authorisation of €1.7bn for state aid in hydrogen projects, as well as Australia's A\$2bn Hydrogen Headstart Program announced in 2023 to support hydrogen projects up to 1GW, to name a few.

This support is needed whilst the industry is in its relatively early stages. The last two years have seen reports of practical challenges in green hydrogen projects, whether it be technology not being sufficiently robust before being committed to customer sites, commissioning issues, or electrolyzers breaking down or having reliability and performance issues. Whilst this is far from ideal, customers and projects seem to be by and large absorbing this challenge, possibly because the challenges are broadly experienced.

This is natural in a nascent industry but is not helped by the underlying complexity of electrolyser technology as well as the enormous demand awaiting for green hydrogen which may be pressuring companies to act faster than their development pathway allows. The industry experience of the last two years underlines the need to first focus on having mature and robust technology which then can form the basis of commercial acceleration.

At CPH2, we continue to see customer interest in our technology, with the upcoming FAT of the MFE110 being considered as a proof point for customers in our ability to deliver a robust, industry-ready commercial product.

One of CPH2's underlying strengths is our commercial strategy.

One of CPH2's underlying strengths is our commercial strategy in which we pursue a two-pronged strategy of in-house manufacturing as well as licensing to acceptable manufacturing partners. This will allow us to optimise the pace of growth required to meet the commercial opportunities available on a reduced capex and opex basis, whilst meeting more commercial opportunities across the globe through our partners.

With our existing partners we are well positioned to accelerate to scale:

- ▶ Kenera Energy Solutions Limited, a subsidiary of KCA Deutag, has exclusive rights to manufacture and sell electrolysers in the Middle East from Oman and non-exclusive rights to manufacture and sell electrolysers in Germany, Scotland, Denmark, Norway and Azerbaijan from Germany
- ▶ Fabrum Solutions Limited, has non-exclusive rights to manufacture and sell electrolysers in New Zealand and Australia from New Zealand.

Outlook

CPH2 is in a market with excellent growth potential which attracts significant government support. The Company's differentiated technology receives strong interest from customers and with our in-house capabilities as well as support from our licence partners, we are well positioned to scale production to meet customer demand.



Financial Review

2023 was a year of making progress in moving CPH2's technology towards commerciality.

Introduction

During the course of 2023, CPH2 made significant progress in advancing the Company's technology towards a commercial offering. The Group finances were carefully managed to enable the technology to develop at pace, yet the overall spend of the organisation was otherwise controlled to conserve its resources whilst the Company is pre-revenue.

Recognising the importance of ensuring resources are focused and not diluted was also a theme in 2023. Where possible we have aligned our activities around CPH2's core focus. During the year, we negotiated the exit of a contract for delivery of a MFE110 loan electrolyser and a 1MW MFE220 to a customer in Paraguay, upon the Company's decision to focus its engineering and installation resources on its current partners and its long-standing customer Northern Ireland Water. As stated in the Chief Executive's Review (page 4) a conscious decision was made to pause entering into new customer contracts while we focus on moving the technology to being commercially ready.

For the 2023 financial year, administrative expenses of £5.4m increased moderately by £0.6m from the previous year (2022: £4.8m), reflecting 12 months of post IPO expansion (2022: 10 months). Whilst there was a focus recruiting more experienced engineering staff this was moderated by CPH2's expected staff turnover and undertaken in a controlled manner.

Operating loss before tax was £5.4m for the 2023 financial year (2022: £3.8m), reflecting the moderate increase in administrative expenses mentioned above, as well as the one-off exceptional credit of £1m in the comparative year, due to a share-based credit as well as expensed IPO costs as reported last year.

R&D tax credits from the 2023 financial year onwards will be recognised in the year which the credit remains applicable to, whereas up until 2022 R&D tax credits have been recognised only on receipt. This has resulted in the 2023 financial year including a R&D tax credit for expenditure incurred in the 2022 financial year (2022: £0.5m) already received and a R&D tax credit accrued for expenditure incurred in the 2023 financial year.

Capitalised development costs for the year ended 31 December 2023 increased by £2.0m (2022: £4.2m) and there was an increase of £1.6m in spend on plant and equipment (2022: £0.3m) of which £1.0m was in relation to expenditure towards a demonstrator electrolyser. Deferred income has reduced by £0.8m to £1.8m as at 31 December 2023 (2022: £2.6m) on return of certain customer deposits as mutually agreed.



We will continue to ensure that the financial resources are diligently managed and focused on the Company's core priorities.



Cash

We remain in a solid financial position with £8.5m cash and term deposits as at 31 December 2023 (Dec 2022: £15.3m). The net operating cash spend was £2.6m for the year, a 64% reduction compared to the previous year (2022: £7.2m) reflecting a focus on progress with the technology and cost control. Cash spend on investment in development work and patent applications was £2.8m.

Outlook

CPH2 is in a solid financial position with £8.5m in cash and term deposits, and £1.2m liquid investments at 31 December 2023. As we progress our technology in the fastest route to commercialisation, we will continue to ensure that the financial resources are diligently managed and focused on the Company's core priorities.

James Hobson
Chief Financial Officer

18 April 2024

Financial Stats

Cash and term deposits

£8.5m

(2022:15.3m)

Net Loss after tax

£4.1m

(2022:3.4m)

Net Assets

£21.0m

(2022:25.1m)

[Read more on page 34 to 61](#)



Strategy & Business Model

CPH2 is a UK-based technology and manufacturing company focused on the commercial production of green hydrogen in a simple, safe, and sustainable manner using its IP-protected MFE technology. The Company is headquartered in Doncaster, UK, where the site of its current manufacturing and research facilities are located.

We are passionate about green hydrogen as clean energy for the future, and our mission is to become the leading developer and manufacturer of green hydrogen technologies in order to reduce the creation of harmful emissions.

This mission is supported by the Group's value pillars, which it has instilled in the business and its employees, with a focus on acting with integrity, deploying expertise and remaining customer-centric at all times.

The production of hydrogen through our MFE technology is central to the Company's proposition, which has demonstrated cost efficiencies, operational efficiencies and technological advantages over existing alternative hydrogen technology offerings in the sector. In addition, the absence of platinum group metals in the technology solves long-term limitations in terms of cost or supply and reduces the carbon footprint of our technology, an issue faced by many other electrolyser technologies.

Our strategic objective is to deliver the lowest Levelised Cost of Hydrogen ("LCOH") in the market and in relation to the production of green hydrogen, to reach 4GW of electrolyser production by 2030.

We have recognised that the development of green hydrogen globally will be fast-paced, and a substantial industry will be created. Whilst the fast-moving nature of the hydrogen sector presents significant opportunities, it also poses challenges for the Company to stay ahead of the curve.

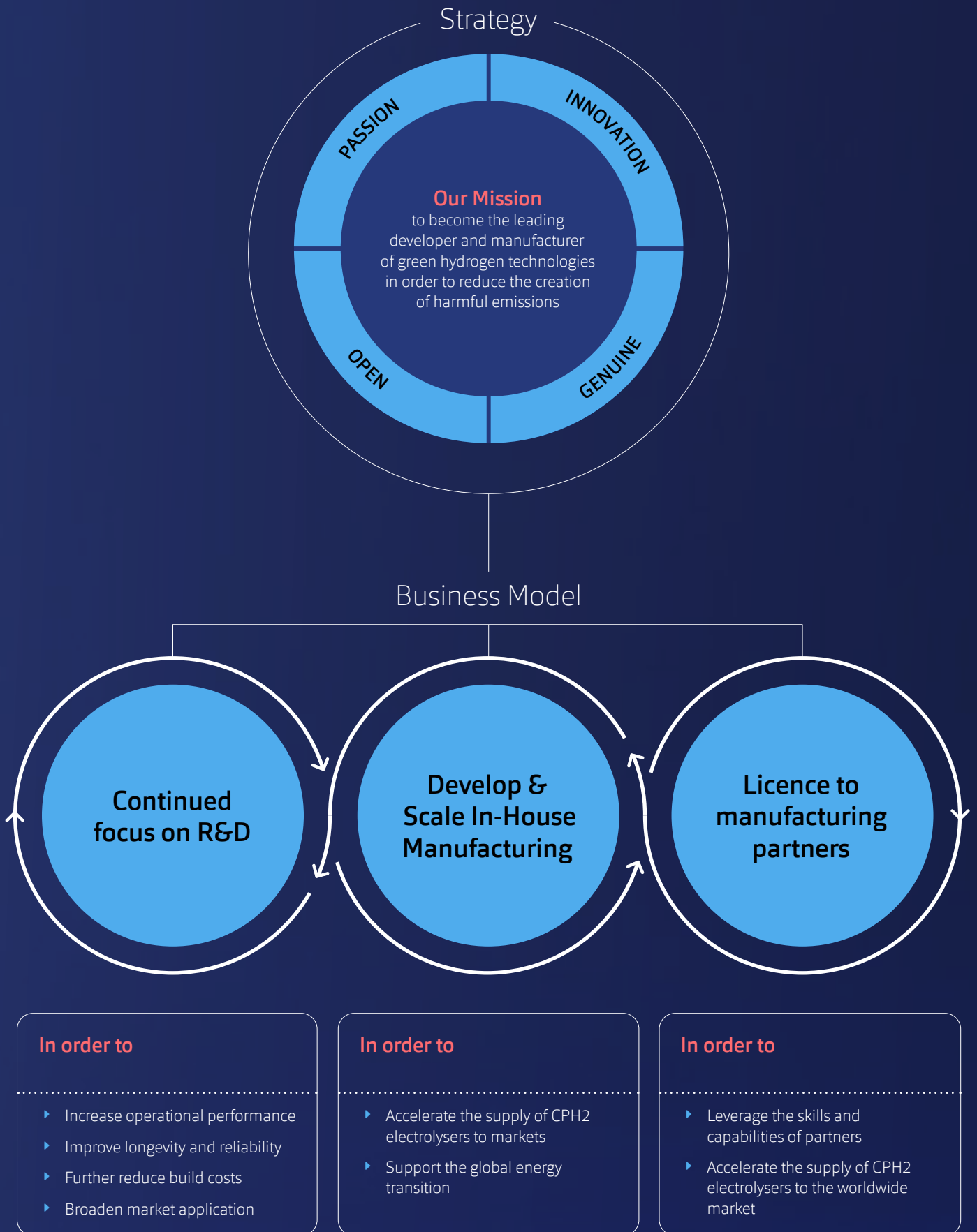
To take advantage of the opportunities, to meet our strategic objectives, and being aware of the challenges in costs and risks in rapid scale-up, our business model is to capitalise on the Company's patent protected, differentiated technology by pursuing a two-pronged commercial strategy - licensing to acceptable manufacturing partners as well as our own in-house manufacturing.

By leveraging the skills and capabilities of partners with substantial experience in manufacturing advanced engineering products, the supply of CPH2 electrolysers to market can be accelerated at a pace not possible were we to manufacture only by ourselves, thus supporting the global energy transition.

In this way we can optimise the pace of growth required to meet the commercial opportunities available on a reduced capex and opex basis which de-risks the scale-up from a cash flow perspective. Risks involved in manufacturing scale up are substantially diversified, geographically and across multiple partners, with CPH2 focused on ensuring quality and reducing build cost through greater economies of scale in the supply chain.

The third key element of our business model is the continued focus on Research & Development ("R&D") to increase operational efficiencies, improve longevity and reliability of our products, and further reduce build costs.

We are passionate about hydrogen as clean energy



Sustainability

At the heart of energy transition

At CPH2, sustainability is a fundamental part of our identity. Our vision is to empower generations with clean energy for the future. This vision is driven by our values and ambitions.

Amidst the escalating concerns surrounding environmental sustainability and the pressing need for a shift towards cleaner energy sources, electrolysis emerges as a pivotal technology, poised to reshape the energy sector. Our unique MFE technology produces green hydrogen which accelerates the energy transition required to reach our net zero goals.

As a Company with high-growth ambitions by pursuing the decarbonisation of the energy system, our intention is that environmental, social and governance considerations will be embedded across the business and our products.

As a commercially young business, we are enthusiastic in empowering employees and building a business with a diverse and engaged team. Staff initiate and lead a broad range of community activities, including career advice for students, raising funds for charities, and promoting Doncaster as a hydrogen hub to enhance employment opportunities in the region. Identifying, nurturing and retaining the right balance of skills and talent will be central to delivering on the ambitions of the Group.

The Board is committed to investing in skills for the future. CPH2 works with local providers to bring apprentices and placement students into the business, whilst also entering into arrangements with Queen's University Belfast to encourage academic research in the hydrogen economy.

Our contribution to Sustainable Development Goals

Within CPH2, our sustainability approach aligns with UN 2030 Agenda for Sustainable Development. We believe our activities positively impact the following Sustainable Development Goals (SDGs). In line with this, we have identified three goals where we feel we can have the greatest effect as a business, and those which are most relevant to our business activities.

Green Economy Mark

CPH2 has qualified for the London Stock Exchange's Green Economy Mark, which recognises companies that derive 50% or more of their total annual revenues from products and services that contribute to the global green economy.



Goal 1 - Affordable & Clean Energy

Designing and building an electrolyser which does not require a costly platinum group metals reduces the cost to build, cost to the purchaser and ultimately the cost of hydrogen at the usage point.



Goal 2 - Industry, Innovation & Infrastructure

Our electrolysers play a crucial role in decarbonising industrial processes through hydrogen by providing the technology to upgrade existing infrastructure and retrofit industrial plants to be more sustainable and efficient in resource use.



Goal 3 - Responsible Consumption & Production

With the need to replace fossil fuels, we have developed a more sustainable method of producing hydrogen, reducing our carbon footprint and that of our end-users who distribute our products.

S. 172 Statement

As required by Section 172 of the Companies Act, a Director of the Company must act in the way he or she considers, in good faith, would likely promote the success of the Company for the benefit of the shareholders.

In doing so, the Director must have regard, amongst other matters, to the following issues:

- ▶ the likely consequences of any decisions in the long term;
- ▶ the interests of the Company's employees;
- ▶ the need to foster the Company's business relationships with suppliers, customers and others;
- ▶ the impact of the Company's operations on the community and environment;
- ▶ the Company's reputation for high standards of business conduct; and
- ▶ the need to act fairly between members of the Company.

As set out in the Strategic Report the Board is focused on promoting the success of the Company for the benefit of its members as a whole. Our strategy is designed to deliver meaningful growth to CPH2 which in turn supports our employees, our manufacturing, supply chain partners, our shareholders as well as enabling our customers to achieve the capability of producing green hydrogen, critical to the global transition to net zero. This in turn supports the communities within which each of these important stakeholders reside.

We are committed to being a responsible business and our behaviour is aligned with the expectations of our people, clients, investors, communities and society as a whole.

Our employees

As highlighted in the Chief Executive's Review, our people are fundamental to both the delivery of our strategy, and also doing so in a way that enhances the societies within which CPH2 exists and maintaining the Company's reputation. The health, safety and wellbeing of our employees is a key priority as well as ensuring the workplace is inclusive, supportive and engaging place that provides exciting challenges and is rewarding.

We operate an open-door policy, and there is active engagement across all levels and teams within the organisation on a daily basis. Communication is a strong focus with weekly meetings and regular presentations involving the whole organisation which are held to ensure our employees are well informed, feel included and have a voice. An independent, third-party advisory service is available to employees in relation to all HR matters or concerns.

Customers and manufacturing partners

Regular meetings are held with customers and their contracted consultants to ensure there is full transparency in a high trust environment. We actively listen to our customers to understand their needs and objectives, and tailor our offering accordingly. Manufacturing partners are kept fully informed of all developments, and with every CPH2 department.

Suppliers

A partnered approach to our key suppliers is an important aspect of our ability to obtain efficient procurement and grow the supply chain strategically. Regular meetings are held with suppliers in our supply chain network to ensure that the relationships are collaborative and take into account respective needs.

Community and environment

CPH2 takes seriously its ethical and environmental responsibilities from within the communities and jurisdictions in which it operates. We undertake regular activities for and with the community, including the promotion of the Doncaster area as a hydrogen hub to enhance employment opportunities in the region, providing career advice to students, and employee-led charitable fundraising activities. Further information on the Company's approach to its social responsibilities can be found on page 14.

Shareholders

The Board is committed to openly engaging with our shareholders and recognises the importance of continuing transparent dialogue in its regular communications. We actively encourage shareholder dialogue, and it is important that shareholders understand our strategy and objectives and regular contact is maintained. All Company news is promptly announced to the London Stock Exchange, and regular communication on social media is maintained.

Being responsible

The Board aims to ensure that good governance is maintained and that management operates the business in a responsible manner to a high standard of conduct as is expected of a business such as ours. The Corporate Governance section on page 18 details our approach.

Jon Duffy

Chief Executive Officer
On behalf of the Board

18 April 2024

Principal Risks and Uncertainties

The Board is responsible for the Group's risk framework and aims to ensure that the Group's ability to achieve its objectives outweighs its risk exposure.

However, the Group's risk management programme can only provide reasonable, but not absolute, assurance that principal risks are managed to an acceptable level. The Audit Committee assists the Board in monitoring the effectiveness of our risk management and internal control policies, procedures, and systems.

The Executive Directors are responsible for identifying, managing, and mitigating the risks to the Company. The Board and its Audit Committee review key risks and mitigations and the Audit Committee subsequently makes recommendations to the Board as to changes in the Group's risks which are then included in the Annual Report.

The Group's principal business risks and mitigation actions are set out below. This summary is not intended to include all risks that could ultimately impact our business and the risks are presented in no particular order.



Risk	Mitigating procedures
Core technology	
The Group's business is dependent on successful operation of the MFE working efficiently, safely, reliably and in accordance with regulations.	Membrane-free electrolysis has been successfully proven in our test unit both at factory and site, validated by independent parties. During 2023, the Company successfully test ran the MFE110, which contained four fully sized 125kW stacks and produced separated hydrogen and oxygen gases. The test runs not only proved the technology could run at scale, but also provided significant learnings in respect to further improvements and debottlenecking, particularly regarding the control system. Safety is a primary concern for our employees and customers and the HAZOPS and LOPA has been revisited through an independent review with findings being implemented. Successful completion and testing of the MFE110 in 2024 is considered by the Board to be a key de-risking event followed by the MFE220.
Intellectual property	
The Group's success depends in part on its ability to protect its rights in relation to its intellectual property.	Patents, trademarks and contractual provisions including current, former employees and contractors are undertaken to preserve the Group's intellectual property rights. Research and Development work is reviewed regularly to identify potentially patentable technology designs. An international patent is sought for technology followed by national patent applications in countries deemed applicable, which is reviewed on a periodic basis. In 2023 the agreements signed with manufacturing partners provided that CPH2 will supply the critical components (including stacks) necessary for MFEs to perform efficiently.
Supply chain	
The Group's ability to deliver against its strategy depends on its ability to secure raw materials and components on commercially acceptable terms and within commercially acceptable timeframes.	Suppliers are chosen for their expertise, reliability and ability to deliver on time. The Group sources components and materials from local suppliers where possible and are reliant on key suppliers. In 2023, work continued on CPH2's supply chain network to reduce the risk of being dependent on any one supplier. In addition we have worked closely and proactively with key suppliers to ensure open communication and advance knowledge of any issues.
Scale up	
The Group's ability to scale up manufacturing is key to meeting customer demand and future profitability.	The Group has a two-pronged strategy in respect of commercialisation and manufacturing, where manufacturing is licenced to partners as well as undertaken by CPH2's in-house capacity, which diversifies risk on manufacturing scale up. During 2023 preparatory work was undertaken on building the standard operating procedures for production and developing an integrated management system.
Financial	
The Group requires sufficient funds in order to finalise development and see through early stages of scale up.	Cash spend is closely monitored, alongside improved internal reporting and clear responsibilities to ensure cash is carefully managed. Regular cash forecasting and reporting to the Board ensures notice of any funding requirement would be identified well in advance. As at the date of this report, the Board is satisfied that the Company has sufficient funds for its requirements for the foreseeable future.
Competition and commercialisation	
Retaining the Group's competitive advantage is necessary for its electrolyzers to be commercially attractive.	In 2023 the Group continued to see strong in-bound demand for its products, and there is a significant pipeline of research and development projects to enhance the efficiency of the Group's electrolyzers. As the Group's electrolyzers do not require critical metals, in the long term the Group is not expected to face the limitations and/or cost pressures from its supply chain relative to a number of its competitors. The Group regularly reviews the competitive landscape to ensure it remains competitive.
Actions of manufacturing partners	
As manufacturing partners will be producing CPH2 products, CPH2 can be exposed to the actions of its partners.	Agreements signed with manufacturing partners in 2023 give CPH2 rights to full and close oversight of all operations, and commercial activities in respect to CPH2 electrolyzers built by them. In addition, the agreements contain warranties and guarantees, requirement for levels of insurance as well as carefully identifying legal responsibility in respect of the actions of the partners.

Chair's Introduction to Governance

A strong, active and engaged Board

As Non-Executive Chair, I have ultimate responsibility for the leadership of the Board and the Group's approach to corporate governance.

The Board recognises the importance of good corporate governance as one of the foundations of a sustainable corporate growth strategy and sound decision making and has considered the corporate governance codes available and which would best suit the Company given its specific stage of development, the sector in which it operates and the Company's size. The Board has considered the Corporate Governance Code 2018 published by the Quoted Companies Alliance (the "QCA Code") to be the most suitable code for the Company.

The Board has reviewed the Company's corporate governance up to the date of this Annual Report and how it complies with the Principles of the QCA Code and this is explained in the Corporate Governance Statement below together with the disclosures required by the Code.

In November last year, the QCA published an updated version of its Corporate Governance Code (the "QCA Code 2023") which will provide growth companies with further guidance on corporate governance, and how corporate practices and governance reporting can be improved.

The provisions of the QCA Code 2023 will apply to financial years starting on or after 1 April 2024, and so, they will not be applied to the Company's current Corporate Governance Statement. Nevertheless, the new provisions have been noted and the Board will review its compliance with the provisions of the new QCA Code 2023 and appropriate changes to our practices and reporting will be made in the current financial year.

The Directors recognise the value and importance of high standards of corporate governance and that these are in the best interests of all stakeholders in the Company's business. Accordingly, the Company has taken steps to ensure compliance by the Board and applicable employees with the terms of the QCA Code. The information set out in the Corporate Governance Statement below outlines the structures, processes and procedures by which the Board has sought to ensure that high standards of corporate governance are maintained throughout the Group.

Christopher Train
Chair



The Directors recognise the value and importance of high standards of corporate governance.



The Board

Chair

- 1. Christopher Train**
Independent Non-Executive Chair

Executive Directors

- 2. Jonathan Duffy**
Chief Executive Officer
- 3. James Hobson**
Chief Financial Officer

Non-Executive Directors

- 4. Natalie Fortescue**
Independent Non-Executive Director
- 5. Rick Smith**
Non-Executive Director

Audit Committee

Membership:
Natalie Fortescue (Chair)
Rick Smith

Remuneration Committee

Membership:
Rick Smith (Chair)
Natalie Fortescue
Christopher Train

The ten QCA Code corporate governance principles are:

1. Establish a strategy and business model which promotes long-term value for shareholders
2. Seek to understand and meet shareholder needs and expectations
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation
5. Maintain the board as a wellfunctioning, balanced team led by the chair
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement
8. Promote a corporate culture that is based on ethical values and behaviours
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Read more on our QCA code on pages 23 to 26

Board of Directors

A broad balance of skills and experience



Christopher Train

Independent Non-Executive Chair

Appointed: 2022

Experience & expertise:

- ▶ Experienced board member and chief executive officer
- ▶ Proven track record of delivery working in the energy and utilities industries
- ▶ CEO, Cadent Gas Limited and National Grid Gas Distribution Limited
- ▶ Chair, NetGas Health Safety and Environment Committee

Other commitments:

- ▶ Executive Director, CT Energy
- ▶ Chair, South East Water Limited
- ▶ Chair, Nuclear Decommissioning Authority
- ▶ Chair, Projects and Programmes Committee, Nuclear Decommissioning Authority

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Jonathan Richard Duffy

Chief Executive Officer

Appointed: 2021

Experience & expertise:

- ▶ Tasked with taking CPH2 from a start-up green technology company through to full commercialisation and beyond
- ▶ Successfully led CPH2 through an IPO and listing on LSE AIM in 9-months
- ▶ Executive roles in agriculture and the food and drinks industries
- ▶ Performance improvement of SME's, multi-national and FTSE 100 companies

Other Commitments:

- ▶ Non-Executive Director, Unibio International plc



James Hobson

Chief Financial Officer

Appointed: 2022

Experience & expertise:





- ▶ Expertise from across the energy sector through his work with AIM-listed and private companies
- ▶ Proven track record of adding value by solving critical issues
- ▶ Continuous improvement mindset, coupled with leading investor relations and managing AIM responsibilities
- ▶ Direction of finance teams, multiple acquisitions and divestments, due diligence and appraisals, and multiple fundraising efforts
- ▶ Advising Boards on funding, financial, strategic, investor relations, corporate governance, and operational matters.

Other Commitments:

- ▶ None



Key

-  Audit Committee member
-  Audit Committee Chair
-  Remuneration Committee member
-  Remuneration Committee Chair

Natalie Jayne Fortescue

Independent Non-Executive Director

Appointed: 2022**Experience & expertise:**

- ▶ 20 years advising companies on corporate finance transactions, fundraising, strategy, debt refinancing and restructurings, investor relations and the impact of corporate transactions on stakeholders
- ▶ A chartered accountant and experienced capital markets professional
- ▶ Premier Oil plc, Various corporate finance roles
- ▶ Genel Energy plc, Head of Investor Relations
- ▶ Corporate Broker, Oriel Securities (now Stifel Europe)
- ▶ Investec, Investment Banker

Other Commitments:

- ▶ Non-Executive Director, Serinus Energy plc

**Rick Brent Smith**

Non-Executive Director

Appointed: 2021**Experience & expertise:**

- ▶ Professional Accountant, with background in manufacturing
- ▶ Consultancy with Private Equity Houses, advising on their M&A activity and business consolidation across Europe and North Africa
- ▶ Turnaround lead, including numerous acquisitions/divestments and commercial development across US, Europe, and Asia manufacturing facilities
- ▶ Chesapeake Ltd, CFO
- ▶ Experienced Managing Director, various companies
- ▶ Multi Packaging Solutions ("MPS") Executive Vice President and member of the Operating Board responsible for the Asian Operations, Corporate Development, and the Innovation Group.

Other Commitments:

- ▶ Senior Advisor with Radial Equity Partners



Senior Management



Arash Selahi
Chief Operating Officer

Experience & expertise:

- ▶ An experienced manufacturing professional within highly regulated industries
- ▶ Results-driven, dynamic, and passionate with over 20 years in the Automotive, Aerospace, Mining and Energy sectors.
- ▶ Has led R&D projects resulting in significant margin improvement while reducing lead times.
- ▶ Implemented multiple Six Sigma projects to improve efficiencies and lower variances, significantly improving profitability.
- ▶ Expertise encompasses lean methodologies and Kaizen practices.
- ▶ Primary focus at CPH2 is developing and implementing highly efficient teams and processes.



Paul Cassidy
Chief Technical Officer

Experience & expertise:

- ▶ Substantial knowledge in the engineering and technology field
- ▶ Significant experience in the methanol industry and its linked application in hydrogen-based technologies.
- ▶ Track record of scaling up technologies from the laboratory to implementation at a commercial scale.
- ▶ Master of Engineering from the University of Cambridge
- ▶ Multiple award winner; 2016 Institution of Chemical Engineers Global Awards, Outstanding Achievement Award, Industry Project Award for Gas Heated Reforming Development and Commercialization, and the 2014 Institution of Chemical Engineers Sustainable Technology Award.
- ▶ As CTO, the focus is getting the MFE220 into production for CPH2 and license holders.



Joe Scott
Managing Director CPH2 Ireland

Experience & expertise:

- ▶ A qualified production engineer who specialises in R&D of advanced machining technology
- ▶ Significant experience and knowledge in product development and design
- ▶ He established a tool and mould-making company in Ireland in 1975, where he developed the first CAD/CAM-based paperless tool-making processes.
- ▶ Set up an injection moulding company in 1997.

Corporate Governance Statement

The QCA Code sets out ten principles which are based on three categories: ‘delivering growth’, ‘maintaining a dynamic management framework’ and ‘building trust’. The Board is committed to these categories which it believes will support the Group’s medium to long-term success.

This Statement of Compliance sets out the QCA principles below and provides an explanation of how the Company applies each principle and the reasons for any instances of non-compliance.

Principle 1: Establish a strategy and business model which promotes long term value for shareholders.

The Company’s mission is to become a globally recognised and highly profitable designer, manufacturer and licensor of Membrane-Free Electrolyser™ technology with a minimum 4GW production capacity by 2030.

The details of our strategy and the key challenges for the Group are set out in the Strategic Report.

The Group’s strategy and business model are developed by the Chief Executive Officer, the Chief Financial Officer and the senior management team, and approved by the Board in line with the Group’s vision and mission. Progress is actively tracked and reviewed by the Directors, as well as by the Company’s independent Chair and Non-Executive Directors to ensure it establishes a balance between the interests of management and the Company’s stakeholders. The senior management team, led by the Chief Executive Officer, is responsible for their effective delivery and implementation.

Principle 2: Seek to understand and meet shareholder needs and expectations.

The Board places great importance on having positive relationships with all shareholders and seeks to ensure that an appropriate and proactive level of communication takes place through multiple platforms so that the Company’s strategy and performance are clearly understood. Significant developments are disseminated through London Stock Exchange regulatory announcements and regular updates on the Company website.

The Board also uses the Company’s Annual Report and the General Meeting to communicate with shareholders and, in particular, the Annual General Meeting gives shareholders the opportunity to ask questions and present their views to the whole Board. The Board welcomes the attendance and participation of all shareholders at the Company’s Annual General Meeting. Shareholder voting on Annual General Meeting resolutions is monitored and reported.

The Chief Executive Officer and the Chief Financial Officer extensively engage with the Company’s corporate broker and investor relations (“IR”) consultants and meet regularly with investors and analysts to provide them with presentations of the Company’s preliminary announcements of the year-end results and the half-year results as well as updates on the business and to obtain investor feedback regarding the market’s expectations of the Group. The Chair and Non-Executive Directors also engage and meet with investors as and when deemed valuable to investors.

CPH2’s IR activities encompass dialogue with both institutional and private investors and are co-ordinated by the Chief Executive Officer and Chief Financial Officer.

The Group’s main point of contact for shareholder engagement is with its brokers and IR Consultants, however, contact details are also available on the Group’s website to support open channels of communication and feedback (investor@cph2.com).

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long term success.

CPH2’s business is at the heart of the green hydrogen industry and the Directors believe the Company is playing a significant part in the drive towards clean energy and net zero targets.

The Board’s primary goal is to create shareholder value in a responsible way that serves all stakeholders. The Board considers its key stakeholders to be its employees, customers, shareholders, suppliers and the communities and environment in which it operates. The Board believes that active engagement with all its stakeholders is important so that the Company is fully aware of their needs, interests and expectations.

Corporate Governance Statement continued

The Company's values inspiring the senior management team and its staff to be 'Passionate', 'Innovative', 'Open' and 'Genuine', are at the core of what CPH2 does, and provide the framework for all engagement with its stakeholders. The Company acts with integrity, focuses on creating results and more importantly values people – from its members of staff to those who form the communities it engages with.

We particularly value our staff and we endeavour to ensure that they are safe, highly trained and motivated.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board has ultimate responsibility for the Group's risk management process and is supported in this by the Audit Committee, which oversees the risks facing the Group, and the effectiveness of the systems to manage and mitigate those risks. These internal controls will be regularly reviewed and risk management processes will continue to evolve reflecting the ongoing position, structure and sophistication of the Group.

The Board takes reasonable steps to identify, assess and mitigate risks, particularly principal risks, and mitigate these risks wherever possible. The Group's principal risks are set out in the Strategic Report.

The Group's controls are subject to continuous improvement and designed to manage and control risks rather than eliminate them. Mitigation can only provide reasonable, but not absolute, assurance against material misstatement or loss. As such, the Group maintains appropriate insurance cover for its activities, with the types of cover and insured values being reviewed on a periodic basis by the Board.

The Group continues to align its activities to the quality management standards set by ISO (International Organisation for Standardisation) to ensure the quality, safety, and efficiency of products, services, and systems.

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair.

The Board comprises the Non-Executive Chair, the Chief Executive Officer and the Chief Financial Officer and the Independent Non-Executive Directors. The objective is to maintain a balanced Board between Executive and Non-Executive Directors, industry experience and commercial, strategy, industry, governance and financial expertise.

The Chair is responsible for leadership of the Board and the Board's approach to corporate governance. The Board adheres to the QCA Code recommendation that a board should have at least two independent directors.

The Board has reviewed the independence of the Non-Executive Directors, Chris Train, Natalie Fortescue and Rick Smith and all, including Rick Smith who holds options in the Company, are considered by the Board to be independent.

Rick Smith has substantial experience as a senior executive within a number of large organisations and as a consultant to private equity firms. His contribution to CPH2 in its early stages of development was invaluable and he was compensated with the grant of options. In view of his experience, the Board believes he is an ideal Non-Executive Director and Remuneration Committee Chair.

The Board meets regularly and is provided with information on a timely basis. The Board works as a team exploiting its members' in-depth experience of strategy, technology, international and financial matters. Meetings are characterised by debate and active idea generation and management are rigorously challenged and held to account.

The Board also actively seeks to develop and improve the information flow of the business to better inform it of the progress, challenges and opportunities it faces.

The Board is supported by an Audit Committee and a Remuneration Committee and the members of these Committees have the necessary skills and knowledge to discharge their duties and responsibilities effectively. There is no Nomination Committee at present but the establishment of such a committee will be considered in due course.

Further information on the Audit and Remuneration Committees is set out under 'Audit Committee' and 'Remuneration Committee' below and under 'Audit Committee' and 'Remuneration Committee' in the Company's 2023 Annual Report & Accounts.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.

The CPH2 Board and its subsidiary Boards have a strong breadth and depth of highly relevant experiences for the business including public company and governance, sector, strategy, commercial, engineering and technology, manufacturing, financial and public market matters. The Board regularly reviews the composition of both the CPH2 Board and the Group Board to ensure that it has the necessary skills to support the ongoing development and growth of the business.

The Board is satisfied that it has a suitable mix of skills, experience and competencies on both the CPH2 Board and Group Boards covering all essential disciplines to bring a balanced perspective that is beneficial both strategically and operationally to enable the Group to deliver its strategy for the benefit of its shareholders over this medium to long-term. Summary biographies of each Board member are shown on page 20 of this 2023 Annual Report and in the section "Board of Directors" set out in the Investors section of the Group's website.

The Board fully subscribes to the principle of diversity across the Board and the wider business, and endeavours to make sure that actions across the business continue to support the Board's commitment to diversity.

Directors are required to keep their skills sets up to date through membership of professional bodies, attendances at conferences and forums, through their various external appointments and with ongoing training and development. The Directors regularly share sector updates and news articles to stay up to date with relevant industry developments.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

The Board appreciates that an annual performance evaluation of the Board is crucial for effective governance and the development of the Board's capabilities and its effectiveness.

A process of formal Board evaluation was conducted during the last financial year by way of a comprehensive internal survey, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. A process of formal Board and Committee evaluation will be implemented and conducted later this year.

All Directors will undergo a performance evaluation before being proposed for re-election to ensure that their performance is and continues to be effective, that, where appropriate, they continue to be independent and that they remain committed to their roles. They will be individually assessed on an annual basis through which their performance against predetermined objectives will be reviewed and their personal and professional development needs considered. These evaluations should allow Directors to identify areas for improvement or training.

In addition, the Non-Executive Directors will meet, without the Chair present, and will evaluate the Chair's performance.

The Board regularly reviews its composition, particularly in conjunction with succession planning, and may utilise the results of performance evaluations when considering future Board the composition and/or succession planning.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours.

The Board understands that a high level of corporate culture, conduct and ethical leads to a successful business.

The Board seeks to promote and maintain a culture of integrity across all divisions within the Group and to ensure that the highest standards of integrity and ethics are demonstrated through the Company's objectives, strategy and business model. An open culture is encouraged within the Group, with employee feedback sought and regular progress and performance updates provided to all employees.

Our staff are our greatest asset and to continue the Company's success, and to be a global leader in the sector, the Board recognises that it is vital to continue attracting and retaining the best talent. The Group works hard to create an environment in which employees at all levels can thrive, develop and achieve their ambitions, but do so in ways that first and foremost promote the Group's values to be passionate, innovative, open and genuine. Employees and are encouraged to join operational committees and actively participate in the decision making and operational management.

The Group has a Code of Conduct, an Anti-Bribery and Corruption Policy and a Modern Slavery Statement. The Group also has policies and procedures relating to whistleblowing which state the Company's commitment to conducting its business with honesty and integrity, its expectation that staff will maintain high standards, and which encourages prompt disclosure of any suspected wrongdoing.

The Company has an induction process in place for all new employees that covers the Company's relevant policies and procedures, which will develop as the Company grows. It also offers ongoing training and refreshers for existing employees where appropriate.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

Whilst the Company recognises the importance of high standards of corporate governance, the Board has sought to address the matter in a proportionate way having regard to the size and resources of the Group. This will be regularly reviewed as the Group grows.

The Non-Executive Chair has ultimate responsibility for the leadership of the Board and the Group's approach to corporate governance. The long-term success of the Group is the responsibility of the Board, which comprises three Non-Executive Directors, including the Non-Executive Chair, and two Executive Directors namely, the Chief Executive Officer and the Chief Financial Officer. The Board as a whole is responsible for directing, providing appropriate advice, and supervising the Company's business strategy, and is responsible to shareholders for the Group's financial and operational performance, as well as its risk management.

The Executive Directors have responsibility for the operational management of the Group's activities. The Chief Executive Officer has ultimate responsibility for implementing and delivering the strategic and commercial objectives of the Board and managing the day-to-day business activities of the Group.

The Non-Executive Directors are responsible for bringing independent and objective oversight and judgement to Board decisions. The Chair has ultimate responsibility for the operation, leadership and governance of the Board and the Group's approach to corporate governance.

Corporate Governance Statement continued

The Company Secretary acts as an adviser to the Board and is responsible for ensuring that the business of meetings and decisions made are recorded, that Board procedures are followed, and applicable rules and regulations are complied with.

To enable the Board to prepare fully for Board meetings, all Directors receive briefing papers and reports in a timely manner and in advance of meetings.

The Board has a formal schedule of matters reserved to the Board which include the determination of strategy, operational and financial decisions, the approval of budgets and major capital expenditure.

Whilst the Board meets formally four times a year, during the financial year ended 31 December 2023 the Board met on six occasions in total. All such meetings were quorate and followed a formal agenda.

Board attendance

Attendance at the six Board meetings held during the last financial year is shown in the table below:

Board attendance	Meetings eligible to attend	Actual attendance
No. of meetings in the year to 31 December 2023	6	6
Christopher Train (Chair)	6	6
Jonathan Duffy	6	6
James Hobson	6	6
Rick Smith	6	6
Natalie Fortescue	6	6

Audit Committee attendance	Meetings eligible to attend	Actual attendance
No. of meetings in the year to 31 December 2023	3	3
Natalie Fortescue (Chair)	3	3
Rick Smith	3	3

Remuneration Committee attendance	Meetings eligible to attend	Actual attendance
No. of meetings in the year to 31 December 2023	3	3
Rick Smith (Chair)	3	3
Christopher Train	3	3
Natalie Fortescue	3	3

The Board has an Audit Committee and a Remuneration Committee, each with formally delegated duties and responsibilities. Each Committee has formal terms of reference which are reviewed and revised annually. The Audit Committee is chaired by Natalie Fortescue and the Remuneration Committee is chaired by Rick Smith. Membership of both Committees during the last financial year comprised exclusively of Non-Executive Directors.

During the financial year ended 31 December 2023, the Audit Committee met on three occasions and the Remuneration Committee met on three occasions.

Audit Committee attendance

Attendance at the three Audit Committee meetings held during the last financial year is shown in the table below:

Remuneration Committee attendance

Attendance at the three Remuneration Committee meetings held during the last financial year is shown in the table below:

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Board recognises the importance of providing its stakeholders, including shareholders and investors, with clear and transparent information on the Group's activities, strategy and financial position and does so in a number of ways, including:

- ▶ the Group's Annual Report;
- ▶ full year and half year results announcements;
- ▶ other regulatory announcements;
- ▶ the Annual General Meeting;
- ▶ update meetings with existing shareholders;
- ▶ investor presentations; and
- ▶ disclosure of all shareholder voting on Annual General Meeting resolutions in a clear and transparent manner.

A range of corporate information, including annual reports and regulatory announcements is available to shareholders, investors, and the public through the Group's website which is regularly updated and users, including all stakeholders, can register to be alerted via email when material announcements are made. The Company's contact details are on the website should stakeholders wish to make enquiries of the management from time to time.

The Company's Annual Reports and Circulars and Notices of Annual General Meetings for 2022 and 2023 and can be found on the Investors section of "the Company's website www.cph2.com.

The results of all shareholder voting on Annual General Meeting resolutions are posted to the Company's website and include any actions taken or to be taken as a result of resolutions for which votes against a resolution have been received from at least 20% of independent votes.

Audit Committee Report



Composition and role of the Audit Committee

Membership of the Audit Committee during the period consisted of the Non-Executive Directors, Natalie Fortescue (Chair) and Rick Smith. The Audit Committee is responsible for the review and recommendation in respect of the Group's financial reporting, risk review and the review and recommendations in respect of the Group's risk management and internal control processes.

The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- ▶ the integrity of the financial and narrative statements and other financial information provided to shareholders;
- ▶ the Company's system of internal controls and risk management;
- ▶ the internal and external audit process and auditors;
- ▶ the processes for compliance with laws, regulations and ethical codes of practice.

Attendance at Audit Committee meetings during the year ended 31 December 2023 was as follows:

Director	Meetings eligible to attend	Actual attendance
Natalie Fortescue (Chair)	3	3
Rick Smith	3	3

Significant financial reporting matters

When approving the financial statement for the year ended 31 December 2023, the Audit Committee considered the following significant financial reporting matters, estimates and judgements, amongst others:

Impairment reviews

Capitalised development costs (£7.3m at 31 December 2023), inventory (£3.2m at 31 December 2023), investments in subsidiaries (£1.9m at 31 December 2023) and intercompany loan balances (£19.1m at 31 December 2023) were all individually assessed in relation to potential impairment. A thorough analysis was undertaken by management to assess for potential impairment which reviewed by the external auditor. The Audit Committee received and considered reports from the Chief Financial Officer, and taking into consideration input received from the external auditor, the Audit Committee considers management's assessment in relation to potential impairment appropriate.

Share based payments

In June 2023 472,901 options were awarded to employees under a Save as You Earn Scheme and EMI options awarded to certain members of the senior leadership team. The Black Scholes option-pricing model was used to determine the value of the options awarded. Reviewing the underlying key judgements in relation to the inputs, particularly volatility, and taking into consideration input received from the external auditors the Audit Committee considers management's treatment to be appropriate.

External auditor

At the Group's Annual General Meeting in June 2023, PKF Littlejohn LLP was re-appointed as the Group's external auditor for the year to 31 December 2023, to hold office until the 2024 AGM. David Thompson is the lead audit partner.

During the year, the Committee reviewed PKF Littlejohn's audit plan including the scope of work to be undertaken as well as their reports on external audit findings, with particular focus on the areas set out above.

Effectiveness of the external auditor

The Committee also assessed the effectiveness of the external auditor, PKF Littlejohn LLP, and was satisfied that the advice the Company received has been objective and independent.

Audit fees paid to PKF Littlejohn during the year are disclosed in note 4 to the Financial Statements in this Annual Report. There were no non-audit fees for the year ended 31 December 2022 (2023: nil).

Natalie Fortescue

Chair of Audit Committee

Remuneration Committee Report



The remuneration report outlines remuneration awarded to Directors and Non-Executive Directors during the year. As the Company's shares are listed on the AIM market of the London Stock Exchange, the Company is required to report in accordance with the remuneration disclosure requirements of the AIM Rules.

The Group is not required to prepare a Directors' Remuneration Report under Companies Act regulations and therefore this report may not contain all the information that would be included were the Group required to do so.

Composition and role of the Remuneration Committee

Membership of the Remuneration Committee during the period consisted of the Independent Non-Executive Directors, Rick Smith (Chair), Christopher Train and Natalie Fortescue. The Remuneration Committee is responsible for the review and recommendation of the scale and structure of remuneration for senior management, including any bonus arrangements or the award of share options with due regard to the interests of the shareholders and the performance of the Company.

Attendance at Remuneration Committee meetings during the year ended 31 December 2023 was as follows:

Director	Meetings eligible to attend	Actual attendance
Rick Smith (Chair)	3	3
Christopher Train	3	3
Natalie Fortescue	3	3

Remuneration policy

The roles and responsibilities of the Committee are:

- ▶ to review and recommend to the Board remuneration policies which motivate Directors and senior executive team to support the delivery of business objectives in the short, medium, and long term;
- ▶ to align the interests of the Executive Directors and senior executive team with the interests of long term shareholders; and
- ▶ to ensure the Group can recruit, retain and motivate high quality executives through packages which are attractive and fair, but not excessive.

The Committee takes into account the individual executive's experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality, while avoiding remunerating those Directors more than is necessary. Each Executive Director has a service contract with the Group which contains details regarding remuneration, restrictions and disciplinary matters. Executive Directors are appointed by the Group on contracts terminable on no more than 12 months' notice.

The fees of the Chair are determined by the Committee and the fees of the other Non-Executive Directors by the Board following a recommendation from the Chair. The Chair and the other Non-Executive Directors are not involved in any discussions or decisions about their own remuneration. Included in the fees for the Chair of each Committee is an additional payment of £5,000 in respect of their services.

Directors' remuneration for 2023

The following table sets out the remuneration of the Company's Directors who served during the period 1 January 2023 to 31 December 2023 that was received or receivable.

	Salary and fees £'000	Pension and benefits £'000	Employer's NI £'000	Bonus £'000	Total 31 December 2023 £'000	Total 31 December 2022 £'000
Executive Directors						
Jon Duffy ⁽¹⁾	295	1	84	31	411	430
Clive Brook ⁽²⁾	7	–	1	–	8	120
James Hobson	180	19	23	19	241	8
Non-Executive Directors						
Christopher Train	75	–	9	–	84	79
Natalie Fortescue	45	–	5	–	50	49
Rick Smith	45	–	5	–	50	90
	647	20	127	50	844	776

(1) On 26 April 2023 Jon Duffy exercised 2,764,160 options receiving the same number of ordinary shares, 1,704,565 of these shares were sold to meet the PAYE tax and national insurance obligations arising as a result of the exercise, for a profit of £158,000. Included in Employers National Insurance of £84,000 is £44,000 paid on exercise of options. On 16 February 2022 Jon Duffy exercised 6,410,220 options, receiving the same number of ordinary shares. 590,533 of these ordinary shares were then sold for a profit of £245,000.

(2) Clive Brook retired on 1 February 2023.

Remuneration Committee Report continued

Share options

Directors' interests in share options of the Company during the year were as follows:

	1 January 2023 number	Granted number	Exercised Number	31 December 2023 number	Exercise price	Date from which exercisable	Expiry date
Jon Duffy							
Options (unapproved)	2,764,160	–	2,764,160	–	£0.035	1 Feb 2022	31 Jan 2032
Options (unapproved)	10,608,980	–	–	10,608,980	£0.085	1 Jun 2024	9 Feb 2032 ⁽¹⁾
2022 SAYE options (approved)	28,177	–	–	28,177	£0.319	1 Jul 2025	1 Dec 2025
2023 SAYE options (approved)	–	32,727	–	32,727	£0.22	1 Aug 2026	31 Jan 2027
	13,401,317	32,727	2,764,160	10,669,884			
James Hobson							
EMI Options (approved)	–	100,000	–	100,000	£0.4025	16 Jun 2024	15 Jun 2033
SAYE options (approved)	–	40,909	–	40,909	£0.22	1 Aug 2026	31 Jan 2027
	–	140,909	–	140,909			
Rick Smith							
Options (unapproved)	2,000,000	–	–	2,000,000	£0.25	1 Feb 2022	31 Jan 2032
	2,000,000	–	–	2,000,000			

(1) 25% exercisable from June 2024, 75% is conditional on meeting sales targets set in February 2022.

Shares

The Directors had the following interests in shares in the Company as at 31 December 2023:

Director	Shares
Jon Duffy	8,439,752

Subsequent to the 31 December 2023, the Directors purchased shares in the Company on the London Stock Exchange Alternative Investment Market as follows: Christopher Train purchased 48,484; Jon Duffy purchased 50,000 shares; James Hobson purchased 35,000 shares; Natalie Fortescue purchased 25,000 shares; and Rick Smith purchased 25,000 shares.

Rick Smith

Chair of Remuneration Committee

Report of the Directors

Directors' Report for the Year ended 31 December 2023

The Directors present their Annual Report and the consolidated financial statements for the year ended 31 December 2023.

Principal activities

Clean Power Hydrogen plc ("CPH2" or the "Company") is a public listed company incorporated and domiciled in England. The address of its registered office and principal place of business is disclosed at the end of this report. The Company's shares are quoted on the AIM Market of the London Stock Exchange.

The principal activity of the Company and Group is the development of a patented method of hydrogen and oxygen production together with the development of a gas separation technique which enables hydrogen to be produced as "Green Hydrogen" and oxygen to medical grade purity.

A review of the Group's business, including events since the year end and the outlook ahead, is set out in detail in the Strategic Report.

Results and Dividends

The consolidated results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on page 39.

The Directors do not recommend the payment of a dividend in respect of the current period (2022: £nil).

Events after the reporting date

On 5 February 2024 the Company announced it had been awarded three ISO certifications for Occupational Health and Safety (ISO 45001), Environmental Management Systems (ISO 14001) and Quality Management Systems (ISO 9001).

On 21 February 2024 the Company announced it had successfully completed its functional test of the control programme for the MFE110 for Northern Ireland Water, which had been witnessed by Lagan MEICA Limited, Contractor to Northern Ireland Water.

On the 23 February 2024 the Company awarded options in respect of a total of 2,339,872 ordinary shares of 1p each under the Company's EMI Share Option Scheme. Subject to the achievement of certain performance criteria the 1,149,311 options will vest on 31 January 2026 and 1,190,561 options will vest on 31 January 2027. The options lapse ten years from the date of grant.

Directors

The Directors of the Company who held office during the year and as at the date of this report were as follows:

Director	Title	Appointed
Christopher Train	Independent Non-Executive Chair	16 February 2022
Jon Duffy	Chief Executive Officer	19 August 2021
James Hobson	Chief Financial Officer	6 December 2022
Natalie Fortescue	Independent Non-Executive Director	16 February 2022
Ricki Smith	Non-Executive Director	2 December 2021
Clive Brook*	Director, former Chief Financial Officer	21 October 2021

* Resigned 1 February 2023.

Director interests

Details of Directors' interests in shares in the Company and options held over the Company's ordinary shares are set out in the Remuneration Report on page 30.

Report of the Directors continued

Directors' Report for the Year ended 31 December 2023

Significant shareholders

As at 18 April 2024, the Company has been notified of the following holdings of 3% or more of the issued ordinary shares of £0.01 each of the Company:

	Shares	Percentage
Joe Scott Mouldings Limited	39,311,720	14.65%
Nigel Williamson	24,410,500	9.10%
Aurelius Limited	20,948,881	7.81%
Kenera Energy Solutions Limited	16,111,111	6.00%
Mr Elie Basil Victor Dangoor	11,172,773	4.16%
Clive Brook	9,860,820	3.67%
Jon Duffy	8,489,752	3.16%

Principal risk and uncertainties

The principal risks and uncertainties which could have a material impact on the execution of the Group's strategy are set out in Strategic Report on page 17.

Corporate governance

The Company's statement on corporate governance can be found in the corporate governance report on page 18.

Group's policy on payment of creditors

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction, either by accepting the suppliers' terms or by making the suppliers aware of alternative terms, and to abide by the agreed terms. Trade creditors of the Group at 31 December 2023 represented 37 days of annual purchases.

Going concern

The Directors have evaluated the application of the going concern basis for the Group having considered cash forecasts of likely cash flows for a base case scenario, upside scenario and a downside scenario in relation to technology risk, and which include mitigation actions, for a period of not less than 12 months from the date that these financial statements are approved by the Board.

The Directors have concluded that it is appropriate to prepare these financial statements on the going concern basis. Refer to Note 1 for further information.

Directors' indemnities

The Company maintained liability insurance for its Directors and officers. This is a qualifying provision for the purposes of the Companies Act 2006 and was in place during the financial year, and remains in force at the date of this report.

Auditor

The Directors confirm that:

- ▶ so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- ▶ the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

PKF Littlejohn LLP has signified its willingness to continue in office as auditor and a resolution to re-appoint them and to authorise the Directors to agree their remuneration will be put to the 2024 Annual General Meeting.

This report was approved by the Board on 18 April 2024 and signed on its behalf.

James Hobson

Chief Financial Officer

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, Directors' Report and the Group and Company 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 and Company financial statements in accordance with UK-adopted International Accounting Financial Reporting Standards as adopted by the UK and with the requirements of the Companies Act as applicable to companies reporting under those standards. The Company financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework').

Under company law the Directors must not approve the financial statements for the Group and the Company 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 and 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 accounting estimates that are reasonable and prudent;
- ▶ state whether applicable UK-adopted international accounting standards for the Group and United Kingdom Accounting Standards, comprising FRS 101, for the Company have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

Audit Report for the year ended 31 December 2023

Independent Auditor's Report to the Members of Clean Power Hydrogen plc

Opinion

We have audited the financial statements of Clean Power Hydrogen plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Cashflow Statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's loss for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- ▶ the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- ▶ reviewing the cashflow forecast and budgets for the period to 31 December 2025 and the corresponding assumptions used. This included the target dates for completion of units for existing orders, new orders of productions, increase in operating costs and receipt of licence fee payments.
- ▶ discussions with management regarding the future plans of the Group; and
- ▶ challenging management's assumptions of forecast sales and new orders, and cash generated through licence agreements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatement. At the planning stage, materiality is used to determine the financial statement areas that are included within the scope of our audit.

Group	Statement of Financial Position	Statement of Comprehensive Income
Materiality	£470,000 (2022: £400,000)	£110,000 (2022: £110,000)
Performance materiality	£280,000 (2022: £280,000)	£77,000 (2022: £77,000)

Company	Statement of Financial Position	Statement of Comprehensive Income
Materiality	£75,000 (2022: £360,000)	£40,000 (2022: £49,000)
Performance materiality	£53,000 (2022: £252,000)	£28,000 (2022: £34,300)

The benchmark for determining materiality of the Group and Parent Company was 5% (2022:5%) net assets with respect to the Statement of Financial Position, less cash balances, given that the most significant balances to the Group are the capitalised development costs and work in progress. With respect to the Statement of Comprehensive Income, the benchmark for determining materiality of the Group and Parent Company was 5% (2022:5%) of adjusted profit before tax, to ensure appropriate coverage of expenses in the year.

Component materiality was applied and ranged from £75,000 to £423,000 (2022: £150,000 to £360,000) for the Statement of Financial Position and from £40,000 to £75,000 (2022: £49,000 to £90,000) for the Statement of Comprehensive Income, having regard to the varying size and risk profile of components across the Group.

A benchmark of 70% (70%) for performance materiality during our audit of the Group and Parent Company was applied as we believe that this would provide sufficient coverage of significant and residual risks.

We agreed with the audit committee that we would report to them all audit differences identified during the course of our audit in excess of £6,000 (2022: £5,500) for the Group and £2,000 (2022: £2,450) for the Parent Company. We also agreed to report any other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our approach to the audit

In designing our audit approach, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we assessed the areas requiring the directors to make subjective judgements, for example in respect of significant accounting estimates and judgements including the carrying value and capitalisation of development costs, valuation of investments and recoverability of intragroup balances and valuation of inventory and work in progress. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

An audit was performed on the financial information of the Group's material operating components which, for the year ended 31 December 2023, were located in the United Kingdom.

Clean Power Hydrogen plc and Clean Power Hydrogen Group Limited were assessed as significant components of the Group and we therefore designed procedures focused on addressing our key audit matters as noted below.

Independent Auditor's Report continued

Audit Report for the year ended 31 December 2023

Key audit matters

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

Key audit matter	How our scope addressed this matter
<p>Recoverability of investments and intragroup balance (notes 12 and 16)</p> <p>The Company holds investments of £1.85m (2022: £1.85m) as at 31 December 2023. There is also a significant intragroup loan of £18.9m (2022: £11.67m) as the parent company provides funds to the operating company.</p> <p>Given that Clean Power Hydrogen Group Limited is loss making and the other subsidiaries are dormant, there is a risk that the investment in subsidiaries are impaired and that the intragroup receivables may not be fully recoverable.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> ▶ Obtaining the impairment review for all investments held from management and corroborating the assumptions made, where applicable, to third party evidence; ▶ Reviewing the value of the net investment in Clean Power Hydrogen Group Limited against the underlying assets and verifying and corroborating the judgements and estimates used by management to assess the recoverability of the investment and intragroup receivable; ▶ Confirmation of ownership of investments; and ▶ A review of management's assessment of expected credit losses on intragroup receivables in accordance with IFRS 9 criteria.
<p>Capitalisation and valuation of development costs in intangible assets (note 10)</p> <p>The Group has significant capitalised development costs of £7.61m (2022: £5.48m) in relation to the development and testing of its Membrane-Free Electrolyser™ (MFE) technology.</p> <p>There is a risk that these costs do not meet IAS 38 capitalisation criteria and are therefore incorrectly capitalised, and that certain expenditure could be superseding or rectifying previous development work, giving rise to an impairment indicator regarding the original expenditure.</p> <p>There is also a risk that there are indicators of impairment, and the carrying value of development costs is overstated as at 31 December 2023.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> ▶ Tests of detail of a sample of capitalised costs to underlying supporting evidence, ensuring their eligibility for capitalisation is in accordance with IAS 38; ▶ Evaluation of whether the development phase is complete and amortisation should commence; ▶ Challenging the appropriateness of inputs and assumptions used in management's assessment of the carrying value of capitalised costs, with reference to post year-end sales, forecast/contracted revenues and meeting regulatory requirements; and ▶ Consideration of whether there are indicators of impairment.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group and parent company financial statements, the directors are responsible for assessing the group and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditor's Report continued

Audit Report for the year ended 31 December 2023

Auditor's responsibilities for the audit of the financial statements continued

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- ▶ We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research, application of cumulative audit knowledge and experience of the sector.
- ▶ We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from Companies Act 2006, AIM rules and regulations, General Data Protection Regulation, Employment Law, Health and Safety Law and Anti-Bribery and Money Laundering Regulations.
- ▶ We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to enquiries of management, review of minutes, review of correspondence with regulators and review of online media.
- ▶ We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the nonrebuttable presumption of a risk of fraud arising from management override of controls, that the potential for management bias was identified in relation to the carrying value and capitalisation of the development costs as intangible assets, the carrying value of investments and intragroup loans and the carrying value of inventory and work in progress as noted in our Key Audit Matters above. We addressed this by challenging the assumptions and judgements made by management when auditing that significant accounting estimate.
- ▶ We addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

David Thompson (Senior Statutory Auditor)

For and on behalf of PKF Littlejohn LLP Statutory Auditor

15 Westferry Circus
Canary Wharf
London
E14 4HD

18 April 2024

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Administrative expenses excluding exceptional items	4	(5,423)	(4,765)
Exceptional net credit	4	–	986
Total administrative expenses		(5,423)	(3,779)
Operating loss	4	(5,423)	(3,779)
Finance income	7	345	216
Finance expense	7	(49)	(55)
Loss before taxation		(5,127)	(3,618)
Taxation	8	1,012	174
Loss for the financial year		(4,115)	(3,444)
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		9	(19)
Fair value decrease in respect of investments		(438)	(3)
Total comprehensive expense for the year		(4,544)	(3,466)
Basic and diluted earnings per share (pence)	9	(1.54)	(1.35)

The notes on pages 44 to 61 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	31 December 2023 £'000	31 December 2022 £'000
Assets			
Non-current assets			
Intangible assets	10	7,614	5,476
Property, plant and equipment	11	2,642	1,387
Fair value through OCI investments	13	1,059	1,497
Other receivables	16	120	120
		11,435	8,480
Current assets			
Inventories	15	3,155	2,363
Trade and other receivables	16	1,449	3,239
Current asset investments	14	6,000	13,500
Cash and cash equivalents		2,468	1,790
		13,072	20,892
Total assets		24,507	29,372
Liabilities			
Current liabilities			
Trade and other payables	17	(1,037)	(844)
Deferred income	17	–	(1,858)
Lease liabilities	18	(128)	(121)
		(1,165)	(2,823)
Non-current liabilities			
Deferred income	17	(1,780)	(641)
Lease liabilities	18	(609)	(737)
		(2,389)	(1,378)
Total liabilities		(3,554)	(4,201)
Net assets/(liabilities)		20,953	25,171
Equity			
Called up share capital	21	2,682	2,654
Share premium account	21	27,707	27,638
Merger reserve	21	3,702	3,702
Currency translation reserve		(6)	(15)
Accumulated loss		(13,132)	(8,808)
Total equity		20,953	25,171

The notes on pages 44 to 61 form part of these financial statements.

These financial statements on pages 39 to 43 were approved by the Board of Directors on 18 April 2024 and were signed on its behalf by:

J Hobson

Director

Clean Power Hydrogen plc

Registered number: 13574281

Company Statement of Financial Position

As at 31 December 2023

	Note	31 December 2023 £'000	31 December 2022 £'000
Assets			
Non-current assets			
Investments in subsidiaries	12	1,853	1,853
Fair value through OCI investments	13	1,059	1,497
		2,912	3,350
Current assets			
Trade and other receivables	16	19,027	12,072
Current asset investments	14	6,000	13,500
Cash and cash equivalents		2,357	1,246
		27,384	26,818
Total assets		30,296	30,168
Liabilities			
Current liabilities			
Trade and other payables	17	(150)	(92)
Total liabilities		(150)	(92)
Net assets		30,146	30,076
Equity			
Called up share capital	21	2,682	2,654
Share premium account	21	27,707	27,638
Accumulated loss		(243)	(216)
Total equity		30,146	30,076

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The Company recorded a profit for the year of £218,000 (2022: loss of £382,000)

The notes on pages 44 to 61 form part of these financial statements.

These financial statements on pages 39 to 43 were approved by the Board of Directors on 18 April 2024 and were signed on its behalf by:

J Hobson

Director

Clean Power Hydrogen plc

Registered number: 13574281

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency reserve £'000	Accumulated loss £'000	Total equity £'000
Balance as at 31 December 2021	9	5,545	–	4	(5,910)	(352)
Loss for the financial year	–	–	–	–	(3,444)	(3,444)
Other comprehensive expense (note 13)	–	–	–	(19)	(3)	(22)
Total comprehensive expense for the year	–	–	–	(19)	(3,447)	(3,466)
Share based payments (note 22)	–	–	–	–	549	549
Capital reorganisation (note 21)	1,843	(5,545)	3,702	–	–	–
Issue of share capital (note 21)	802	27,638	–	–	–	28,440
Total contributions by owners	2,645	22,093	3,702	–	549	28,989
Balance as at 31 December 2022	2,654	27,638	3,702	(15)	(8,808)	25,171
Loss for the financial year	–	–	–	–	(4,115)	(4,115)
Other comprehensive expense (note 13)	–	–	–	9	(438)	(429)
Total comprehensive expense for the year	–	–	–	9	(4,553)	(4,544)
Share based payments (note 22)	–	–	–	–	229	229
Issue of share capital (note 21)	28	69	–	–	–	97
Balance as at 31 December 2023	2,682	27,707	3,702	(6)	(13,132)	20,953

Company Statement of Changes in Equity

For the year ended 31 December 2023

	Called up share capital £'000	Share premium account £'000	Accumulated loss £'000	Total equity £'000
Balance as at 31 December 2021	–	–	–	–
Loss for the financial year	–	–	(382)	(382)
Other comprehensive expense (note 13)	–	–	(3)	(3)
Total comprehensive expense for the year	–	–	(385)	(385)
Share based payments (note 22)	–	–	169	169
Issue of share capital (note 21)	2,654	27,638	–	30,292
Total contributions by owners	2,654	27,638	169	30,461
Balance as at 31 December 2022	2,654	27,638	(216)	30,076
Profit for the financial year	–	–	218	218
Other comprehensive expense (note 13)	–	–	(438)	(438)
Total comprehensive expense for the year	–	–	(220)	(220)
Share based payments (note 22)	–	–	193	193
Issue of share capital (note 21)	28	69	–	97
Balance as at 31 December 2023	2,682	27,707	(243)	30,146

Consolidated Cash Flow Statement

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flow from operating activities			
Loss for the financial year		(4,115)	(3,444)
Adjustment for:			
Depreciation and amortisation	10,11	413	249
Loss on disposal		-	5
Share based payments	22	229	(1,416)
Foreign exchange		11	(25)
Net finance income	7	(296)	(161)
Taxation credit	8	(1,012)	(174)
Changes in working capital:			
Increase in inventories	15	(155)	(281)
Decrease/(increase) in trade and other receivables	16	2,116	(2,361)
(Decrease)/increase in trade and other payables	17	(526)	293
Cash used in operations		(3,335)	(7,315)
Income tax received		686	143
Net cash used in operating activities		(2,649)	(7,172)
Cash flows from investing activities			
Current asset investments withdrawn/(made)	14	7,500	(13,500)
Purchase of property, plant and equipment	11	(1,595)	(292)
Purchase of intangible assets	10	(2,850)	(4,316)
Purchase of investments	13	-	(1,500)
Net cash generated from/(used in) investing activities		3,055	(19,608)
Cash flows from financing activities			
Issue of share capital (net of costs)	21	97	28,440
Interest received	7	345	216
Related party loan repaid	19	-	(382)
Interest paid	7	(49)	(55)
Payment of lease liabilities	19	(121)	(129)
Net cash generated from financing activities		272	28,090
Net increase in cash and cash equivalents		678	1,310
Cash and cash equivalents at the beginning of the year		1,790	480
Cash and cash equivalents at the end of the year		2,468	1,790

Notes to the Financial Statements

For the year ended 31 December 2023

1. Summary of significant accounting policies and general information

Clean Power Hydrogen plc is a public company incorporated in the United Kingdom and quoted on the Alternative Investment Market ("AIM"). The registered address of the Company is Unit D Parkside Business Park, Spinners Road, Doncaster, England, DN2 4BL. The principal activity of the Company is as a holding company for subsidiaries engaged in the development of a patented method of hydrogen and oxygen production together with the development of a gas separation technique which enables hydrogen to be produced as 'Green Hydrogen' and oxygen to medical grade purity.

The Group financial statements have been prepared in accordance with UK adopted international accounting standards ("IFRS") and in accordance with the requirements of the Companies Act 2006.

The parent company financial statements have been prepared under applicable United Kingdom Accounting Standards (FRS101 'Reduced Disclosure Framework'). The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are drawn up in Sterling, the functional currency of the Company and the Group. The level of rounding for the financial statements is the nearest thousand pounds.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Exemptions

FRS 101 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, and the Company has taken advantage of the following exemptions:

- ▶ IAS 7 Statement of cash flows;
- ▶ IFRS 7 Financial instruments disclosures;
- ▶ IAS 24 Key management remuneration.

Basis of consolidation and merger accounting

The Company was incorporated on 19 August 2021 with one £0.01 ordinary share and on 1 February 2022, became the Group parent company when it issued 185,267,700 £0.01 ordinary shares in exchange for all the ordinary shares in its subsidiary Clean Power Hydrogen Group ("CPHGL"). In addition, warrants and options over ordinary shares in CPHGL were converted, on equivalent terms, to warrants and options over 26,911,940 shares in the Company. This was considered not to be a business combination within the scope of IFRS 3. This was a key judgement, and as a transaction where there was no change in the shareholders or holdings, is accordingly accounted for using merger accounting with no change in the book values of assets and liabilities and no fair value accounting applied.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they have always formed a single group. Intercompany transactions and balances between Group companies are therefore eliminated in full. The share capital presented is that of Clean Power Hydrogen plc with the difference on elimination of CPHGL's capital being shown as a merger reserve.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

1. Summary of significant accounting policies continued

Going concern

In assessing the Group's ability to operate as a going concern, the Board have prepared cash flow forecasts for the period to 31 December 2025 in relation to likely future cash flows in a base case scenario, an upside scenario and a downside scenario. The base case scenario assumes expected likely future operations but with conservative assumptions on new sales orders. The upside scenario considers likely future operations but with moderate growth in new sales.

The downside scenario explores the scenario where a fundamental technology issue is found, that would result in delay of at least twelve months to find a solution. If such an issue arose the Group would aim to take a number of coordinated actions designed to reduce cash burn whilst having sufficient capabilities to resolve the issue, including selective disposal of assets, a cost reduction programme and other commercial actions.

The forecasts for each of the scenarios show that the Company and the Group will be able to operate within the level of cash reserves. The Directors therefore have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for a period of 12 months from the date of approval of these financial statements and consider the going concern basis to be appropriate.

Revenue

Revenue comprises income from the sale of equipment for the electrolytic production of clean hydrogen and oxygen and related licencing or consultancy fees.

Equipment revenue is recognised to the extent that the performance obligations, being the agreement to transfer the product is satisfied, which is when the customer obtains control of the equipment. The transfer takes place in accordance with the terms agreed with each customer, either at the point in time the goods are despatched to or received by the customer.

Licence fee income, arising from granting non-exclusive use of the IP to customers, is recognised in full at the point when the related IP is transferred to the customer if the licence is only to use the IP available at that time and is separable from any other performance obligations. It is recognised over the period of the licence when it gives access to development of the IP over that time. Licence income related to the manufacture of equipment by a licensee is recognised when the customer completes manufacture and becomes liable to pay an equipment capacity related fee.

Consultancy fees are recognised over the period the service is delivered.

Government grants

Government grants are recognised in the statement of comprehensive income on a systematic basis over the periods in which the Group recognises the related costs as an expense for which the grants are intended to compensate as follows:

Income based grants

Income based government grants are recognised in other operating income based on the specific terms related to them as follows:

- ▶ A grant is recognised in other operating income when the grant proceeds are received (or receivable) provided that the terms of the grant do not impose future performance-related conditions.
- ▶ If the terms of a grant do impose performance-related conditions then the grant is only recognised in income when the performance-related conditions are met.
- ▶ Any grants that are received before the revenue recognition criteria are met are recognised in the statement of financial position as another creditor within liabilities.

Capital grants

Government grants received relating to tangible and intangible fixed assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Notes to the Financial Statements continued

For the year ended 31 December 2023

1. Summary of significant accounting policies continued

Share based payments

The Group operates an equity-settled share-based compensation plan in which the Company receives services from employees as consideration for share options. Warrants have also been issued as part of the compensation for professional services received. The fair value is established at the point of grant using an appropriate pricing model and then the cost is recognised as an expense in administrative expenses in the statement of comprehensive income, together with a corresponding credit directly in equity to retained earnings over the period in which the services are fulfilled. This is when the professional services are received or over the estimated period to vesting in respect of employees. The cumulative expense recognised for equity-settled transactions at each reporting date until 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 Group also had a long term incentive plan ("LTIP") in place with a bonus payable after 3 years, linked to the Group value and share price. Under the applicable accounting standard this was treated as cash settled although it may, by mutual agreement of employee and employer, have been settled by the issue of equity. The potential value is calculated at each balance sheet date using the estimated share price at that date, and this amount, including any related national insurance, is accrued in liabilities.

Income tax

Current income tax assets and/or liabilities comprise obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid/due at the reporting date. Current tax is payable on taxable profits, which may differ from profit or loss in the financial statements. Calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Research and development costs

An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- ▶ It is technically feasible to complete the development such that it will be available for use, sale or licence;
- ▶ There is an intention to complete the development;
- ▶ There is an ability to use, sell or licence the resultant asset;
- ▶ The method by which probable future economic benefits will be generated is known;
- ▶ There are adequate technical, financial and other resources required to complete the development;
- ▶ There are reliable measures that can identify the expenditure directly attributable to the project during its development.

The amount recognised is the expenditure incurred from the date when the project first meets the recognition criteria listed above. Expenses capitalised initially consisted of direct and subcontract costs including materials or testing overheads. Attributable employee costs have now been capitalised as the time has been reliably captured and measured in respect of the element spent on specific projects, other research or operational time.

Where the above criteria are not met, research and development expenditure is charged to the income statement in the period in which it is incurred.

Capitalised development costs are initially measured at cost. After initial recognition, they are recognised at cost less any accumulated amortisation and any accumulated impairment losses.

The depreciable amount of a development cost intangible asset with a finite useful life is allocated on a systematic basis over its useful life, currently expected to range from 3 to 6 years. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

1. Summary of significant accounting policies continued

The amortisation period and the amortisation method for the assets with a finite useful life is reviewed at least each financial year-end. If the expected useful of the asset is different from previous estimates, the amortisation period is changed accordingly.

Patent costs

Patent cost assets are initially measured at cost. After initial recognition, they are recognised at cost less any accumulated amortisation and any accumulated impairment losses. The costs are amortised on a straight line basis over a 10 year estimated useful life.

Software

Software assets are capitalised at the purchase cost. Subsequent to initial recognition it is stated at cost less accumulated amortisation and accumulated impairment. Software is amortised in the Statement of Comprehensive Income on a straight line basis over its estimated useful life of 3 years. These costs are recognised in administrative expenses.

Property, plant and equipment

Property, plant and equipment is recognised as an asset only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. Cost of an item of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

After recognition, all property, plant and equipment (including plant, computer equipment and fixtures) is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided at rates calculated to write down the cost of assets, less estimated residual value, over their expected useful lives on the following basis:

Leasehold improvements	20% straight line
Plant and machinery	20% straight line
Office equipment	33% straight line

The residual value and the useful life of an asset is reviewed at least at each financial year-end and if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying value of the asset and are recognised in profit or loss.

Right-of-use assets and leases

Assets and liabilities arising from a lease with a duration of more than one year are initially measured at the present value of the lease payments and payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal, presented as a separate category, and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs and are presented as a separate category.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Associated costs of all leases, such as maintenance, service charges and insurance, are expensed as incurred.

Notes to the Financial Statements continued

For the year ended 31 December 2023

1. Summary of significant accounting policies continued

Impairment of intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash flows. As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset or cash-generating unit is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is measured as the higher of fair value less cost of disposal and value in use. The value in use is calculated as being net projected cash flows based on financial forecasts discounted back to present value.

The impairment loss is allocated to reduce the carrying amount of the asset pro-rata on the basis of the carrying amount of each asset in the unit. Assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and an appropriate proportion of fixed and variable overheads incurred in bringing the inventories to their present location and condition. Net realisable value being the estimated selling price less costs to complete and sell. Where necessary, provision is made to reduce cost to no more than net realisable value having regard to the nature and condition of inventory, as well as its anticipated utilisation and saleability.

Financial instruments

Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument. These comprise trade and other receivables and cash and cash equivalents.

Financial assets are initially recognised at fair value, which is usually the cost, plus directly attributable transaction costs.

Investments in equity shares of non Group companies where there is no significant influence are available for sale and are subsequently measured at fair value through other comprehensive income.

All other financial assets are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The Group measures loss allowances at an amount equal to lifetime ECL, which will be estimated using past experience of the historical credit losses. Historical loss rates, where applicable, are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers, such as inflation rates. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost to the extent that these are material. The Group has determined that there is no material impact of ECLs on the financial statements.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and reward are transferred.

Financial liabilities

Financial liabilities include borrowings, lease liabilities, trade and other payables.

Financial liabilities are obligations to pay cash or other financial assets and are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

1. Summary of significant accounting policies continued

Current asset investments

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. Deposits of cash with banks that are subject to maturity terms of more than 90 days are presented as current asset investments.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Foreign currencies

Transactions entered into by the Group in a currency other than the functional currency of sterling are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the statement of comprehensive income in administrative expenses.

The results of overseas subsidiaries are translated into the Group's presentational currency of sterling at the weighted average exchange rate for the year. The weighted average exchange rate is used, as it is considered to approximate the actual exchange rates on the date of the transactions. The assets and liabilities of such undertakings are translated at the year-end exchange rate. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in a separate equity reserve.

Equity and reserves

Share capital represents the nominal value of shares that have been issued. Share premium represents the excess consideration received over the nominal value of share capital upon the sale of shares, less any incidental costs of issue.

The accumulated loss reserve represents all current and prior period trading losses.

The cumulative currency differences reserve represents translation differences in respect of the net assets of overseas subsidiaries.

Standards, amendments and interpretations in issue but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2024 and which the Group has chosen not to adopt early. These include the following standards which may be relevant to the Group:

- ▶ Amendment to IAS 1 regarding the classification of liabilities being based on an entity's rights at the end of a reporting period and disclosure in respect of post period end covenants that have to be met in the 12 months post period end;
- ▶ IAS 7/IFRS 7 amendments in respect of supplier finance arrangements and disclosures that allow an investor to understand the nature of these;
- ▶ IFRS 16 Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions.

As a result of initial review of the new standards, interpretations and amendments which are not yet effective in these financial statements, none are expected to have a material effect on the Company or Group's future financial statements.

Notes to the Financial Statements continued

For the year ended 31 December 2023

2. Critical accounting judgements and estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share based payments (note 22)

The Group uses the Black-Scholes option-pricing model where applicable for equity-settled arrangements, with inputs, in particular volatility, requiring significant judgement in application.

Valuation of investments and intercompany loans (notes 12 and 16)

The assessment for impairment of investments and intercompany loans involves the consideration of forecasts in respect of the trading subsidiary in order to judge the likely future realisable amounts. These include estimates of future sales and margins from current knowledge of the technology and the market.

Intangible assets (note 10)

The capitalisation of development costs is also subject to a degree of judgement in respect of the viability of new technology and know-how, supported by the results of testing, and by forecasts for the overall value and timing of sales which may be impacted by other future factors which could impact the assumptions made.

Amortisation commences once management consider that the asset is in use, i.e. when it is judged to be at a stage capable of application to commercial revenue streams and the cost is amortised over the estimated useful life of the know-how based on the expected life of the technology and related revenue.

3. Segmental reporting

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker. The chief operating decision maker is considered to be the Executive Directors.

The Group at this stage comprises only one operating segment for the development and sale of equipment for the electrolytic production of clean hydrogen and oxygen. The operating segments are monitored by the chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

All material assets, liabilities, revenues and expenses are located in, or derived in, the United Kingdom with the exception of a net £0.24m in respect of capitalised patent costs and deferred income in the Irish subsidiary of the Group which are denominated in Euros.

4. Operating loss

	2023 £'000	2022 £'000
Expenses by nature		
Staff related costs	2,590	2,105
Professional and consultancy fees	919	903
Equipment Hire	220	178
Premises related costs	216	104
Materials and consumables	210	334
Insurance	182	241
Foreign exchange (gain)/loss	19	(25)
Depreciation and amortisation	413	249
Loss on disposal of property, plant and equipment	-	5
Other costs	654	671
	5,423	4,765

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

	2023 £'000	2022 £'000
Auditor's remuneration:		
Audit of the Company's financial statements	7	7
Audit of the subsidiaries	38	40
	45	47
Exceptional items		
Cash settled LTIP credit (note 21)	-	(1,965)
Accelerated Share based payments on IPO (note 21)	-	374
IPO related costs	-	605
	-	(986)

5. Staff costs

	2023 £'000	2022 £'000
Group		
Wages and salaries	2,856	2,133
Less amounts capitalised to development costs	(986)	(357)
Social security costs	356	241
Other pension costs	65	31
Share based payments (2022: including exceptional credit/charge)	229	(1,417)
Total staff costs	2,520	631

Staff costs of £986,000 of have been capitalised in development costs during the year (2022: £357,000).

In the comparative year a credit of £1,473,000 relating to share based payments was applied to exceptional costs in the year. There were no staff costs included in exceptional costs for the year ended 31 December 2023.

The monthly average number of staff employed by the Group during the year was 55 with 38 in operations and 17 in management and support roles (2022: 47 with 34 in operations and 13 in management and support).

The Company employed an average of 5 staff in management roles (2022: 5) with salaries of £705,000, social security costs of £127,000 and pension costs of £19,000 (2022: £625,000, £83,000 and £nil).

Notes to the Financial Statements continued

For the year ended 31 December 2023

6. Directors' emoluments

	2023 £'000	2022 £'000
Remuneration for qualifying services	714	690
Pension contributions	19	–
Equity settled Share based payments	193	169
	926	859

The highest paid Director received remuneration of £327,000 and share based payments valued at £192,000 (2022: £378,000 and £169,000). Retirement benefits were accruing to no Directors in respect of defined contribution schemes (2022: none).

The full remuneration report is set out on pages 28 to 30.

Key management remuneration was as follows:

	2023 £'000	2022 £'000
Remuneration for qualifying services	1,112	1,050
Social security costs	151	107
Other pension costs	22	1
Cash settled share based payments (see note 21)	–	(1,727)
Equity settled share based payments	195	544
	1,480	(25)

7. Finance income and expense

	2023 £'000	2022 £'000
Finance income:		
Bank interest receivable	345	216
Finance expense:		
Lease liability financing charges	(49)	(55)

8. Income tax

	2023 £'000	2022 £'000
Current tax		
UK corporation tax	–	–
R&D tax credits in respect of current year	500	–
R&D tax credits in respect of prior periods	512	174
Total tax credit	1,012	174

Factors affecting the tax credit for the year

The tax assessed for the year differs from the average standard rate of corporation tax in the UK of 23.5% (2022: 19%).

The differences are explained below:

	2023 £'000	2022 £'000
Loss before taxation	(5,127)	(3,618)
Income tax calculated at the average standard rate of corporation tax in the UK of 23.5% (2022: 19%)	(1,205)	(687)
Effects of:		
Expenditure not deductible for tax purposes	5	218
Impact of equity settled share based payments	(21)	–
LTIP credit not taxed	–	(373)
Enhanced research and development allowances	(512)	(123)
R&D Credit at lower tax rate	539	–
Deferred tax not recognised (see below)	694	965
Adjustments in respect of prior periods	(512)	(174)
Total tax credit for the year	(1,012)	(174)

Tax credits in respect of research and development expenditure are now recognised in respect of the current year and 2023 therefore reflects credits as a result of both 2023 and 2022 eligible development spend (2022: recognised on receipt whilst experience of claims being collated and accepted was gained). The tax rate used for the reconciliation is the average corporate tax rate of 23.5% (2022: 19%) payable by corporate entities in the UK on taxable profits under UK tax law.

In May 2021 an increase to 25% from April 2023 was substantively enacted. The tax rate used to calculate unrecognised deferred tax is therefore 25% at 31 December 2022 and 2023, being the rate at which the timing differences were expected to unwind based on enacted rates at each balance sheet date.

	Tax losses £'000	Capital allowances £'000	Share based payments £'000	Total £'000
Unrecognised deferred tax asset/(liability) – Group				
At 31 December 2021	992	(105)	1,105	1,992
At 31 December 2022	3,217	(168)	–	3,049
At 31 December 2023	4,107	(404)	202	3,905

Deferred tax assets have not been recognised at the year end dates as the utilisation of losses was not yet considered sufficiently probable. At 31 December 2021 this included amounts related to the exercise of share options in excess of the share based payments charges that, if recognised, would be a credit to equity only.

9. Earnings per share

	2023	2022
Loss used in calculating earnings per share (£'000)	(4,115)	(3,444)
Weighted average number of shares for basic EPS ('000)	267,313	255,321
Basic and diluted loss per share (pence)	(1.54)	(1.35)

The weighted average is calculated applying the equivalent number of Clean Power Hydrogen plc shares for each year. There is no dilutive effect on a loss. There are potentially dilutive options in place over 22,316,916 ordinary shares at 31 December 2023 (2022: 24,625,450).

Notes to the Financial Statements continued

For the year ended 31 December 2023

10. Intangible assets

Group	Development costs £'000	Patents £'000	Software £'000	Total £'000
Cost				
At 1 January 2022	1,060	123	17	1,200
Additions	4,231	42	43	4,316
Exchange movements	–	6	–	6
Disposals	–	–	(5)	(5)
At 31 December 2022	5,291	171	55	5,517
Additions	2,647	203	–	2,850
Exchange movements	–	(2)	–	(2)
Transfer to inventories	(637)	–	–	(637)
At 31 December 2023	7,301	372	55	7,728
Accumulated depreciation				
At 1 January 2022	–	7	17	24
Charge for the year	–	14	8	22
Disposals	–	–	(5)	(5)
At 31 December 2022	–	21	20	41
Charge for the year	–	58	15	73
At 31 December 2023	–	79	35	114
Net book amount				
At 31 December 2023	7,301	293	20	7,614
At 31 December 2022	5,291	150	35	5,476
At 1 January 2022	1,060	116	–	1,176

The Group has received cumulative grants from UK government research and development initiatives amounting to £334,000 in respect of capitalised development expenditure (2022: £334,000). These grants are deferred within liabilities and amortised in line with depreciation or impairment of the related development asset. Note 1 "Summary of significant accounting policies" sets out the policy and key judgements in relation to impairment of intangible assets.

The development costs relate to the direct expenditure incurred on the Group's membrane free electrolysis technology.

The Company has no intangible fixed assets.

11. Property, plant and equipment

Group	Right-of-use property £'000	Leasehold improvements £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
Cost					
At 1 January 2022	1,205	60	317	53	1,635
Additions	–	13	205	75	293
Disposals	(136)	–	(9)	(8)	(153)
At 31 December 2022	1,069	73	513	120	1,775
Additions	–	–	1,556	39	1,595
At 31 December 2023	1,069	73	2,069	159	3,370
Accumulated depreciation					
At 1 January 2022	208	7	65	28	308
Charge for the year	136	3	68	20	227
Disposals	(136)	–	(6)	(5)	(147)
At 31 December 2022	208	10	127	43	388
Charge for the year	136	9	156	39	340
At 31 December 2023	344	19	283	82	728
Net book amount					
At 31 December 2023	725	54	1,786	77	2,642
At 31 December 2022	861	63	386	77	1,387
At 1 January 2022	997	53	252	25	1,327

The Company has no tangible fixed assets.

12. Investments in subsidiary undertakings

Company	£'000
Additions in 2022	1,853
Cost and net book value at 31 December 2023 and 2022	1,853

Principal subsidiary undertakings	Address and country of registration	Principal activity	Class of shares held	% share holding
Clean Power Hydrogen Group Limited*	Unit D, Parkside Business Park, Spinners Road, Doncaster, DN2 4BL, England	Development and sale of electrolyzers	Ordinary	100%
Clean Power Hydrogen Limited	Streamstown House, Streamstown, Co. Westmeath, N91 AY72, Republic of Ireland	Holds intellectual property	Ordinary	100%
Hydrogen United Limited	Unit D, Parkside Business Park, Spinners Road, Doncaster, DN2 4BL, England	Dormant	Ordinary	100%
CPH2 Northern Ireland Limited	5 Willowbank Road, Millbrook Industrial Estate, Larne, Antrim, BT40 2SF, Northern Ireland	Dormant	Ordinary	51%

* Held directly, all others held indirectly

Notes to the Financial Statements continued

For the year ended 31 December 2023

13. Investments held at fair value through other comprehensive income

	£'000
Additions	1,500
Movement in fair value	(3)
Fair value at 31 December 2022	1,497
Movement in fair value	(438)
Fair value at 31 December 2023	1,059

In 2022 the Company purchased 1,412,429 ordinary £0.02 shares in ATOME plc (formerly ATOME Energy plc). ATOME plc is quoted on the London Stock Exchange Alternative Investment Market and is focused on the production, marketing and distribution of green hydrogen and ammonia.

The fair value at balance sheet date is measured using the quoted price on the AIM market at that date (a level 1 input using the price from an active market).

14. Current asset investments

The cash raised from the IPO has been placed in longer term bank deposits where it is not forecast to be needed in the short term, and in accordance with the IFRS accounting policy, this £6,000,000 (2022: £13,500,000) of bank deposits is shown in current asset investments.

15. Inventories

	31 December 2023 £'000	31 December 2022 £'000
Group and Company		
Raw materials and consumables	3,155	1,692
Work in progress	–	671
	3,155	2,363

No impairment of inventory has arisen.

Work in progress represents the costs incurred in the production of machines for confirmed orders received but not completed at balance date.

16. Trade and other receivables

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Current				
Trade receivables	82	84	–	–
Amounts owed by Group undertakings	–	–	18,915	11,666
Other receivables	231	2,053	13	234
Tax recoverable	500	174	–	–
Prepayments and accrued income	636	928	99	172
	1,449	3,239	19,027	12,072
Non-current				
Other receivables	120	120	–	–

Amounts owed by Group undertakings are unsecured, interest free and have no fixed date of repayment.

There has been no revenue to 31 December 2023 and there have been no impairment charges nor expected credit loss provisions made, as the credit risk in respect of trade and other receivables is considered low. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

17. Trade and other payables

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Current				
Trade payables	626	391	28	10
Other payables	-	31	-	-
Taxation and social security	100	182	29	41
Accruals	311	240	93	41
	1,037	844	150	92
Deferred income	-	1,858	-	-
	1,037	2,702	150	92
Non-current liabilities				
Deferred income	1,780	641	-	-
	1,780	641	-	-

None (2022: £1,802,000) of the deferred income is expected to be recognised as revenue in 2024.

The Directors consider that the carrying amount of trade and other payables approximates to their fair values.

18. Lease liabilities

Group and Company	2023 £'000	2022 £'000
Current	128	121
Due in one to two years	136	128
Due in two to five years	461	433
Due in more than five years	12	176
Non-current	609	737

The financing charges in respect of right-of-use assets are disclosed in note 5 and the right-of-use-assets and depreciation in note 11. Right-of-use assets and lease liabilities relate principally to property leases discounted at a rate of 6%. The Group leases its main operating premises, typically on a five-to-eight-year lease, subject to periodic rent reviews and potential breaks, with the intention and assumption made in measuring assets and liabilities that the extended period will be utilised. Total cash outflows in respect of leases were £170,000 for the year ended 31 December 2023 (2022: £184,000).

19. Financing activities and movements in total borrowings

Group	2023 £'000	2022 £'000
At 1 January	(858)	(1,369)
Cash movements:		
Lease liability payments	121	129
Related party loan repaid	-	382
Interest paid	49	55
Non-cash movements:		
Interest accrued	(49)	(55)
At 31 December	(737)	(858)
Comprising:		
Lease liabilities	(737)	(858)

Notes to the Financial Statements continued

For the year ended 31 December 2023

20. Financial instruments and capital management

Risk management

The Board has overall responsibility for the determination of the Company and the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Group is exposed to financial risks in respect of market, credit and foreign exchange risk.

Capital management

The Company's and Group's capital comprises all components of equity which includes share capital, share premium and retained earnings. The Company's and Group's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide future returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by managing technology development, pricing products as revenue commences commensurately with the level of risk.

The capital structure of the Company and Group consists of shareholders equity with all working capital requirements financed from equity and property costs funded by lease agreements.

The Company and Group set the amount of capital it requires in proportion to risk. They manage their capital structure and raise capital in the light of the investment in product development, changes in economic conditions, the ability to finance capital purchases and the risk characteristics of the underlying assets and activity. In its development the Company has raised equity capital and has not utilised borrowings in view of the risks at this stage. Following the AIM listing, they may issue new shares, or sell assets to reduce debt.

Market risks

These arise from the nature and location of the customer markets, competing technology and foreign exchange rate risks.

The Group expects to trade initially primarily within the UK and Irish markets. This is likely to expand to other markets, and accordingly there will be a risk relating to the underlying performance of these markets and their currency risk which will be actively monitored by the Directors.

Foreign exchange risk

The Company has an Irish subsidiary which funded the initial product development with equity and a related party loan denominated in Euros. It expects to commence trade with overseas customers with the only revenue to date invoiced in sterling. There has therefore been a reduced sensitivity to fluctuations in exchange rates and a 10% movement in Euro exchange rates would impact the statement of financial position by approximately £35,000.

The Group had the following net balances in respect of the Irish subsidiary denominated in foreign currency:

	2023 £'000	2022 £'000
Euro denominated	(164)	(165)

Interest rate risk

Lease liabilities are derived at fixed interest rates and reflect an underlying fixed rental with no current exposure to floating rates.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company and Group is mainly exposed to credit risk from credit sales and attempts to mitigate credit risk by assessing the creditworthiness of customers and closely monitoring payments history.

Credit risk on cash and cash equivalents is considered to be minimal as the counterparties are all substantial banks with high credit ratings.

20. Financial instruments and capital management continued

Liquidity risk

The maturity of the Group's financial liabilities including trade and other payables, other loans and lease liability total payments with the interest payable is as set out below. Current liabilities were payable on demand or to normal trade credit terms with the exception of lease liabilities which are payable quarterly.

	Up to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000
At 31 December 2023				
Trade and other payables	(937)	–	–	–
Lease liabilities	(169)	(169)	(507)	(13)
	(1,106)	(169)	(507)	(13)
At 31 December 2022				
Trade and other payables	(662)	–	–	–
Lease liabilities	(169)	(169)	(507)	(182)
	(831)	(169)	(507)	(182)

Classification of financial instruments

All financial assets, except for an investment held at fair value, have been classified as at amortised cost, and all financial liabilities have been classified as other financial liabilities measured at amortised cost.

	2023 £'000	2022 £'000
Financial assets		
At amortised cost		
Trade and other receivables	433	2,257
Cash and cash equivalents	8,468	15,290
	8,901	17,547
At fair value		
OCI Investments	1,059	1,497
Financial liabilities		
At amortised cost		
Trade and other payables	(937)	(662)
Lease liabilities	(737)	(858)
	(1,674)	(1,520)

Notes to the Financial Statements continued

For the year ended 31 December 2023

21. Share capital

The movements in the Company's share capital have been as follows:

	Number of £0.01 shares	Nominal £'000	Share premium £'000
One £1 share issued on incorporation, subdivided into 100 £0.01 shares	100	–	–
Shares issued in exchange for CPHGL shares	185,267,700	1,852	–
Exercise of warrants	2,075,280	21	75
Exercise of options	11,410,220	114	285
Placing shares issued at £0.45 each	66,666,667	667	29,333
Share issue costs	–	–	(2,055)
At 31 December 2022	265,419,967	2,654	27,638
Exercise of options at £0.035 each	2,764,160	28	69
At 31 December 2023	268,184,127	2,682	27,707

The issue of shares with a nominal value of £1,852,677 in exchange for the 9,263,385 £0.001 shares in CPHGL with a nominal value of £9,263 and share premium of £5,545,118 results on elimination of the difference in a credit to a merger reserve of £3,701,704 presented as a capital reorganisation in accordance with the merger accounting principles as set out in note 2.

The issue of shares in 2022 resulted in a share premium of £27,638,000 (net of £2,055,000 of share issue costs incurred) and the issue in 2023 of a further £69,000.

All £0.001 ordinary shares rank equally with the right to receive dividends and capital distributions.

22. Share based payments

300,000 of new EMI options and 472,901 options under a save scheme were granted in June 2023 with a 3 year vesting period. The fair values of £0.008 to £0.103 per option were derived using a Black Scholes model with a risk free rate of 5% and volatility of 50%. These resulted in a charge for the year ended 31 December 2023 of £11,000.

Unexercised options Date of issue	Number of options in the Company	Exercise price per share £	Fair value per share £
February 2022	10,608,980	0.085	0.171
February 2022	8,662,280	0.035	–
February 2022	2,000,000	0.25	–
November 2022	272,755	0.32	0.176
June 2023	300,000	0.30 to 0.42	0.008 to 0.21
June 2023	472,901	0.22	0.103

At 31 December 2023 the remaining options had an average estimated remaining vesting period of 0.32 years and an average exercise price of £0.09 per option (2022: 0.71 years and an average exercise price of £0.081 per option).

Movement in number of options and warrants:	Number of options	Number of warrants
At 1 January 2022 re CPHGL shares	1,241,833	103,764
Additional number on conversion into plc	23,594,827	1,971,516
Exercised in the year	(11,410,220)	(2,075,280)
Granted in the year	11,199,010	–
At 31 December 2022	24,625,450	–
Exercised in the year	(2,764,160)	–
Granted in the year	772,901	–
Lapsed or cancelled in the year	(317,275)	–
At 31 December 2023	22,316,916	–

22. Share based payments continued

Comparative Year

Warrants and options giving the holder the right to purchase shares at a future date were granted by the subsidiary CPHGL in respect of advisers and employees including Directors with an exceptional amount of £374,000 expensed in the year ended 31 December 2022 as a result of accelerated charges as options vested at the time of listing on AIM. The warrants were exercisable at any time up to a listing or sale of the Group. These were converted into warrants over 276,240 and 1,799,040 parent company shares with exercise prices of £0.02 and £0.05 respectively and exercised in February 2022 when the market value was £0.45 per share.

683,114 of the options were exercisable on a listing or sale and 558,719 at any time. These vested and were converted into options over 22,836,660 and 2,000,000 parent company shares with exercise prices of £0.035 and £0.25 respectively and 11,410,220 options were exercised in February 2022 at £0.035 per share when the market value was £0.45 per share.

10,608,980 new options over parent company shares were granted in February 2022 with an exercise price of £0.085 per share and a vesting period to June 2024. 25% are subject only to the vesting period and 75% to revenue targets. The fair value of £0.171 per option was derived using a Black Scholes model with a risk free rate of 1% and volatility of 50%. These result in a charge for the year ended 31 December 2023 of £190,000 (2022: £169,000).

590,030 of new options were granted in November 2022 with an exercise price of £0.318 per share and a 3 year vesting period. The fair value of £0.176 per option was derived using a Black Scholes model with a risk free rate of 3% and volatility of 50%. These result in a charge for the year ended 31 December 2023 of £28,000 (2022: £6,000).

In the comparative year the Company's subsidiary also had an LTIP in place for a director with a cash-settled bonus arrangement payable, linked to the Group value and share price over the 3 year period to September 2023. This was replaced with parent company options in 2022 with new terms and on cancelling the arrangement resulted in an exceptional credit to income of £1,965,000 in 2022.

23. Capital commitments

Group	2023 £'000	2022 £'000
Future capital expenditure contracted for but not provided for	–	113

24. Post balance sheet events

On the 23 February 2024 the Company awarded options in respect of a total of 2,339,872 ordinary shares of 1p each under the Company's EMI Share Option Scheme. Subject to the achievement of certain performance criteria the 1,149,311 options will vest on 31 January 2026 and 1,190,561 options will vest on 31 January 2027. The options lapse ten years from the date of grant.

25. Control and related party transactions

At 31 December 2023, the Company was an ultimate parent company. There is no individual ultimate controlling party.

The key management personnel is considered to be the Directors of the Company and its subsidiaries. Please refer to note 6 for details of key management personnel remuneration.

There have been transactions with Directors and with other entities over which the Directors have control in respect of small interest free loans, outstanding expense balances and amounts owed in respect of consultancy fees charged included in trade and other payables. These are as follows in aggregate:

Year ended 31 December	2023 £'000	2022 £'000
Amounts owed by the Group at the year end	–	–
Consultancy fees charged in year	–	31
Purchases in the year	64	5

On 26 April 2023 Jon Duffy exercised 2,764,160 options receiving the same number of ordinary shares. In the comparative year Jon Duffy exercised 6,410,220 options (16 February 2022), receiving the same number of ordinary shares. Further details of the options issued and exercised is shown within the Remuneration Committee report on pages 28 to 30.

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